

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 12, 2024

Rating:

Moody's: _____

(See "RATING" herein.)

NEW ISSUE – BOOK-ENTRY ONLY (DTC)

In the opinion of Bond Counsel, assuming compliance by the Board with certain covenants with respect to certain conditions imposed by Section 103 of the Internal Revenue Code of 1986, as amended, the interest on the Warrants will be excludable from gross income of the recipients thereof for federal income tax purposes. However, see "TAX MATTERS" herein for certain other federal tax consequences to the recipients of the interest income on the Warrants. In the opinion of Bond Counsel, the interest on the Warrants will be exempt from Alabama income taxation.

CULLMAN CITY BOARD OF EDUCATION (ALABAMA)

\$27,000,000*
Special Tax School Warrants
Series 2024-A

\$4,200,000*
Special Tax School Warrants
Series 2024-B

Dated: Date of Delivery

**Due: March 1, as shown on
the inside cover hereof**

SEE INSIDE COVER FOR MATURITY SCHEDULE, INTEREST RATES, YIELDS AND CUSIPS

The Warrants; Purpose	The Cullman City Board of Education (the "Board") is issuing the warrants captioned above (the "Series 2024-A Warrants" and the "Series 2024-B Warrants," respectively, and, together, the "Warrants") pursuant to resolutions adopted by the Board for the purpose of financing the costs of capital improvements to public school facilities in the City of Cullman, Alabama, and paying costs of issuance.
Source of Payment and Security	The Series 2024-A Warrants will be payable, as to both principal and interest, solely out of the Board's allocated share of the Special County Sales Tax and the Special School Tax to which reference is hereinafter made, and will be secured by a pledge of so much of the proceeds of such taxes as shall be necessary. The Series 2024-B Warrants will be payable, as to both principal and interest, solely out of the Special City Sales Tax to which reference is hereinafter made. The Warrants will not constitute general obligations of the Board or a charge against the general credit or taxing powers of the Board, the State of Alabama, the City of Cullman or any political subdivision of the foregoing.
Redemption	Certain of the Warrants are subject to redemption prior to maturity as described herein.
Interest Payment Dates	The Warrants will bear interest at the respective per annum rates of interest shown on the inside cover hereof, payable on March 1, 2025, and on each March 1 and September 1 thereafter.
Book-Entry Only System	The Warrants are being issued as fully registered warrants and, when initially issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Warrants. Information regarding DTC and the book-entry only system of DTC is set forth herein.
Delivery Date	It is expected that the Warrants will be available for book-entry only delivery through DTC on or about _____, 2024.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Warrants are offered when, as, and if received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of the validity thereof by Bradley Arant Boult Cummings LLP, Birmingham, Alabama, Bond Counsel, and certain other conditions.

RAYMOND JAMES®

Dated _____, 2024

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

AMOUNTS, MATURITIES, INTEREST RATES, YIELDS AND CUSIPS

\$27,000,000* Special Tax School Warrants Series 2024-A

Year of Maturity (March 1)	Principal Amount*	Interest Rate	Yield	CUSIP ⁽¹⁾
2026	\$200,000			
2027	210,000			
2028	220,000			
2029	235,000			
2030	245,000			
2031	260,000			
2032	270,000			
2033	290,000			
2034	295,000			
2035	320,000			
2036	330,000			
2037	345,000			
2038	365,000			
2039	385,000			
2040	405,000			
2041	425,000			
2042	450,000			
2043	470,000			
2044	495,000			
2045	520,000			
2046	550,000			
2047	575,000			
2048	605,000			
2049	635,000			
2050	2,475,000			
2051	2,605,000			
2052	4,060,000			
2053	4,270,000			
2054	4,490,000			

* Preliminary; subject to change.

(c) Yield shown to _____ optional redemption date at a redemption price of par.

(1) The CUSIP numbers shown above have been assigned by CUSIP Global Services ("CGS") and are included solely for the convenience of beneficial owners of the Series 2024-A Warrants. FactSet Research Systems, Inc., manages CGS on behalf of the American Bankers Association. Neither the Underwriter nor the Board is responsible for the selection or use of the CUSIP numbers, nor is any representation made as to the correctness of such numbers on the Series 2024-A Warrants or as indicated herein.

AMOUNTS, MATURITIES, INTEREST RATES, YIELDS AND CUSIPS

\$4,200,000*
Special Tax School Warrants
Series 2024-B

Year of Maturity (March 1)	Principal Amount*	Interest Rate	Yield	CUSIP⁽¹⁾
2026	\$515,000			
2027	540,000			
2028	570,000			
2029	595,000			
2030	625,000			
2031	660,000			
2032	695,000			

* Preliminary; subject to change.

(1) The CUSIP numbers shown above have been assigned by CUSIP Global Services ("CGS") and are included solely for the convenience of beneficial owners of the Series 2024-B Warrants. FactSet Research Systems, Inc., manages CGS on behalf of the American Bankers Association. Neither the Underwriter nor the Board is responsible for the selection or use of the CUSIP numbers, nor is any representation made as to the correctness of such numbers on the Series 2024-B Warrants or as indicated herein.

CULLMAN CITY BOARD OF EDUCATION

301 First Street NE
Cullman, Alabama 35055
(256) 734-2233

MEMBERS

Amy Carter
President

Jill Bradberry
Vice-President

Chris Branham
Cheryl Harrison
Jason Neal

SUPERINTENDENT

Kyle Kallhoff

CHIEF SCHOOL FINANCIAL OFFICER

James Brumley

BOND COUNSEL

Bradley Arant Boult Cummings LLP
Birmingham, Alabama

UNDERWRITER

Raymond James & Associates, Inc.
Birmingham, Alabama

PAYING AGENT

Regions Bank
Birmingham, Alabama

Certain information contained in or incorporated by reference in this Official Statement has been obtained by the Board from DTC and other sources that are deemed reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information by the Underwriter or the Board. This Official Statement is being used in connection with the sale of securities as referred to herein and may not be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

No dealer, broker, salesperson or any other person has been authorized by the Board or the Underwriter to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described on the inside cover page, nor shall there be any offer to sell, solicitation of an offer to buy or sale of such securities in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the registered or beneficial owners of the Warrants.

Any statements made in this Official Statement, including the Appendices hereto, involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such estimates will be realized. This Official Statement contains certain forward-looking statements and information that are based on the Board's beliefs as well as assumptions made by and information currently available to the Board.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "estimate," "budget," "projected," "forecast" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct in whole or in part. The Board is not obligated to issue any updates or revisions to the forward-looking statements if or when expectations do not materialize, or events, conditions or circumstances on which such statements are based do or do not occur.

Furthermore, any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Warrants shall under any circumstances create any implication that there has been no change in the affairs of the Board since the date as of which such information is given.

No representation is made that past experience, results of operations or financial condition, as it might be shown by financial and other information reported in this Official Statement (including any Appendix hereto) will continue or be repeated in the future.

The Warrants have not been registered under the Securities Act of 1933, as amended, in reliance upon certain exemptions contained in such federal laws. In making an investment decision, investors must rely upon their own examination of the Warrants and the security therefor, including an analysis of the risks involved. The Warrants have not been recommended by any federal or state securities commission or regulatory authority. The registration, qualification or exemption of the Warrants in accordance with applicable provisions of securities laws of the various jurisdictions in which the Warrants have been registered, qualified or exempted cannot be regarded as a recommendation thereof. Neither such jurisdictions nor any of their agencies have passed upon the merits of the Warrants or the adequacy, accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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OFFICIAL STATEMENT

CULLMAN CITY BOARD OF EDUCATION (ALABAMA)

\$27,000,000*
Special Tax School Warrants
Series 2024-A

\$4,200,000*
Special Tax School Warrants
Series 2024-B

INTRODUCTION

This introduction is a brief description of the issue and is subject in all respects to more complete information contained in this Official Statement and, therefore, should not be considered a complete statement of the facts material to making an investment decision. The offering of the Warrants to potential investors is made only by means of the entire Official Statement, including all appendices hereto and other documents available for review and to which reference is herein made.

This Official Statement sets forth information concerning \$27,000,000* aggregate principal amount of Special Tax School Warrants, Series 2024-A (the "Series 2024-A Warrants"), and \$4,200,000* aggregate principal amount of Special Tax School Warrants, Series 2024-B (the "Series 2024-B Warrants" and together with the Series 2024-A Warrant, the "Warrants") to be issued by the Cullman City Board of Education (the "Board") in the State of Alabama. The Board will issue the Series 2024-A Warrants under the provisions of a resolution (the "2024-A Authorizing Resolution") of the Board for the purpose of providing funds for various capital improvements to public school facilities of the Board and paying the costs of issuing the Series 2024-A Warrants. The Board will issue the Series 2024-B Warrants under the provisions of a resolution (the "2024-B Authorizing Resolution" and, together with the 2024-A Authorizing Resolution, the "Authorizing Resolutions") of the Board for the purpose of providing funds for various capital improvements to public school facilities of the Board and paying the costs of issuing the Series 2024-B Warrants. See "THE WARRANTS – Purpose of Issue."

The Board is the body charged with the management and control of the affairs and finances of the public schools located in that certain school tax district in Cullman County, Alabama (the "County"), known as the Cullman School District (the "District"), being the school tax district that is under the jurisdiction and control of the Board. The District consists of all the territory within the corporate limits of the City of Cullman, Alabama (the "City"), and the boundaries of the District are coterminous with the corporate limits of the City.

The Warrants will not constitute general obligations of the Board or a charge against the general credit or taxing powers of the Board, the State of Alabama, the City, the County or any political subdivision of the foregoing. The Series 2024-A Warrants will be limited obligations of the Board payable solely from the Board's allocated share of the Special County Sales Tax and the Special School Tax to which reference is hereinafter made, and will be secured by a pledge and assignment of so much of such proceeds of the said taxes as shall be necessary. The Series 2024-B Warrants will be limited obligations of the Board payable solely from the Special City Sales Tax to which reference is hereinafter made, and will be secured by a pledge and assignment of so much of such proceeds of the said tax as shall be necessary. See "SECURITY AND SOURCE OF PAYMENT."

Certain of the Warrants are subject to redemption prior to maturity. See "THE WARRANTS – Redemption Provisions." The Warrants are issuable in denominations of \$5,000 or any integral multiple thereof and will be initially issued in book-entry only form and payable through the facilities of The Depository Trust Company. See "THE WARRANTS – General Provisions and Maturities" and "THE WARRANTS – Place and Manner of Payment."

All references in this Official Statement to the Warrants, to the constitution and laws of Alabama, and to summaries of contracts or documents or official acts are qualified by the exact terms of the Warrants, such constitution, laws, contracts, documents or acts, each being an item of public record. So far as any statements are made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, they are set forth as such and not as representations of fact, and no representation is made that any such estimates will be realized.

The principal office of the Board is located at 301 First Street NE, Cullman, Alabama 35055, telephone (256) 734-2233, and the mailing address of the Board is 301 First Street NE, Cullman, Alabama 35055. Inquiries with respect

to information contained in this Official Statement should be directed to Raymond James & Associates, Inc., 2900 Highway 280, Suite 100, Birmingham, Alabama 35223, telephone (205) 802-4275, attention: Matt Adams.

* Preliminary; subject to change.

THE WARRANTS

General Provisions and Maturities

The Warrants will be dated the date of their issuance and delivery and will bear interest at the rates, and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Warrants are issuable only as fully registered warrants in the denomination of \$5,000 or any integral multiple thereof.

Place and Manner of Payment

The Warrants will be issued in book-entry only form, as described herein under "THE WARRANTS – Book-Entry Only System," and the method and place of payment of debt service on the Warrants will be as provided in the book-entry only system for so long as such system is in effect with respect to the Warrants. Interest on the Warrants (computed on the basis of a 360-day year of twelve consecutive 30-day months) will be payable semiannually on each March 1 and September 1, commencing March 1, 2025, at the address shown on the registry books of Regions Bank, Birmingham, Alabama (the "Bank"), pertaining to the Warrants as of the close of business on the February 15 or August 15 (each such date being herein called a "Record Date"), as the case may be, next preceding any interest payment date. Payment of such interest will be deemed to have been timely made if such check or draft is mailed on or before the due date thereof. The Authorizing Resolutions make special provision for the payment of overdue interest which may be paid to a holder other than the registered holder of a Warrant at the time such overdue interest becomes due and payable.

Purpose of Issue

The Board is issuing the Warrants to finance a portion of the costs of various public school capital improvements in the District (the "2024 Improvements") and to pay the costs of issuing the Series 2024 Warrants.

The Board is undertaking the 2024 Improvements as part of a multi-year capital improvement plan adopted by the Board to address student safety and growth in the District. Included within Phase II of the plan, the 2024 Improvements are expected to include, without limitation, the following: (i) construction of a new Cullman Intermediate School for all students in the District grades 3-5 and (ii) construction of a new technical education/STEM wing at Cullman High School. The new Cullman Intermediate School will be located on the campus of West Elementary School, and construction will include a new multipurpose building, new classrooms, renovation of existing classrooms and other facilities at West Elementary School and associated site work. The Board expects the 2024 Improvements to be substantially complete within three (3) years.

Redemption Provisions

Optional Redemption – Series 2024-A Warrants. Those of the Series 2024-A Warrants having stated maturities in _____ and thereafter will be subject to redemption at the option of the Board, as a whole or in part and if in part then in such maturities as the Board shall select in its discretion and in amounts of \$5,000 or any integral multiple thereof, on _____ 1, _____, and on any date thereafter, after written notice given by United States First Class Mail to the holders (at the addresses of such registered holders as such addresses appear on the registry books of the Bank) of each of the Series 2024-A Warrants the principal of which is, in whole or in part, to be redeemed and prepaid, not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption, at and for a redemption price with respect to each such Series 2024-A Warrant (or portion thereof) redeemed equal to the principal amount thereof redeemed plus accrued interest to the date fixed for redemption.

Optional Redemption – Series 2024-B Warrants. The Series 2024-B Warrants are not subject to redemption at the option of the Board.

Mandatory Redemption. (a) Those of the _____ Warrants having a stated maturity in _____ shall be subject to mandatory redemption in the following principal amounts on March 1 in the following years (with those to be redeemed to be selected by the Bank by lot) at a redemption price equal to the principal amount redeemed plus accrued interest to the redemption date:

Year	Principal Amount
_____	\$ _____
_____	_____ (maturity)

(b) Those of the _____ Warrants having a stated maturity in _____ shall be subject to mandatory redemption in the following principal amounts on March 1 in the following years (with those to be redeemed to be selected by the Bank by lot) at a redemption price equal to the principal amount redeemed plus accrued interest to the redemption date:

Year	Principal Amount
_____	\$ _____
_____	_____ (maturity)

(c) Those of the _____ Warrants having a stated maturity in _____ shall be subject to mandatory redemption in the following principal amounts on March 1 in the following years (with those to be redeemed to be selected by the Bank by lot) at a redemption price equal to the principal amount redeemed plus accrued interest to the redemption date:

Year	Principal Amount
_____	\$ _____
_____	_____ (maturity)

Credits – Mandatory Redemption of Warrants. In the event that the Board shall have partially redeemed Warrants having a stated maturity in _____ or thereafter or shall have provided for a partial redemption of such Warrants in such a manner that, under the provisions of the Authorizing Resolution, the Warrants for the redemption of which provision is made are considered as fully paid, the Board may elect to apply all or any part (but only in integral multiples of \$5,000) of the principal amount of such Warrants having a stated maturity in _____ or thereafter so redeemed or to be redeemed to the reduction of the principal amount of Warrants maturing in _____ or thereafter required to be redeemed pursuant to the schedule set forth above on any March 1 coterminous with or subsequent to the date such optional redemption actually occurs. Such election shall be deemed effective only if it is made prior to the Bank having given notice of redemption contrary to such election pursuant to the said provisions of the Authorizing Resolution.

Manner of Redemption. In the event that less than all the Warrants of a single maturity is redeemed and prepaid, the Bank shall, by lot, select that portion of the principal of the Warrants of such maturity to be redeemed and prepaid. In the event that less than all the outstanding principal of any Warrant is to be redeemed, the holder thereof shall surrender the Warrant that is to be prepaid in part to the Bank in exchange, without expense to the holder, for a new Warrant of like tenor except in a principal amount equal to the unredeemed portion of the Warrant. All future interest on the Warrants (or principal portions thereof) so called for redemption shall cease to accrue after the redemption date.

Book-Entry Only System

Portions of the following information concerning The Depository Trust Company ("DTC") and DTC's book-entry system have been obtained from DTC. The Board, the Bank and the Underwriter make no representation as to the accuracy of such information.

Initially, DTC will act as Securities Depository for the Warrants. The Warrants initially will be issued solely in book-entry form to be held under DTC's book-entry system, registered in the name of Cede & Co. (DTC's partnership nominee). Initially, one fully-registered certificate for each maturity will be issued for the Warrants, in the aggregate principal amount of Warrants of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and Participants are on file with the Securities and Exchange Commission. So long as the Warrants are maintained in book-entry form with DTC, the following procedures will be applicable with respect to the Warrants.

Purchases of the Warrants under the DTC system must be made by or through Direct Participants, which will receive a credit for the Warrants on DTC's records. The ownership interest of each actual purchaser of each Warrant ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Warrants are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Warrants, except in the event that use of the book-entry system for the Warrants is discontinued.

To facilitate subsequent transfers, all Warrants deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Warrants with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Warrants; DTC's records reflect only the identity of the Direct Participants to whose accounts such Warrants are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

As long as the book-entry system is used for the Warrants, redemption notices will be sent to Cede & Co. If less than all the Warrants of an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

As long as the book-entry system is used for the Warrants, principal, premium, if any, and interest payments on the Warrants will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon receipt of funds and corresponding detail information from the Bank, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bank or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. is the responsibility of the Board or the Bank, and disbursement of such payments to the Participants or the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Neither DTC nor Cede & Co. will consent or vote with respect to the Warrants. Under its usual procedures, DTC mails an Omnibus Proxy to the Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede &

Co.'s consenting or voting rights to those Direct Participants to whose accounts the Warrants are credited on the record date (identified in a listing attached to the Omnibus Proxy).

DTC may discontinue providing its services as securities depository with respect to the Warrants at any time by giving reasonable notice to the Board and the Bank. In addition, the Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Under either of such circumstances, in the event that a successor securities depository is not obtained, warrant certificates are required to be printed and delivered.

The Board and the Bank will have no responsibility or obligation to any securities depository, any Participants in the book-entry system, or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the securities depository or any Participant; (ii) the payment by the securities depository or by any Participant of any amount due to any Participant or Beneficial Owner, respectively, in respect of the principal amount or redemption or purchase price of, or interest on, any Warrants; (iii) the delivery of any notice by the securities depository or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Warrants; or (v) any other action taken by the securities depository or any Participant.

In the event of the discontinuance of the book-entry system for the Warrants, warrant certificates will be printed and delivered and the following provisions of the Authorizing Resolution will apply: (i) principal of the Warrants will be payable upon surrender of the Warrants at the designated office of the Bank; (ii) Warrants may be transferred or exchanged for other Warrants of authorized denominations as set forth in the next succeeding two paragraphs; and (iii) Warrants will be issued in denominations as described above under "THE WARRANTS - General."

The Warrants shall be registered as to both principal and interest and may be transferred only on the registry books of the Bank pertaining to the Warrants. No transfer of a Warrant shall be permitted except upon presentation and surrender of such Warrant at the office of the Bank with written power to transfer signed by the registered owner thereof in person or by a duly authorized attorney in form and with guaranty of signatures satisfactory to the Bank. The holder of one or more of the Warrants may, upon request, and upon the surrender to the Bank of such Warrant, exchange such Warrant for warrants of other authorized denominations (\$5,000 principal amount or any integral multiple thereof) of the same maturity, issue and interest rate and together aggregating the same principal amount as the Warrant so surrendered. Any registration, transfer or exchange of Warrants shall be without expense to the holder thereof except that the holder shall pay all taxes and other governmental charges, if any, required to be paid in connection with such transfer, registration or exchange. The holder of any Warrant will be required to pay any expenses incurred in connection with the replacement of a mutilated, lost, stolen or destroyed Warrant.

The Bank shall not be required to register or transfer any Warrant during the period of fifteen (15) days next preceding any interest payment date; and if any Warrant is duly called for redemption (in whole or in part), the Bank shall not be required to register or transfer such Warrant during the period of forty-five (45) days next preceding the redemption date.

Enforceability of Remedies

The Warrants constitute orders on the Chief School Financial Officer of the Board to pay the principal of and interest on the Warrants, when and as due, but solely out of the proceeds hereinafter described. The Warrants (as distinguished from the Authorizing Resolutions) do not, however, contain a contractual promise by the Board to pay such principal or interest out of such proceeds to the holders of the Warrants, and the Board itself is therefore not subject to suit on the Warrants in the event that it defaults in payment of such principal or interest. Each Authorizing Resolution specifies that its provisions constitute a contract between the Board and the holders of the Warrants (to the extent that such holders are directly affected by such provisions). However, the Alabama Supreme Court has held that city boards of education, such as the Board, have the same sovereign immunity conferred on the State by the Constitution of Alabama of 2022; the Board is therefore not subject to suit on the contracts evidenced by the Authorizing Resolutions.

The legislative act under which the Warrants are authorized to be issued effectively provides that if there is furnished to a court having jurisdiction of the matter, by or on behalf of a holder of any of the Warrants, "proper proof" of either (i) nonpayment of debt service on the Warrants, or (ii) noncompliance with any provisions of law with respect to the Warrants, that court shall issue mandamus for the payment of the principal of and interest on the Warrants, when and as they become due and payable.

Each Authorizing Resolution authorizes and directs the Superintendent of Education and the Chief School Financial Officer to deposit the pledged revenues into the warrant fund created thereunder, when and as received in each fiscal year, until there are funds on deposit therein in amounts sufficient to pay the principal of and interest on the Warrants becoming due and payable in such fiscal year. The Superintendent of Education and the Chief School Financial Officer may be subject, under existing law, to mandamus in the event that such officers do not, as required by each Authorizing Resolution, deposit such pledged revenues into the appropriate warrant fund, when and as required by each Authorizing Resolution in each fiscal year, and apply such proceeds (and investment earnings thereon) to the payment of the principal of and interest on the Warrants when and as the same become due and payable in each fiscal year in amounts sufficient for such purposes.

The extent of the remedies afforded to the holders of the Warrants by any such mandamus proceeding, and any other remedies available to such holders, are subject to those limitations inherent in the fact that the Warrants are special obligation warrants and may be subject to, among other things, (a) the provisions of the United States Bankruptcy Code and (b) the provisions of other statutes that may hereafter be enacted by the Congress of the United States or the Legislature of Alabama extending the time for payment of indebtedness of public bodies such as the Board or imposing other constraints upon the enforcement of rights of holders of securities issued by such public bodies.

Defeasance

Any of the Warrants will, prior to the maturity or redemption date thereof, be considered as fully paid under the respective Authorizing Resolution if there shall be filed with the Board and the Bank each of the following:

(a) a trust agreement between the Board and a banking corporation or national banking association making provision for the retirement of such Warrants by creating for that purpose an irrevocable trust fund sufficient to provide for payment and retirement of such Warrants (including payment of the interest that will mature thereon until and on the dates they are retired, as such interest becomes due and payable), either by redemption prior to their respective maturities, by payment at their respective maturities or by payment of part thereof at their respective maturities and redemption of the remainder prior to their respective maturities, which said trust fund shall consist of (i) direct obligations of the United States of America (or certain other investments either guaranteed by or composed solely of such obligations) which are not subject to redemption prior to their respective maturities at the option of the issuer and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient so to provide for payment and retirement of all such Warrants, or (ii) both cash and such obligations which together will produce funds sufficient for such purpose, or (iii) cash sufficient for such purpose;

(b) a certified copy of a resolution of the Board calling for redemption those of such Warrants that, according to said trust agreement, are to be redeemed prior to their respective maturities;

(c) an opinion of nationally recognized bond counsel to the effect that the execution and effectuation of the trust agreement referred to in the preceding clause (a) will not result in subjecting the interest income on such Warrants to federal income taxation and that such Warrants will be considered fully paid and no longer outstanding hereunder; and

(d) a report of an independent firm of nationally recognized certified public accountants, or such other accountant, addressed to the Board and the Bank, verifying the sufficiency of the escrow established to pay such Warrants in full according to the said trust agreement.

SECURITY AND SOURCE OF PAYMENT

General

The Alabama statute authorizing the issuance of the Warrants provides that warrants issued thereunder shall be preferred claims against the proceeds of the special taxes out of which they are made payable, shall be secured by a pledge of the entire net proceeds thereof (after payment of the costs of assessment and collection) superior to all subsequent pledges made, and shall have preference over claims for salaries or other operating expenses or any other purpose.

Under Alabama law, the Warrants will be a charge only on the special taxes out of which the same are payable and will not constitute a charge on the general revenues of the Board. No holder of a Warrant may compel the use of any funds for the payment of the principal thereof or the interest thereon except funds constituting the proceeds of the special tax or taxes pledged for the payment thereof. **Neither the County nor any municipality therein will in any manner be liable for payment of the Warrants.**

The Series 2024-A Warrants

General. The Series 2024-A Warrants will be payable, as to both principal and interest, solely out of

- (a) the portion of the proceeds allocated and distributed to the Board of the special County-levied privilege license tax hereinafter described (the "Special County Sales Tax"), and
- (b) the net proceeds of the 7.5 mill ad valorem tax hereinafter described (the "Special School Tax").

The two taxes are herein together sometimes referred to as the "2024-A Special Taxes." The Series 2024-A Warrants will be secured by a pledge of the Board's receipts of the 2024-A Special Taxes, to the extent necessary to pay the said principal and interest at the respective maturities thereof (such pledged amounts being referred to herein as the "2024-A Pledged Tax Proceeds"). The Series 2024-A Warrants are not payable from or secured by a pledge of the Special City Sales Tax. **Holders of the Series 2024-A Warrants will have no claim on the Special City Sales Tax.**

Special County Sales Tax and Collections. Pursuant to Section 40-12-4 of the Code of Alabama 1975, the County levies a privilege license tax on certain businesses in the County (commonly referred to as "the sales tax"). The said sales tax is herein sometimes called "the Special County Sales Tax," and the said Section 40-12-4 is herein sometimes called "the Sales Tax Authorizing Act." Under the provisions of the Sales Tax Authorizing Act, the revenue derived by the County from the Special County Sales Tax (after payment of the expenses of collection) is apportioned and distributed among the Board, the Arab City Board of Education and the Cullman County Board of Education (the "County Board") on the same basis as the State Board of Education prorates the Foundation Program Funds among the three boards of education within the County. Prior to October 1, 2017, proceeds of the Special County Sales Tax were apportioned only between the Board and the County Board. Effective with the fiscal year beginning October 1, 2017, the State Department of Education revised its method of computing "average daily membership," upon which distribution of Foundation Program Funds is based, and the Arab City Board of Education (having students but no school buildings in the County) in that year began receiving a share of the Special County Sales Tax.

The Special County Sales Tax generally parallels the statewide sales tax although levied at the basic rate of ½ of 1% (with certain categories of sales – motor vehicles and agricultural equipment – being exempt from taxation). The Special County Sales Tax is collected by the sales tax department of the County. After deducting the costs of collection (expected to be 1%), the County remits the proceeds of the Special County Sales Tax monthly to the custodian of public school funds in the County who is responsible for apportioning the proceeds and distributing them to the Board, the Arab City Board of Education and the County Board of Education. The Board does not expect the distribution of the Special County Sales Tax among the three boards to change significantly in future years.

The Board's apportioned share of the Special County Sales Tax is determined by an attendance- or census-based formula provided by the State Department of Education. The apportionment ratio is used, not just for the Special County Sales Tax, but also for allocating all Foundation Program Funds in the County; it was as follows for each of the last five (5) fiscal years and is for the current fiscal year:

Fiscal Year Ending September 30	Percentage Share Allocated to the Board	Percentage Share Allocated to the Other Boards ⁽¹⁾
--	--	--

2019	23.29%	76.71%
2020	23.91	76.09
2021	23.93	76.07
2022	24.78	75.22
2023	24.41	75.59
CURRENT DISTRIBUTION RATIO	24.20	75.80

⁽¹⁾ Comprising the County Board and the Arab City Board of Education.

Special School Tax and Collections. The Special School Tax is authorized, pursuant to Amendment No. 56 to the Constitution of Alabama, and a special election held in the City on April 19, 1960, to be levied for "general school purposes" annually on all property situated in the City, at the rate of 7.5 mills per annum. The Special School Tax is levied by the City and collected by the Cullman County Revenue Commissioner (under Alabama law, the Revenue Commissioner collects municipal ad valorem taxes on behalf of the municipalities located in the County) and the proceeds of the Special School Tax, remaining after payment of the costs of assessment and collection, are paid over to the City and then over to the Board as promptly as may be practicable after the collection thereof.

The Special School Tax is collected in advance. Therefore, the Special School Tax assessed with respect to real property for the tax year that ends September 30, 2024, became due and payable October 1, 2023, and delinquent on January 1, 2024. The Special School Tax is authorized to be levied without limit as to time.

Historical Receipts of the 2024-A Special Taxes. The total amounts received by the Board from the Special County Sales Tax and the Special School Tax, and the combined receipts, for the preceding five fiscal years are as follows:

Fiscal Year Ended September 30	Board's Receipts of the Special County Sales Tax	Board's Receipts of the Special School Tax	Board's Receipts of the 2024-A Special Taxes
2020	\$1,364,438	\$2,654,674	\$4,019,112
2021	1,573,678	2,891,276	4,464,954
2022	1,816,510	2,935,560	4,752,070
2023	1,978,754	3,475,528	5,454,282
2024 ⁽¹⁾	1,872,813	3,881,060	5,753,873

⁽¹⁾ Unaudited.

Disposition of 2024-A Pledged Tax Proceeds. Pursuant to the 2024-A Authorizing Resolution, the Board will establish the special debt service fund ("the 2024-A Debt Service Fund"), which will be held by the Bank. During each fiscal year of the Board commencing with the current fiscal year and during each fiscal year thereafter, the Board will set aside in a separate fund the 2024-A Pledged Tax Proceeds as received by the Board until there is on deposit therein an amount equal to all principal and interest that will mature on the Outstanding Parity Warrants (hereinafter referred to) and the Series 2024-A Warrants on March 1 and September 1 of such fiscal year. The Board will, on or before each February 25 and August 25, transfer from such fund and deposit into the 2024-A Debt Service Fund such amount as is necessary to pay the principal, if any, and interest that will mature on the then-next succeeding interest payment date.

The Board may cause any money on deposit in the 2024-A Debt Service Fund not then needed for the payment of debt service on the Series 2024-A Warrants to be invested or reinvested by the Bank in

- (i) direct obligations of, or obligations the payment of which is guaranteed by, the United States of America ("Federal Securities");
- (ii) an interest in any trust or fund that invests solely in Federal Securities;

(iii) a certificate of deposit issued by, or other interest-bearing deposit with, any bank organized under the laws of the United States of America or any state thereof, provided that (a) such bank has capital, surplus and undivided profits of not less than \$25,000,000, (b) such deposit is insured by the Federal Deposit Insurance Corporation or (c) such deposit is secured by such bank by pledging Federal Securities having a market value (exclusive of accrued interest) not less than the face amount of such deposit (less the amount of such deposit insured by the Federal Deposit Insurance Corporation); and

(iv) any investment which a board of education may be authorized to make under Alabama law.

All interest accruing on such investments and any profit realized therefrom shall be deposited in the Debt Service Fund; any losses resulting from liquidation of investments shall be charged to the Debt Service Fund and shall be added to the amount of the next ensuing deposit required.

Outstanding Parity Warrants. Upon the issuance of the Warrants, there will also be outstanding the following obligations of the Board payable from and secured by pledges of the 2024-A Pledged Tax Proceeds (collectively, the "Outstanding Parity Warrants"):

(i) Special Tax School Warrants, Series 2012, in the aggregate principal amount of \$1,040,000;

(ii) Special Tax School Warrants, Series 2014-A, in the aggregate principal amount of \$1,555,000;

(iii) Special Tax School Warrants, Series 2020, in the aggregate principal amount of \$11,285,000;

(iv) Special Tax School Warrant, Series 2022-A, in the principal amount of \$8,980,000;

(v) Special Tax School Warrants, Series 2022-C, in the aggregate principal amount of \$22,615,000; and

(vi) Special Tax School Warrant (Forward Delivery Series), Series 2023, in the principal amount of \$8,255,000.

Issuance of Parity Warrants. In the 2024-A Authorizing Resolution, the Board will reserve the right to issue additional warrants ("Parity Warrants") secured by a pledge of the Board's portion of the 2024-A Pledged Tax Proceeds on a parity of a lien with the Outstanding Parity Warrants and the Series 2024-A Warrants. Prior to the issuance of any such Parity Warrants, the Board must file with the depository and paying agent for the Series 2024-A Warrants a certificate of the Board's Secretary and of its Chief School Financial Officer setting forth the maximum amount payable annually in the then current and all succeeding fiscal years of the Board as the principal of and interest on the Series 2024-A Warrants, the Outstanding Parity Warrants, if any then outstanding, and the Parity Warrants proposed to be issued, and demonstrating that the amount of the 2024-A Pledged Tax Proceeds so received by the Board during any consecutive twelve-month period during the fifteen-month period immediately preceding the issuance of the said Parity Warrants is not less than 125% of (or 1.25 times) maximum amount payable annually in any such fiscal year as principal of and interest on the Series 2024-A Warrants, the Outstanding Parity Warrants, if any then outstanding, and the Parity Warrants proposed to be issued.

Except as provided with respect to the issuance of Parity Warrants, the Board has covenanted and agreed that the 2024-A Pledged Tax Proceeds shall not be pledged to the payment of any other obligations of the Board unless such pledge is made subject to and subordinate in all respects to the pledge for the benefit of the Series 2024-A Warrants.

The Series 2024-B Warrants

General. The Series 2024-B Warrants will be payable, as to both principal and interest, solely out of the net proceeds of the City-levied privilege license tax hereinafter described (the "Special City Sales Tax"), and will be secured by a pledge of the Special City Sales Tax, to the extent necessary to pay the said principal and interest at the respective

maturities thereof (such pledged amounts being referred to herein as the "2024-B Pledged Tax Proceeds"). The Series 2024-B Warrants are not payable from or secured by a pledge of the 2024-A Special Taxes. **Holders of the Series 2024-B Warrants will have no claim on the 2024-A Special Taxes.**

Special City Sales Tax. Pursuant to Article 3 of Chapter 51 of Title 11 of the Code of Alabama 1975, as amended, the City levies special privilege, license and excise taxes generally paralleling the state sales and use taxes (such taxes being herein together called the "Special City Sales Tax") on certain business operating within the corporate limits of the City.

The Special City Sales Tax is levied at the basic rate of one-half of one percent (1/2%), except with respect to sales of automobile vehicles, boats and farm equipment, as to which transactions the Special City Sales Tax does not apply. The Special City Sales Tax is levied without limit as to time.

Pursuant to resolution of the City Council, the City allocates, after deduction for collection charges, the entire proceeds of the Special City Sales Tax to the Board for public school purposes. The City's revenue department collects the Special City Sales Tax. The Special City Sales Tax is levied without limit as to duration, and, by ordinance of the City Council, the City has agreed to continue levying the Special City Sales Tax and paying the proceeds of the tax over to the Board for so long as the Series 2024-B Warrants are outstanding.

The pledge of the 2024-B Pledged Tax Proceeds is subject to the law-imposed requirement that the proceeds of the Special City Sales Tax must first be used to pay the necessary and legitimate governmental expenses of operating the City.

Historical Receipts of the Special City Sales Tax. The Board's receipts of the Special City Sales Tax for the fiscal years shown have been as follows:

Fiscal Year Ended September 30	Board's Receipts of the Special City Sales Tax
2020	\$3,902,719
2021	4,518,604
2022	4,799,972
2023	5,375,962
2024 ⁽¹⁾	5,187,835

⁽¹⁾ Unaudited.

Outstanding Parity Warrants. Upon issuance, the Series 2024-B Warrants will be the only obligations of the Board secured by a pledge of the Special City Sales Tax.

Issuance of Parity City Sales Tax Warrants. In the 2024-B Authorizing Resolution, the Board will reserve the right to issue additional warrants ("Parity City Sales Tax Warrants") secured by a pledge of the Special City Sales Tax on a parity of a lien with the Series 2024-B Warrants. Prior to the issuance of any such Parity City Sales Tax Warrants, the Board must file with the depository and paying agent for the Series 2024-B Warrants a certificate of the Board's Secretary and of its Chief School Financial Officer setting forth the maximum amount payable annually in the then current and all succeeding fiscal years of the Board as the principal of and interest on the Series 2024-B Warrants and the Parity City Sales Tax Warrants proposed to be issued, and demonstrating that the amount of the Special City Sales Tax so received by the Board during any consecutive twelve-month period during the fifteen-month period immediately preceding the issuance of the said Parity City Sales Tax Warrants is not less than 125% of (or 1.25 times) maximum amount payable annually in any such fiscal year as principal of and interest on the Series 2024-B Warrants and the Parity City Sales Tax Warrants proposed to be issued.

Except as provided with respect to the issuance of Parity City Sales Tax Warrants, the Board has covenanted and agreed that the Special City Sales Tax shall not be pledged to the payment of any other obligations of the Board unless such pledge is made subject to and subordinate in all respects to the pledge for the benefit of the Series 2024-B Warrants.

SOURCES AND USES OF FUNDS

The following are the anticipated sources and uses of funds to accomplish the purposes for which the Warrants are being issued:

SERIES 2024-A WARRANTS

SOURCES

Par amount	\$
Net original issue _____	
Total	\$

USES

2024 Improvements	\$
Underwriting discount and other costs of issuance	
Total	\$

SERIES 2024-B WARRANTS

SOURCES

Par amount	\$
Net original issue _____	
Total	\$

USES

2024 Improvements	\$
Underwriting discount and other costs of issuance	
Total	\$

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DEBT SERVICE AND COVERAGE

Series 2024-A Warrants

Debt Service Requirements. The total debt service requirements on the Outstanding Parity Warrants and on the Series 2024-A Warrants are as follows:

Fiscal Year Ending September 30	Outstanding Parity Warrants ⁽¹⁾		Series 2024-A Warrants*		Total Parity Debt Service*
	Principal	Interest	Principal	Interest	
2025	\$1,365,000	\$1,690,503	--	\$1,005,000	\$4,060,503
2026	1,410,000	1,647,551	\$200,000	1,345,000	4,602,551
2027	1,455,000	1,603,114	210,000	1,334,750	4,602,864
2028	1,500,000	1,554,650	220,000	1,324,000	4,598,650
2029	1,550,000	1,503,063	235,000	1,312,625	4,600,688
2030	1,605,000	1,451,105	245,000	1,300,625	4,601,730
2031	1,655,000	1,397,187	260,000	1,288,000	4,600,187
2032	1,715,000	1,341,192	270,000	1,274,750	4,600,942
2033	1,765,000	1,286,429	290,000	1,260,750	4,602,179
2034	1,825,000	1,233,035	295,000	1,246,125	4,599,160
2035	1,870,000	1,177,952	320,000	1,230,750	4,598,702
2036	1,935,000	1,121,126	330,000	1,214,500	4,600,626
2037	1,995,000	1,062,297	345,000	1,197,625	4,599,922
2038	2,055,000	1,001,521	365,000	1,179,875	4,601,396
2039	2,115,000	938,798	385,000	1,161,125	4,599,923
2040	2,180,000	874,035	405,000	1,141,375	4,600,410
2041	2,250,000	807,111	425,000	1,120,625	4,602,736
2042	2,315,000	737,986	450,000	1,098,750	4,601,736
2043	2,395,000	659,954	470,000	1,075,750	4,600,704
2044	2,480,000	572,554	495,000	1,051,625	4,599,179
2045	2,570,000	481,979	520,000	1,026,250	4,598,229
2046	2,665,000	388,029	550,000	999,500	4,602,529
2047	2,765,000	290,504	575,000	971,375	4,601,879
2048	2,855,000	200,602	605,000	941,875	4,602,477
2049	2,935,000	119,015	635,000	910,875	4,599,890
2050	1,235,000	58,513	2,475,000	833,125	4,601,638
2051	<u>1,270,000</u>	<u>19,685</u>	2,605,000	706,125	4,600,810
2052			4,060,000	539,500	4,599,500
2053			4,270,000	331,250	4,601,250
2054			<u>4,490,000</u>	<u>112,250</u>	<u>4,602,250</u>
TOTAL	\$55,010,000	\$26,962,282	\$27,000,000	\$31,535,750	\$137,485,240

* Preliminary; subject to change.

(1) See "SECURITY AND SOURCE OF PAYMENT – Outstanding Parity Warrants" for a listing of the various series of warrants of the Board composing the "Outstanding Parity Warrants."

Coverage. Based upon the 2024-A Pledged Tax Proceeds for the fiscal year ended September 30, 2024, of \$5,753,873 (unaudited), debt service on the Outstanding Parity Warrants and the Series 2024-A Warrants will be covered as follows:

- (i) maximum annual debt service of \$4,602,864*, being that for the fiscal year ending September 30, 2027, will be covered approximately 1.25* times; and
- (ii) average annual debt service for fiscal years 2025-2054 of \$4,582,841* will be covered approximately 1.26* times.

* Preliminary; subject to change.

Series 2024-B Warrants

Debt Service Requirements. The total debt service requirements on the Series 2024-B Warrants are as follows:

Fiscal Year Ending September 30	Series 2024-B Warrants*		
	Principal	Interest	Total
2025	--	\$156,333	\$156,333
2026	\$515,000	197,125	712,125
2027	540,000	170,750	710,750
2028	570,000	143,000	713,000
2029	595,000	113,875	708,875
2030	625,000	83,375	708,375
2031	660,000	51,250	711,250
2032	<u>695,000</u>	<u>17,375</u>	<u>712,375</u>
TOTAL	\$4,200,000	\$933,083	\$5,133,083

* Preliminary; subject to change.

Coverage. Based upon the Special City Sales Tax collections for the fiscal year that ended September 30, 2024, of \$5,187,835 (unaudited), debt service on the Series 2024-B Warrants will be covered as follows:

- (i) maximum annual debt service of \$713,000*, being that for the fiscal year ending September 30, 2032, will be covered approximately 7.28* times; and
- (ii) average annual debt service for fiscal years 2026-2032 of \$710,964* will be covered approximately 7.30* times.

* Preliminary; subject to change.

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ASSESSMENTS AND AD VALOREM TAX COLLECTIONS

General

The Constitution of Alabama limits the ratios at which property may be assessed, specifies the maximum millage rates at which taxes may be levied on property, and limits the total ad valorem taxes on any property in any tax year.

Assessments

The following table sets forth, for the years indicated, the net assessed value of the taxable properties in the City (as assessed for purposes of the Special School Tax) during the tax years 2019 through 2023:

Fiscal Year Ended Sept. 30	All Property Other Than Motor Vehicles	Motor Vehicles	Total
2019	\$348,832,020	\$29,921,420	\$378,753,440
2020	360,851,520	29,501,424	390,352,944
2021	376,995,280	33,470,680	410,465,960
2022	447,009,560	36,673,660	483,683,220
2023	507,201,780	43,364,300	550,566,080

Source: Cullman County Office of Revenue Commissioner

District school taxes on real property (which are levied and collected by the County) are due October 1 of the year following the year of their assessment and are delinquent on the succeeding January 1. Taxes on motor vehicles have, since October 1, 1980, been assessed and collected on a staggered basis throughout each tax year.

Ad valorem taxes on taxable properties, except public utilities, are assessed by the County Tax Assessor and collected by the Cullman County Tax Collector. Ad valorem taxes on public utility properties are assessed by the State Department of Revenue and collected by the State and the Cullman County Tax Collector.

Change of General Classifications and Assessment Ratios

The following classifications of taxable property and corresponding ratios of assessed value to fair and reasonable market value were established for all ad valorem taxation (state and local), subject to certain exceptions stated below:

Class I -	property of utilities used in their business, 30%;
Class II -	property not otherwise classified (generally, business or commercial property), 20%;
Class III -	agricultural, forest and single-family owner occupied residential property and historical buildings and sites, 10%; and
Class IV -	private passenger automobiles and small trucks ("pickups") for personal use, 15%.

Act No. 2024-344 of the Legislature of Alabama effectively limits the annual increase in assessed values of Class II and Class III properties to 7% effective October 1, 2024, and continuing through the fiscal year beginning October 1, 2027. There are exclusions to the annual limitation, including for real property that has never been assessed, certain additions or improvements to real property (including new construction), changes to the classification of the property and certain changes in ownership of the property.

Local Adjustment of Assessment Ratios

Any local taxing authority may increase or decrease any assessment ratio subject to approval by the Legislature and by the majority of the electorate of such authority at a special election. In no case may an assessment ratio be less than 5% or more than 35%, nor may any increase or decrease exceed 5%. Alabama law further restricts any increase of an assessment ratio (1) to a class of property constituting less than 20% of all taxable property in the taxing authority or (2) in the case of a taxing authority having more than 75% of its property in a single class, to the other classes of property. Any adjustment of assessment ratios other than those applicable to municipal ad valorem taxation be made by the governing body of a county.

Local Adjustment of Millage Rates

Any local taxing authority may (subject to the limitations on the total rate of taxation hereinafter stated) increase the rate at which any ad valorem tax is levied above the limit otherwise provided in the Constitution subject to the approval by the Legislature and by the majority of the electorate of such authority who vote on the proposal at a special election. Any adjustment of millage other than an adjustment applicable to a municipality would be made by the governing body of the County. Any adjustments with respect to the other ad valorem taxes levied for the Board (see "Major Sources of Board Revenue" below) would be made by the Cullman County Commission (except for the 10.5 mills of school taxes which are levied by the City and for which taxes the City would be the "taxing authority" under applicable law).

General Limitations on Ad Valorem Tax Rates

Alabama law provides that all ad valorem taxes payable to the State and to all counties, municipalities and other taxing authorities with respect to any item of taxable property shall not exceed the following percentage of the fair and reasonable market value of such property in any single tax year: 2% in the case of Class I property; 1-1/2% in the case of Class II property; 1% in the case of Class III property; and 1-1/4% in the case of Class IV property.

Current Use Valuation

Class III property (primarily agricultural, forest and single-family residential property) is permitted to be assessed, on application of the owner, on the basis of its current use value, with no consideration to be taken of prospective value if the property were put to some other possible use. Legislation enacted in 1982 established a procedure for determining the "current use" value of agricultural and timber property for ad valorem tax purposes. There is no significant agricultural and timber property located in the City.

Additional Exemptions

Household and kitchen furniture, all farm tractors, all farming implements and all stocks of goods, wares and merchandise are exempt from ad valorem taxation. The residences of persons over 65 are also exempt from certain ad valorem taxes.

Act No. 82-789 adopted at the 1982 Second Special Session of the Legislature of Alabama authorizes the several counties in the state to increase the present \$2,000 homestead exemption from county taxation to an amount not greater than \$4,000 and permits the extension of such exemption to district school taxes. The said Act further provides that no action affecting countywide or district ad valorem taxes levied solely for the support of public schools may be taken except by resolution of the school board that is the recipient of the proceeds of the tax or taxes so affected. The Board understands that the Cullman County Commission does not intend to increase the homestead exemption pursuant to the provisions of said Act No. 82-789. The Board does not propose to take any action under said Act No. 82-789 that would have the effect of reducing the proceeds of any ad valorem taxes levied in the County solely for the support of the public schools.

Collections

Ad valorem taxes levied with respect to motor vehicles are assessed and collected on a monthly basis at the time of the issuance of motor vehicle license plates, and therefore, the percentage of taxes collected is essentially 100%. The

Cullman County Tax Collector has in recent years consistently collected in excess of 98% of the total ad valorem taxes due in the County.

Assessed Value by Property Classification

The following chart reflects, for the tax year ending September 30, 2024 (that is, the year for which the Special School Tax became due and payable on October 1, 2023, and delinquent on January 1, 2024), the appropriate division of net assessed valuation of property in the City by classification:

Property Classification		Assessed Valuation City of Cullman
Class I	Utilities	\$ 8,320,220
Class II	All Property Not Otherwise Classified	496,784,360
Class III	All Agricultural, Forest and Single Family Owner Occupied Residential Property and Historic Building and Sites	121,407,880
Class IV	Private Passenger Automobiles and Trucks for Personal Use	43,364,300
	Penalties	2,388,660
	Less Exemptions	121,699,340
	Total Net Assessed Valuation	<u>\$550,566,080</u>

Principal Ad Valorem Taxpayers

The following table indicates the ten (10) largest ad valorem taxpayers in the City for the tax year for which taxes became due and payable on October 1, 2023, together with the total assessed value for and total City ad valorem taxes paid by each such taxpayer:

Taxpayer	Total Assessed Value	City Ad Valorem Taxes Paid
Reliance Worldwide Corporation	\$26,575,220	\$376,656
REHAU	25,918,060	366,387
Alabama Cullman Yutaka Technologies LLC	13,712,780	201,670
Wal-Mart Stores	12,359,960	191,579
Mercedes Benz US International, Inc.	8,314,020	128,867
Cullman Electric Cooperative	9,156,340	114,582
Rusken Packaging, Inc.	7,601,960	109,776
Royal Technologies	7,598,540	95,515
Cullman Casting Corporation	4,178,860	64,772
Cullman Shopping Center, Inc.	3,016,460	46,755

Source: Cullman County Office of Revenue Commissioner

OTHER INDEBTEDNESS OF THE BOARD

Outstanding Indebtedness

The Board has the following indebtedness (or commitments related to indebtedness) now outstanding:

(i) an obligation to pay approximately \$275,000 each year, until and including the fiscal year that will end September 30, 2026, in connection with a Qualified School Construction Bond ("QSCB") financing done by the Alabama Public School and College Authority; the Board's payments are withheld from annual Public School Fund Capital Purchase allocations made by the Alabama legislature; and

(ii) the Outstanding Parity Warrants.

Proposed Indebtedness

Other than potential refunding indebtedness to be incurred for debt service savings, the Board does not presently expect to issue additional long-term indebtedness within the next 24 months.

General

Under the general laws of Alabama regulating the borrowing of funds by boards of education, the Board is authorized to sell tax anticipation warrants for the purpose of paying the costs of erecting, acquiring, providing, constructing, purchasing, altering, enlarging, improving, repairing and equipping school buildings, related facilities, school playgrounds and buildings for housing and repairing school buses, and for the purpose of purchasing school buses, but such warrants may not be general obligations of the Board and must be payable, as to both principal and interest, out of one, or more, of the following: (a) the proceeds of any ad valorem tax authorized to be levied for the purpose of paying such warrants, or for school purposes generally, and paid, apportioned, allocated or distributed to or for the benefit of the Board, (b) the proceeds of any privilege, license or excise tax or taxes that may be paid, apportioned, allocated or distributed to or for the benefit of the Board, or (c) any revenues of whatever kind or nature that may be paid, apportioned, allocated or distributed to or for the benefit of the Board by any governmental or taxing authority or public person pursuant to law or contract. The Board is not subject to any limitation on the amount of indebtedness it may incur for the purposes specified above.

Alabama law also authorizes boards of education to enter into "alternative financing contracts" for the leasing or purchase of certain tangible personal property and to specify that obligations arising under any such contracts shall be payable either out of any lawfully available funds or solely from specified sources substantially similar to those listed in the preceding paragraph.

Short Term Loans

The Board is authorized under Alabama statutes to borrow money for current fiscal year needs in anticipation of current revenues for that fiscal year and to pledge for payment of such loans current revenues for such fiscal year. Such loans outstanding in any fiscal year may not exceed estimated revenues for such fiscal year (as approved by the State Superintendent of Education) less current revenues already collected and debt service on warrants due during such fiscal year. All such loans must be due and payable during the fiscal year in which incurred unless the State fails to make a final apportionment of school funds during such fiscal year, in which case such loans may be extended to the close of the fiscal year during which such final apportionment is made. If current fiscal year funds are insufficient to retire such loans, the unpaid loans become a first lien on the current revenues of the succeeding fiscal year subject only to the prior lien of principal and interest due on the Board's warrants. The Board has historically found it not necessary to borrow money for current fiscal year operating needs.

AD VALOREM TAXES AND OVERLAPPING DEBT IN THE CITY

State and County Ad Valorem Taxes in the City

Total ad valorem taxes in the City are presently 38.5 mills (equivalent to \$3.85 per \$100 of assessed valuation), which are distributed as follows:

State of Alabama	6.5	mills
Cullman County		
General	7.0	mills
Road and Bridge	2.5	mills
Countywide School	4.0	mills
District School	3.0	mills
City of Cullman		
Schools*	10.5	mills
General Fund	<u>5.0</u>	mills
Total	38.50	mills

* Includes the Special School Tax levied at 7.5 mills and another municipal tax levied at the rate of 3 mills.

Overlapping Debt

On the basis of the assessed valuation of property in the City for the tax year that began October 1, 2023 (\$550,566,080), the direct debt of the Board and the overlapping debt of the Board with the City and the County is as follows:

Direct Debt (including the Warrants)

Percentage of Board's total indebtedness to assessed valuation in the City ⁽¹⁾	15.66%*
Per capita Board debt (based upon 2022 estimated City population of 19,251) ⁽¹⁾	\$4,478.21*

* Preliminary; subject to change.

⁽¹⁾ Does not include obligations payable out of public school funds to be allocated to the Board by the Legislature of Alabama.

Overlapping Board Debt with Cullman County
General Obligation Indebtedness and City of
Cullman General Obligation Indebtedness

The Board (including the Warrants) ⁽¹⁾	\$ 86,210,000*
Cullman County (applicable to City) ⁽²⁾	164,175
City of Cullman ⁽³⁾	<u>58,884,900</u>
Total	<u>\$ 145,259,075*</u>
Percentage of overlapping district-wide debt to assessed valuation	26.38%*
Per capita overlapping debt (based as above)	\$ 7,545.53*

* Preliminary; subject to change.

(1) Does not include obligations payable out of public school funds to be allocated to the Board by the Legislature of Alabama.

(2) Based upon the ratio of assessed valuation of taxable property in the City (\$550,566,080) to assessed valuation in the County (\$1,452,225,080), 37.91% for tax year 2023; approximate outstanding general obligation indebtedness as of September 30, 2022, of \$433,066.

(3) General obligation indebtedness referable to governmental activities of the City outstanding as of September 1, 2023.

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GENERAL INFORMATION CONCERNING THE BOARD

General Powers and Organization

The Board is a quasi-corporation under the laws of Alabama having jurisdiction over all public schools in the City. The Board is composed of five (5) members who are elected at large, in the City, for concurrent four-year terms. The Board is composed of the following members whose current terms of office expire in the following years:

Name	Date of Ending of Current Term	Present Business or Professional Affiliation
Jill Bradberry	October 2025	Senior Vice President, CommerceOne Bank
Chris Branham	October 2025	Business Owner, Branham Accessories
Amy Carter	October 2025	Clinical Oncology Specialist, Natera Oncology
Cheryl Harrison	October 2025	Director of Design, Corona Group
Jason Neal	October 2025	Agency Owner, Globe Life Liberty National Division

The Board elects the Superintendent of Education who serves as the Secretary of the Board and who is the chief administrator of the Board with general supervisory authority over all the public schools in the City. The present Superintendent is Kyle Kallhoff, who became Superintendent on April 5, 2021.

The Board appoints the Chief School Financial Officer ("CSFO") who also serves as the Treasurer of the Board. The CSFO is responsible for receiving all moneys to which the Board may be entitled by law; the CSFO pays out such money only on written order of the Superintendent, approved by the President of the Board, and has no discretionary power over the disbursement of school funds. The present CSFO is James Brumley, who became CSFO in February, 2020.

The School System

The Board formulates school policies and, upon the written recommendation of the Superintendent, appoints principals, teachers, clerical and professional assistants of the Board, and prescribes the course of study and approves contracts. The Board delegates to the Superintendent of Education, as its executive officer, and her staff, the responsibility for administering the policies of the Board in the operation of the schools.

The Board operates a primary educational system ("the System") with a physical plant consisting of the following schools:

School	Grades	Approximate Enrollment
East Elementary	3 - 6	469
West Elementary	3 - 6	470
Cullman City Primary	K - 2	763
Cullman Middle	7 - 8	481
Cullman High	9 - 12	975

Enrollment for the System for the three (3) most recent school years and for the current year is as follows:

	2020-2021	2021-2022	2022-2023	2023-2024
Grades K-6	1,697	1,662	1,650	1,702
Grades 7-8	522	511	522	481
Grades 9-12	<u>982</u>	<u>1,021</u>	<u>1,005</u>	<u>975</u>
TOTAL	3,201	3,194	3,177	3,158

Of the System's instructional staff of 235 teachers, approximately 65% have a Master's or more advanced degree. The Board has been awarded accreditation by the North Central Association Commission on Accreditation and School Improvement (NCA, CASI), the Northwest Accreditation Commission (NWAC) and the Southern Association of Colleges and Schools Commission on Accreditation and School Improvement (SACS CASI).

The System has consistently maintained a high level of academic excellence as evidenced by many student, teacher and administrative awards through competition sponsored by national organizations.

Employees and Employee Relations

The Board currently employs approximately 386 full-time persons, of whom approximately 327 work in the instructional program of the schools under the administration of the Board. The Board's current pupil-to-teacher ratio is approximately 13.5:1.

No employees of the Board are represented by labor unions or similar employee organizations. The Board does not bargain collectively with any labor union or employee organization. The Board has never experienced a strike, boycott, or other work stoppage and no such work stoppage is threatened.

Of the Board's 386 full-time employees, approximately 243 persons are members of the Alabama Education Association ("AEA"). AEA represents individual teachers in tenure and contract disputes with the Board, but does not bargain with the Board on behalf of teachers with respect to salaries or compensation; however, AEA does actively represent teachers at the State level, where minimum salaries are determined.

Litigation

There is no litigation, pending or threatened, affecting the Board's authority to issue the Warrants, to pledge the 2024-A Pledged Tax Proceeds for the payment of the principal and interest on the Series 2024-A Warrants or to pledge the 2024-B Pledged Tax Proceeds for the payment of the principal and interest on the Series 2024-B Warrants, nor is there pending or threatened any litigation, the adverse outcome of which would be likely to have a material adverse fiscal impact on the Board.

General Financial Information

Five-Year Summary of Audited Revenues, Expenditures and Changes in Fund Balances. The following table shows a summary of the Board's revenues and expenditures for the fiscal years ended September 30, 2019, through September 30, 2023, and is excerpted from the Board's audited financial statements for those years:

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**COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND**

	2019	2020	2021	2022	2023
Fund balances, beginning of year	\$4,193,137	\$5,165,880	\$5,838,229	\$6,706,878	\$7,065,846
Revenues					
State of Alabama	17,054,971	17,977,003	18,439,952	19,547,626	22,223,722
Federal Government	2,083	740	420	320	360
Local Revenues	11,417,472	12,055,825	13,455,210	14,256,652	16,389,812
Other Revenues	<u>311,511</u>	<u>236,798</u>	<u>30,373</u>	<u>53,479</u>	<u>71,724</u>
Total Revenues	28,786,037	30,270,366	31,925,955	33,858,077	38,685,618
Other Financing Sources					
Operating transfers in	213,804	196,842	208,402	265,633	329,241
Indirect Cost	--	--	77,374	71,265	162,416
Other	--	--	37,725	19,570	--
Proceeds from borrowing	--	--	--	--	13,925
Sale of fixed assets	<u>15,799</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Other Financing Sources	229,603	196,842	323,501	356,468	505,582
Total Revenues and Other Financing Sources	<u>29,015,640</u>	<u>30,467,208</u>	<u>32,249,456</u>	<u>34,214,545</u>	<u>39,191,200</u>
Expenditures					
Instructional Services	15,886,198	17,035,030	17,312,132	18,664,821	20,624,294
Instructional Support Services	3,950,891	4,090,315	4,689,209	4,867,838	5,205,693
Operation and Maintenance	2,994,114	2,573,328	3,139,470	3,909,505	3,377,242
Auxiliary services	279,611	150,034	144,672	148,978	153,113
Gen. Administrative Services	1,781,824	1,739,933	1,570,066	1,717,289	1,668,058
Capital outlay	169,326	548,597	434,974	221,473	763,757
Debt Service	--	--	--	--	3,089
Other	<u>324,257</u>	<u>327,749</u>	<u>231,115</u>	<u>394,240</u>	<u>491,071</u>
Total Expenditures	25,386,221	26,464,986	27,521,638	29,924,144	32,286,317
Other Fund Uses					
Operating Transfers Out	<u>2,656,676</u>	<u>3,329,873</u>	<u>3,859,169</u>	<u>3,931,433</u>	<u>5,342,485</u>
Total Expenditures and other Fund Uses	28,042,897	29,794,859	31,380,807	33,855,577	37,628,802
Excess of revenues and other financing sources over (under) expenditures and other fund uses	<u>972,743</u>	<u>672,349</u>	<u>4,404,317</u>	<u>3,933,933</u>	<u>1,562,398</u>
Fund balances, end of year	<u>\$ 5,165,880</u>	<u>\$ 5,838,229</u>	<u>\$ 6,706,878</u>	<u>\$ 7,065,846</u>	<u>\$8,628,244</u>

**COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES**

	2019	2020	2021	2022	2023
Fund balances, beginning of year	\$ 7,569,719	\$8,731,245	\$22,753,502	\$25,058,429	\$48,260,480
Revenues					
State of Alabama	17,816,395	18,833,164	19,264,082	23,872,170	23,752,510
Federal Government	3,323,320	4,634,007	5,462,372	6,786,016	6,438,951
Local Revenues	14,347,011	14,345,789	15,981,569	17,955,608	20,966,607
Other Revenues	<u>561,271</u>	<u>497,494</u>	<u>45,989</u>	<u>81,555</u>	<u>98,081</u>
Total Revenues	36,047,997	38,310,454	40,754,012	48,695,349	51,256,149
Other Financing Sources					
Operating transfers in	5,652,488	5,292,078	5,935,640	12,614,407	24,039,923
Indirect Cost	--	--	77,374	71,265	162,416
Sale of fixed assets	15,799	--	--	--	--
Insurance Proceeds	629,905	244,665	--	--	--
Bond Premiums	--	870,807	--	1,729,660	--
Other	--	--	94,007	19,570	--
Proceeds from borrowing	<u>--</u>	<u>11,320,000</u>	<u>--</u>	<u>41,001,663</u>	<u>51,438</u>
Total Other Financing Sources	6,298,192	17,727,550	6,107,021	55,436,565	24,253,777
Total Revenues and Other Financing Sources	42,346,189	56,038,004	46,861,033	104,131,914	75,509,926
Expenditures					
Instructional Services	18,459,511	19,971,060	19,976,757	22,480,019	24,862,719
Instructional Support Services	4,439,664	4,634,181	5,400,015	5,644,580	6,131,650
Operation and Maintenance	3,313,437	3,294,978	4,704,758	5,754,841	4,673,373
Auxiliary services	2,089,642	2,148,985	2,278,291	2,285,095	2,400,461
Gen. Administrative Services	1,935,688	1,849,758	1,783,655	2,305,003	1,941,751
Capital outlay	1,931,508	980,783	656,087	10,255,883	21,037,708
Payments on City debt	277,709	278,852	--	--	--
Debt Service – principal	535,900	1,018,818	645,000	686,970	1,267,071
Debt Service – interest	809,179	188,834	1,231,312	1,504,014	1,928,982
Debt Issuance Costs	--	--	49,081	51,576	54,488
Other	<u>1,739,937</u>	<u>1,829,004</u>	<u>1,895,510</u>	<u>2,193,853</u>	<u>2,374,721</u>
Total Expenditures	35,532,175	36,723,669	38,620,466	53,161,834	66,672,924
Other Fund Uses					
Payments to Refunding	--	--	--	15,153,622	--
Operating Transfers Out	<u>5,652,488</u>	<u>5,292,078</u>	<u>5,935,640</u>	<u>12,614,407</u>	<u>24,039,923</u>
Total Expenditures and other Fund Uses	41,184,663	42,015,747	44,556,106	80,929,863	90,712,847
Excess of revenues and other financing sources over (under) expenditures and other fund uses	<u>1,161,526</u>	<u>14,022,257</u>	<u>2,133,546</u>	<u>(4,466,485)</u>	<u>(15,202,921)</u>
Fund balances, end of year	<u>\$ 8,731,245</u>	<u>\$22,753,502</u>	<u>\$25,058,429</u>	<u>\$48,260,480</u>	<u>\$33,057,559</u>

Unaudited Summary of Audited Revenues, Expenditures and Changes in Fund Balances for Fiscal Year Ended September 30, 2024. The following table shows an unaudited summary of the Board's revenues and expenditures for the fiscal year ended September 30, 2024:

	General Fund	Total Governmental Funds
Revenues		
State of Alabama	\$25,452,163.73	\$27,137,833.73
Federal Government	420.00	6,467,155.72
Local Revenues	17,170,806.72	20,678,232.52
Other Revenues	<u>81,939.19</u>	<u>359,664.44</u>
Total Revenues	42,705,329.64	54,642,886.41
Expenditures		
Instructional Services	21,132,741.39	24,846,009.65
Instructional Support Services	5,910,140.02	6,684,958.01
Operation and Maintenance	4,312,417.17	8,349,186.92
Auxiliary services	282,317.62	2,348,927.23
Gen. Administrative Services	1,636,132.93	1,859,565.25
Capital outlay	279,709.12	7,202,876.70
Debt Service	0.00	3,188,534.53
Other Expenditures	<u>610,686.33</u>	<u>2,163,999.37</u>
Total Expenditures	34,164,144.58	56,644,057.66
Other Fund Sources (Uses)		
Other Fund Sources	490,607.97	17,658,081.66
Other Fund Uses	<u>6,379,337.18</u>	<u>17,475,331.67</u>
Total Other Fund Sources (Uses)	(5,888,729.21)	<u>182,749.99</u>
Excess of Revenues and other Fund Sources Over (under) Expenditures and Other Fund Uses	\$2,652,455.85	(\$1,818,421.26)

Pension Plan and Other Post-Employment Benefits (OPEB)

The State of Alabama maintains a retirement system covering public school teachers and other full-time school employees in the state; as a result, the retirement plans for employees of the Board are funded under its plan known as the Teachers' Retirement System. The Board's contributions to the system are set out in Note 6 to the audited financial statements attached hereto as Appendix B and information concerning other post-employment benefits ("OPEB") is set out in Note 12 to the said statements.

Accounting

The financial statements of the Board 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 Board uses funds and account groups to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types."

General Fund. The Board's General Fund primarily received revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the Board on a formula basis.

Special Revenue Funds. Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist principally of accounts related to special state and federal programs, such as preschool programs, vocational education and child nutrition.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for and the payment of the Board's general long-term debt principal and interest.

Capital Projects Funds. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust fund).

Fiduciary funds are used to account for assets held on behalf of outside parties including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain trust principal. Agency funds generally are used to account for assets that the government holds on behalf of other as their agent. Fiduciary funds consist of a Deferred Compensation Fund.

Account groups are used to establish accounting control and accountability for the Board's general fixed assets and the unmatured principal of its general long-term debt. These account groups are not funds. They do not reflect available financial resources and related liabilities but are accounting records of the general fixed assets and general long-term debt and certain associated information.

Basis of Accounting. The basis of accounting refers to when revenues and expenditures or expenses are recognized in the account and reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current asset and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are child nutrition funds, federal grants, and others, dependent upon the circumstances.

The Board of Education reports deferred revenues on its combined balance sheet, if any. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Board before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both

revenue recognition criteria are met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the combined sheet and revenue is recognized.

Budget

General. On or before October 1 of each fiscal year, the Board is required to prepare and submit to the State Superintendent of Education an annual budget to be adopted by the Board. The Superintendent of the Board cannot approve any budget for operations of the system for any fiscal year which shows expenditures in excess of income estimated to be available plus any cash balances on hand. The Superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred as a result of such changes. A summary of the budget filed by the Board with the State Superintendent of Education and now in effect is set forth below:

FISCAL 2024 - 2025 BUDGET

	General Fund	All Fund Types
Revenues		
State of Alabama	\$21,409,543.18	\$22,324,304.18
Federal Government	400.00	3,918,908.11
Local Revenues	17,196,875.15	20,293,756.15
Other Revenues	<u>62,709.42</u>	<u>385,296.42</u>
Total Revenues	38,669,527.75	46,922,264.86
Expenditures		
Instructional Services	23,169,825.82	25,394,894.44
Instructional Support Services	6,759,631.89	7,042,188.60
Operation and Maintenance	5,267,635.40	5,564,222.21
Auxiliary services	555,633.42	2,497,742.14
Gen. Administrative Services	1,714,599.35	1,807,792.05
Capital outlay ⁽¹⁾	800,000.00	18,181,551.10
Debt Service	0.00	5,225,961.68
Other Expenditures	<u>480,057.00</u>	<u>2,307,384.08</u>
Total Expenditures	38,747,382.88	68,021,736.30
Other Fund Sources (Uses)		
Other Fund Sources	368,068.75	52,723,044.70
Other Fund Uses	<u>3,429,616.62</u>	<u>21,623,128.95</u>
Total Other Fund Sources (Uses)	(3,061,547.87)	<u>31,099,915.75</u>
Excess of Revenues and other Fund Sources Over (under) Expenditures and Other Fund Uses	(\$3,139,403.00)	10,000,444.31

Note: The Board's budget is prepared on a modified accrual basis.

⁽¹⁾ Budgeted capital outlay expenditures to be made, primarily, out of proceeds of long-term indebtedness.

Education Accountability Plan. The laws of Alabama contain provisions designed to impose financial accountability on boards of education. The State Board of Education, through the State Department of Education, is directed by the legislation to require, approve and audit budgets, financial statements and other reports necessary to assess the financial stability of each board of education.

If a board of education is determined to have submitted a fiscally unsound budget, the State Board must provide assistance to complete a revised budget. If, during the preparation of the revised budget, the State Superintendent of Education determines that the local board is in an unsound fiscal position, a person or persons must be appointed by the State Superintendent to advise on the day-to-day financial operations of the Board. If, after a reasonable period of time, the State Superintendent determines that the local board is still in an unsound fiscal condition, a request must be filed with the State Board to take direct control of the fiscal operation of the local board. Upon approval by the State Board, the State Superintendent must appoint an individual to be the chief financial officer of the local board to manage its fiscal operation. The State Superintendent has the authority to review the decisions of the chief financial officer and the local board of education, pursuant to the laws of Alabama.

MAJOR SOURCES OF BOARD REVENUE

The following major sources of revenue account for substantially all the Board's local revenue.

Local Revenues – Ad Valorem Taxes

4 Mill Countywide Tax. The Board receives a share, determined on the same basis as the apportionment of the Special County Sales Tax, of the net proceeds of a 4 mill countywide school tax (composed of 3 mills levied under Amendment No. 3, section 1, of the Constitution of Alabama, and 1 mill levied under Section 269 of the Constitution of Alabama) that is authorized to be levied until and including the tax year that ends September 30, 2049. There are no outstanding pledges of, or contracts with respect to, these tax proceeds.

3 Mill District Tax. The Board receives the net proceeds of a 3 mill district school tax levied pursuant to Section 2 of Amendment No. 3 to the Constitution of Alabama. This tax is authorized to be levied for each consecutive tax year until and including the tax year that ends September 30, 2049. There are no outstanding pledges of, or contracts with respect to, these tax proceeds.

10.5 Mill Municipal Taxes. The Board receives the net proceeds of 10.5 mills of ad valorem school taxes levied by and in the City. The 10.5 mills is composed of the Special School Tax, at the rate of 7.5 mills, and an additional 3 mill tax levied for educational purposes pursuant to Section 216 of the Constitution of Alabama. These taxes are levied without limit as to time by the City.

Local Revenues – Sales Taxes and City Appropriations

Special County Sales Tax. The Board receives a portion of the proceeds of the Special County Sales Tax, as described under "SECURITY AND SOURCE OF PAYMENT – Special County Sales Tax and Collections."

City Appropriations. The Board receives (as an appropriation) the proceeds of the Special City Sales Tax, which are paid over to the Board monthly. See "SECURITY AND SOURCE OF PAYMENT – The Series 2024-B Warrants."

The Board also receives from the City the sum of \$600,000 per year, payable in equal monthly installments, for 10 fiscal years beginning with the fiscal year that ended September 30, 2022, pursuant to a Funding Agreement effective as of May 24, 2021, between the Board and the City (the "Funding Agreement"). The City entered into the Funding Agreement to assist the Board with the costs of constructing various public school capital improvements in the City, including the 2024 Improvements. The Board is not pledging the City payments under the Funding Agreement as security for the Warrants, and holders of the Warrants will have no claim on such payments.

Summary of Local Revenues

The following table reflects the Board's principal local revenue sources and amounts for the fiscal years indicated:

Tax	2020	2021	2022	2023	2024
4 mill countywide tax	\$ 973,157	\$1,036,794	\$1,133,127	\$1,328,666	\$1,499,230
3 mill district tax	1,019,541	1,112,351	1,129,630	1,341,470	1,525,130
10.5 mill municipal tax ⁽¹⁾	3,716,543	4,047,786	4,109,783	4,865,740	5,433,484
Special City Sales Tax	3,902,719	4,518,604	4,799,972	5,375,962	5,187,835
Special County Sales Tax	1,364,438	1,573,678	1,816,510	1,978,754	1,872,813
City Appropriation	--	--	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>
Total	<u>\$10,976,398</u>	<u>\$12,289,213</u>	<u>\$13,589,022</u>	<u>\$15,490,592</u>	<u>\$16,118,492</u>

⁽¹⁾ Includes the Special School Tax levied at the rate of 7.5 mills.

State of Alabama Revenues

Education Trust Fund; Foundation Program. The Education Trust Fund is a special fund of the State of Alabama used as a depository for revenues traditionally applied for educational purposes. The Trust Fund was established in 1927 by an act of the Legislature of Alabama. Alabama law requires that the proceeds of the following major taxes, and numerous others (after payment of the costs of collecting and administering the taxes), be deposited into the Trust Fund: the Utilities Gross Receipts Tax, the Utilities Use Tax, the Lease Tax, the Sales Tax, the Income Tax, the Cigarette Tax, the Beer Tax and a portion of the Use Tax. The Legislature of Alabama adopts an annual budget for the Trust Fund and monies are distributed to the Board based on the Board's participation in the Foundation Program. The Foundation Program, which was established by the Legislature of Alabama, is intended to provide funding for a minimum number of teaching units (which are calculated according to a formula based primarily on average daily attendance), fringe benefits, instructional support and other current expenses.

Public School Fund. The Public School Fund is a special State fund used as a depository for revenues traditionally applied for public school capital outlay purposes. Proceeds of the three (3) mill statewide ad valorem tax are deposited into the Public School Fund. Monies from the Public School Fund are distributed to the Board for capital outlay purposes based on an average daily membership formula and only after the Board has developed a comprehensive, long range capital plan according to rules established by the State Board of Education.

Proration of State Funds. Section 41-4-90 of the Code of Alabama 1975 provides, in part, that "the governor shall restrict allotments to prevent an overdraft or deficit in any fiscal year for which appropriations are made by prorating without discrimination against any department, board, bureau, commission, agency, office or institution of the state, the available revenues among the various departments, boards, bureaus, commissions, agencies, offices and institutions of the state." In fiscal year 2011, the Governor of Alabama reduced monthly allotments from the Trust Fund because then-current-and-projected revenues accruing to the Trust Fund were not sufficient to pay all appropriations made by the Legislature from the Trust Fund. In that year, the amount withheld from the Board was \$369,799, or approximately 1.3% of total revenue. Monthly allotments are not currently being reduced. State appropriations to the Board in fiscal year 2023 of \$20,065,787 were 55.70% of the Board's total general fund revenue for that year. State appropriations are expected to account for 56.69% of the Board's total general fund revenue for fiscal year 2024.

The following table sets forth the years in which proration has been declared, since 2001, and the applicable percentage rate of proration:

Fiscal Year(s) Ending September 30	Percentage Rate*
2001	6.20%
2002	—
2003	4.40
2004-2007	—
2008	6.50
2009	11.00
2010	9.50
2011	3.00
2012-2024	—

* Net of transfers from the Education Trust Fund Rainy Day Account and the former Proration Prevention Account into the Education Trust Fund.

The Education Trust Fund Rolling Reserve Act (Act No. 2011-3 of the Legislature of Alabama, referred to herein as the "Rolling Reserve Act") provides that, beginning with the fiscal year ended September 30, 2013, appropriations from the Trust Fund shall not exceed an annual formula-based amount (the "Fiscal Year Appropriation Cap") derived, in part, from historical collections of and growth rates in certain "recurring revenues" (generally being the proceeds of those taxes described above) and from certain "nonrecurring revenues" deposited into the Trust Fund. The cap essentially reduces year-to-year volatility in appropriations from the Trust Fund. The Rolling Reserve Act further provides that, to the extent revenues deposited into the Trust Fund exceed the Fiscal Year Appropriation Cap, such excess is first deposited into the Trust Fund's "Rainy Day Account" and any remaining excess is then deposited into the "Education Trust Fund Budget Stabilization Fund" and the "Education Trust Fund Capital Fund," in the order named. Both the Rainy Day Account and the Education Trust Fund Budget Stabilization Fund are reserve accounts designed to offset or reduce proration in the event Trust Fund revenues are not sufficient to pay appropriations made by the Legislature from the Trust Fund.

The Board cannot predict, for the current or any subsequent fiscal year, whether State revenues appropriated to the Board will be subject to proration nor can it predict the extent of proration, should it occur. The State funds that are subject to proration are not pledged for payment of the principal of or interest on the Warrants. It is not possible for the Board to determine the extent to which proration may have an adverse impact on the Board's finances.

Federal Revenues

The Board receives funds from the federal government under its program for vocational education, under Chapter II for enhancement of libraries, under Title 6 for supplement to special education programs and under the federal vocational program as well as several other programs. Federal funds accounted for approximately 12.43% of the Board's total revenue in fiscal year 2023.

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION

County Government

Cullman County is governed by a commission composed of three (3) Commissioners elected on a district basis for four-year concurrent terms.

City Government

The City of Cullman is governed by a City Council consisting of five (5) members; its administration is headed by a mayor and includes a city clerk/treasurer.

Population

The following table sets forth the population of the State of Alabama, Cullman County and the City of Cullman for the years shown:

Census Year	State of Alabama	Cullman County	City of Cullman
1980	3,893,888	61,642	13,084
1990	4,040,587	67,613	13,367
2000	4,447,100	77,483	13,995
2010	4,779,736	80,406	14,775
2020	5,024,279	87,866	18,213
2022*	5,073,903	90,665	19,251

*Population estimates. As of July 1, 2022.

Source: U.S. Census Bureau

Employment

Unemployment Rates. Recent comparative average annual unemployment figures are as follows:

Year	United States	State of Alabama	Cullman County
2018	3.9%	3.9%	3.3%
2019	3.7	3.2	2.7
2020	8.1	6.4	4.7
2021	5.3	3.4	2.3
2022	3.6	2.6	2.1
2023*	3.5	2.6	2.1

Labor Force Estimates. The following table sets forth information respecting the civilian labor force for Cullman County:

Year	Total Labor Force	Employed Labor Force	Unemployed Labor Force	Unemployment Rate
2018	38,511	37,249	1,262	3.3%
2019	39,146	38,070	1,076	2.7
2020	38,896	37,049	1,847	4.7
2021	38,931	38,020	911	2.3
2022	39,337	38,525	812	2.1
2023*	40,404	39,561	843	2.1

*Preliminary estimates. As of December 2023.

Source: Estimates prepared by Alabama Department of Labor in cooperation with the Bureau of Labor Statistics, based on 2022 benchmark.

The following is a list of the largest manufacturing and non-manufacturing/distribution employers for the City and throughout the County:

City	Employer	Product	Approximate Number of Employees
	Cullman Regional Medical Center	Hospital	1,450
	Wal-Mart Distribution Center #6006	Retail Distribution	1,121
	Wal-Mart Stores	Discount Retail Stores	965
	REHAU Inc.	Auto Exterior Moldings	735
	City of Cullman	City Government	640
	Rusken Packaging	Corrugated Boxes	466
	Reliance Worldwide Corp.	Plumbing Products	460
	Cullman City Board of Education	City Public Schools	385
	Alabama Cullman Yutaka Technologies	Automotive Parts Supplier	360
	General Dynamics	High Tech Precision Machining	239
County			
	Cullman County Board of Education	County Public Schools	1,500
	Cullman Regional Medical Center	Hospital	1,450
	Wal-Mart Distribution Center #6006	Distribution	1,121
	Wal-Mart Stores	Discount Retail Stores	965
	Topre America	Automotive Metal Stamping	922
	REHAU Inc.	Automotive Plastic Injection	735
	City of Cullman	City Government	640
	Cullman County Commission	County Government	540
	Wallace State Community College	Higher Education	500 +
	Reliance Worldwide Corp.	Plumbing Production	460

Source: Cullman Economic Development Agency

Income

Median Family Income. The following table sets forth the median family income for the United States, the State of Alabama and Cullman County for the years shown:

Year	United States	State of Alabama	Cullman County
2018	\$71,900	\$60,200	\$45,100
2019	75,500	63,500	53,100
2020	78,500	65,300	59,700
2021	79,900	66,700	57,300
2022	90,000	73,600	67,700
2023	96,200	79,600	77,200

Source: HUD Office of Economic Affairs, Economic and Market Analysis Division

Per Capita Personal Income. The following table sets forth the per capita personal income for the United States, State of Alabama and Cullman County for the periods indicated:

Year	United States	State of Alabama	Cullman County
2018	\$53,309	\$41,330	\$38,038
2019	55,547	43,004	39,901
2020	59,153	45,887	42,181
2021	64,430	50,059	46,762
2022	65,470	50,916	49,122

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Housing

Median Value. The following table sets forth the median value of owner-occupied housing units for the State of Alabama, the City of Cullman and Cullman County:

	State of Alabama	Cullman County	City of Cullman
Median Value	\$200,900	\$184,800	\$200,900

Source: United States Census Bureau, 2022 American Community Survey, 1-Year Estimates; 5-Years regarding the City.

Composition of Housing Units. The following tables set forth certain information concerning housing in the State of Alabama, the City of Cullman and Cullman County:

	State of Alabama	Cullman County	City of Cullman
Occupied Housing Units			
Renter	600,115	7,752	2,966
Owner	<u>1,416,333</u>	<u>28,214</u>	<u>4,759</u>
Total	2,016,448	35,966	7,725
Unoccupied Housing Units	<u>323,134</u>	<u>3,927</u>	<u>793</u>
Total Housing Units	2,339,582	39,893	8,518

Source: United States Census Bureau, 2022 American Community Survey, 1-Year Estimates; 5-Years regarding the City.

	State of Alabama	Cullman County	City of Cullman
Family Households	1,308,988	25,318	4,847
Non-Family Households	<u>707,460</u>	<u>10,648</u>	<u>2,878</u>
Total Households	2,016,448	35,966	7,725
Mobile Home or Trailer	285,974	20	5,950

Source: United States Census Bureau, 2022 American Community Survey, 1-Year Estimates; 5-Years regarding the City.

Poverty

The following table sets forth the number of poor and the poverty rate for the United States, State of Alabama, City of Cullman and Cullman County:

	United States	State of Alabama	City of Cullman	Cullman County
Number of Poor	39,490,096	739,108	2,137	8,737
Poverty Rate	12.3%	15.5%	14.1%	10.6%

Source: United States Census Bureau, American Community Survey, 1-Year Estimates; 5-Years regarding the City.

RECENT STATE PUBLIC SCHOOL LEGISLATION

Charter Schools

The recently enacted "Alabama School Choice and Student Opportunity Act" (Act No. 2015-3 of the Legislature of Alabama, referred to herein as the "Charter Schools Law") provides in broad terms for the creation, operation and financing of "charter schools," which are to form part of the State's existing system of public elementary and secondary education. Such charter schools include both (i) "start-up public charter schools," which consist of newly constructed school buildings and other facilities, and (ii) "conversion public charter schools," which consist of existing school buildings and facilities that are effectively removed from the governance of a county or city board of education and placed under the control of a private, non-profit organization.

Under the provisions of the Charter Schools Law, a new state agency, the Alabama Public Charter School Commission (the "Charter School Commission"), is empowered to establish charter schools – both "start-up" and "conversion" schools – anywhere in the State. The Charter School Commission is also effectively empowered to create a new "conversion" charter school in any locality, despite the express opposition of the county or city board of education that operates the public school in question.

The effects of the provisions of the Charter School Law cannot be predicted with any certainty and may be significantly affected by both judicial interpretation and executive or administrative action or enforcement. It is therefore impossible at this time to predict how the Charter Schools Law (or any administrative regulations that may hereafter be adopted by either the State Board, the State Department, or the Charter School Commission) may affect the operation of the public schools now or hereafter administered by the Board or, more generally, what impact the Charter Schools Law will eventually have on the administration of the State's system of public education.

There are presently no charter schools located within the District, nor has the Board received any petitions for the establishment of any such schools.

Alabama Accountability Act

The Alabama Accountability Act of 2013 (codified at Chapter 6D of Title 16 of the Code of Alabama 1975, as amended, and referred to herein as the "Accountability Act") allows students zoned to attend "priority" public schools – generally defined as those public schools receiving a "D" or "F" on the most recent "state report card" – to transfer either to a qualifying public school or to a qualifying nonpublic school and provides income tax credits to parents of students who transfer out of such "priority" public schools in an amount up to 80% of the average annual state cost of attendance for a public K-12 student. The Accountability Act also provides an income tax credit to certain Alabama taxpayers who owe state income tax and make a cash donation to qualifying Scholarship Granting Organizations (each, an "SGO"). The current annual statewide cap on the income tax credit for donations to SGOs is \$40,000,000 and may be increased to \$60,000,000 under certain circumstances. For each school year, eligible low-income students may apply to receive a scholarship awarded by an SGO to attend either (i) a qualifying nonpublic school or (ii) a qualifying public school. Priority for the scholarships is given to eligible students zoned for a "priority" public school. The income tax credits

provided for by the Accountability Act effectively reduce the funds available for appropriation from the Education Trust Fund.

LEGAL INVESTMENT

Under the Code of Alabama 1975 (Section 16-13-308), the Warrants will be legal investments for fiduciaries. Said Section 16-13-308 provides:

"The warrants issued pursuant to the provisions of this article shall be legal investments for executors, administrators, trustees, and other fiduciaries."

RATING

The Board has furnished to Moody's Investors Service certain information and materials respecting the Warrants and itself, and Moody's has assigned to the Warrants the rating shown on the cover page. Any explanation of the significance of such rating may only be obtained from the rating agency. Generally, rating agencies base their ratings on the information and materials furnished to them by the prospective issuer, as well as on investigations, studies and assumptions by the rating agencies. There is no assurance that any such rating will remain in effect for any given period of time or that it may not be lowered or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Warrants.

UNITED STATES BANKRUPTCY CODE

The United States Bankruptcy Code permits political subdivisions of a state and certain state and local public agencies and instrumentalities that are insolvent or are unable to meet their debts to file petitions for relief in federal bankruptcy courts if authorized by state law. Alabama law authorizes municipalities, counties and certain public authorities to file petitions under the Bankruptcy Code. However, there is no legislation currently in effect in Alabama authorizing boards of education to file such petitions for relief. Such legislation authorizing boards of education to file petitions for relief under the Bankruptcy Code may well be enacted by the Legislature of Alabama in the future.

Section 922(d) of Chapter 9 of the Bankruptcy Code provides that a bankruptcy petition does not operate as a stay of application of pledged special revenues to the payment of indebtedness secured by such revenues. It is not clear whether the pledge of the 2024-A Pledged Tax Proceeds, made by the Board for the benefit of the Series 2024-A Warrants, or the pledge of the Special City Sales Tax, made by the Board for the benefit of the Series 2024-B Warrants, would constitute "pledged special revenues" as that term is used in Section 922 of Chapter 9 of the Bankruptcy Code and, therefore, it is uncertain whether or not an automatic stay, under Chapter 9, would prevent the Board from using the said revenues for the payment of principal and interest on the Series 2024-A Warrants and the Series 2024-B Warrants, respectively.

The approving legal opinion of bond counsel will contain the customary reservation that the rights of the holders of the Warrants and the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and the exercise of judicial discretion in appropriate cases. See "TAX MATTERS" above and the proposed forms of approving legal opinion set forth in Appendix A.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Bradley Arant Boult Cummings LLP, Birmingham, Alabama, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Warrants is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal

Revenue Code of 1986, as amended ("the Code"). Interest on the Warrants is not treated as a preference item in calculating the alternative minimum tax imposed on individuals under the Code. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on "applicable corporations" (as defined in Section 59(k) of the Code), interest on the Warrants is not excluded from the determination of adjusted financial statement income. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Board and others in connection with the Warrants, and Bond Counsel has assumed compliance with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Warrants from gross income under Section 103 of the Code.

Bond Counsel is further of the opinion that the interest on the Warrants is exempt from present Alabama income taxation.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Warrants. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Warrants.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain significant ongoing requirements that must be met subsequent to the issuance and delivery of the Warrants in order that interest on the Warrants be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Warrants, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Warrants to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Board has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Warrants from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Warrants. It does not purport to deal with all aspects of federal taxation that may be relevant to a particular owner of a Warrant. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Warrants.

Original Issue Premium

The initial public offering price to be paid for certain of the Warrants ("the Original Issue Premium Warrants") is greater than the principal amount thereof. Under existing law, any owner who has purchased an Original Issue Premium Warrant in the initial public offering of the Warrants is required to reduce his basis in such Original Issue Premium Warrant by the amount of premium allocable to periods during which he holds such Original Issue Premium Warrant, and the amount of premium allocable to each accrual period will be applied to reduce the amount of interest received by the owner during each such period. All owners of Original Issue Premium Warrants should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Premium Warrant and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale, gift or other disposition of such Original Issue Premium Warrant.

Original Issue Discount

The initial public offering price to be paid for certain of the Warrants ("the Original Issue Discount Warrants") is less than the principal amount thereof. Under existing law, the difference between (i) the amount payable at the maturity of each Original Issue Discount Warrant, and (ii) the initial offering price to the public of such Original Issue

Discount Warrant constitutes original issue discount with respect to such Original Issue Discount Warrant in the hands of any owner who has purchased such Original Issue Discount Warrant in the initial public offering of the Warrants. Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Warrant equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Warrant continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Warrant prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Warrant in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Warrant was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Warrant is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the Warrants and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Warrant for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other taxable disposition thereof. The amount (if any) to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods (if any) multiplied by the yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Warrants.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Warrants which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Warrants should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Warrants and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale, gift or other disposition of such Original Issue Discount Warrants.

No Bank Qualification

Section 265 of the Code provides that, as a general rule, banks, thrifts, and other financial institutions may not deduct that portion of their interest expense that is allocable to tax-exempt obligations acquired after August 7, 1986. There is a specific exception in Section 265 for interest income from a "qualified tax-exempt obligation" which is defined as an obligation (not a private activity bond) that has been designated by the issuer for purposes of the Code as a "qualified tax-exempt obligation." Under the exception, interest allocable to qualified tax-exempt obligations is subject to the 20% disallowance rule effective prior to the Tax Reform Act of 1986. Section 265 provides that not more than \$10,000,000 of obligations may be designated by an issuer as "qualified tax-exempt obligations" during any calendar year and that obligations may not be designated as "qualified tax-exempt obligations" unless the issuer reasonably anticipates that the amount of qualified tax-exempt obligations issued by such issuer during such calendar year will not exceed \$10,000,000.

The Warrants are not "qualified tax-exempt obligations" under Section 265.

Future Legislation

Current and future legislative proposals, if enacted into law, may cause interest on the Warrants to be subject, directly or indirectly, to federal income taxation or otherwise prevent beneficial owners of the Warrants from realizing the full benefit of the current tax status of such interest. The introduction or enactment of any such legislative proposals may also affect the market price for, or marketability of, the Warrants. Prospective purchasers of the Warrants should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

AUDITED FINANCIAL STATEMENTS

The Board's financial statements as of and for the fiscal year ended September 30, 2023, included as Appendix B to this Official Statement, have been audited by Mercer & Associates, PC, Certified Public Accountants, Huntsville, Alabama, as stated in its report dated May 21, 2024.

Mercer & Associates, PC, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in their report and included in this Official Statement. Mercer & Associates, PC, also has not performed any procedures relating to this Official Statement.

APPROVAL OF LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Warrants are subject to the approval of Bradley Arant Boult Cummings LLP, Birmingham, Alabama, Bond Counsel, whose approving legal opinions will be delivered at the time of delivery of the Warrants. The proposed forms of those opinions are included in this Official Statement as Appendix A-1 (Series 2024-A Warrants) and Appendix A-2 (Series 2024-B Warrants). Bond Counsel has been employed for the purpose of preparing certain documents and supporting certificates, reviewing the transcript of proceedings by which the Warrants have been authorized to be issued and rendering an opinion as to the essential legality and validity of the Warrants in substantially the forms of Appendix A hereto.

UNDERWRITING

The Series 2024-A Warrants are being purchased by Raymond James & Associates, Inc. (the "Underwriter"), at a price equal to \$ _____ (which price reflects an underwriting discount of \$ _____ and net original issue premium of \$ _____), and the Series 2024-B Warrants are being purchased by the Underwriter at a price equal to \$ _____ (which price reflects an underwriting discount of \$ _____ and net original issue premium of \$ _____). The Board has been advised that the Underwriter intends to offer the Warrants to the public at prices that may be changed from time to time by the Underwriter without any requirement of prior notice. The Board has also been advised that the Underwriter may offer the Warrants to certain dealers and to others at prices lower than the public offering prices.

CONTINUING DISCLOSURE REQUIREMENTS

General

The Board will enter into a Continuing Disclosure Agreement for the benefit of beneficial owners of the Warrants wherein the Board will agree to provide annually certain financial information and operating data relating to the Board ("the Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report and event notices will be filed by the Board with the Electronic Municipal Market Access ("EMMA") system, a website created by the Municipal Securities Rulemaking Board ("MSRB") and approved by the SEC to provide a nationwide central location for municipal bond information. The specific nature of the information to be contained in the Annual Report or the event notices and other provisions of the Continuing Disclosure Agreement are summarized in "Appendix C - Summary of Continuing Disclosure Agreement." The Continuing Disclosure Agreement has been entered into in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Compliance with Prior Undertakings

The Board entered into continuing disclosure agreements (collectively, the "Prior Undertakings") in connection with issuance of certain of the Outstanding Parity Warrants. In the Prior Undertakings, the Board agreed to file annually (a) its audited financial statements and (b) certain annual financial information and operating data relating to the Board (the "Prior Annual Report") and to file notice of the occurrence of certain events described in the Prior Undertakings.

For each of the fiscal years 2019 through 2023, inclusive, the Board failed to file, on a timely basis, its audited financial statements and Prior Annual Report. The Board also did not file a notice of failure for any such year.

As of the date of this Official Statement, the Board has filed its audited financial statements and Prior Annual Report for each of the fiscal years 2019 through 2023.

FINANCIAL ADVISOR

In connection with the issuance and sale of the Warrants, Rice Advisory LLC, Montgomery, Alabama (the "Financial Advisor"), is employed by the Alabama State Department of Education (the "Department") to perform professional services in the capacity of financial advisor. The Financial Advisor has reviewed the plan of financing and structure of the Warrants on behalf of the Department, and reviewed this Official Statement for financing and structural matters. The Financial Advisor is a financial advisory firm regularly engaged in the business of providing financial and advisory services. The Financial Advisor will not participate in underwriting any of the Warrants.

RISK FACTORS

General

An investment in the Warrants involves certain risks that prospective investors in the Warrants should consider carefully. Prospective investors should carefully examine this Official Statement and their own financial condition in order to make a judgment as to their ability to bear the economic risk of such an investment and whether the Warrants are an appropriate investment for them. This discussion of risk factors is not intended to be exhaustive and should be read in conjunction with all other parts of this Official Statement.

Limitation on Rights of Holders of the Warrants

Holders of the Warrants should be aware that their rights and the enforceability of the Warrants may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and the exercise of judicial discretion in appropriate cases.

United States Bankruptcy Code

See "UNITED STATES BANKRUPTCY CODE" herein for information describing the applicability of the United States Bankruptcy Code to the Board and the Warrants.

Cybersecurity

Despite the implementation of network security measures by the Board, its information technology systems may remain vulnerable to breaches, hacker and ransomware attacks, computer viruses, physical or electronic break-ins and other similar events or issues. The foregoing events or issues could lead to the inadvertent disclosure of confidential information, ransomware attacks holding critical information and operations hostage or could have an adverse effect on the Board's ability to provide essential services or to collect revenues necessary to operate the Board. Any breach or cyberattack that compromises data could result in negative press and substantial fines or penalties for violation of state privacy laws. Despite efforts of the Board, no assurances can be given that the Board's measures will prevent cybersecurity attacks, and no assurances can be given that any cybersecurity attacks, if successful, will not have a material adverse effect on the operations or financial condition of the Board.

Tax-Exempt Status of the Warrants

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Warrants, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States Treasury, and a

requirement that the Board file an information report with the IRS. Future failure by the Board to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Warrants as taxable, retroactively to the date of issuance. The Board will covenant in the Authorizing Resolution that it will not take any action or refrain from taking any action that would cause interest on the Warrants to be included in gross income for federal income tax purposes. Additionally, the Warrants or other tax-exempt obligations issued previously by the Board may be, from time to time, subject to examinations or audits by the IRS. There is no assurance that an IRS examination of the Warrants would not adversely affect the market value of the Warrants or of other outstanding tax-exempt indebtedness of the Board.

School Choice Initiatives

Various State legislative initiatives have been introduced in recent years proposing the shifting of public school funds away from the State's public schools and toward parents and guardians for individual expenditure on an array of educational expenses, including tuition at non-public schools (these proposals are broadly defined as "School Choice Initiatives"). For example, the recently enacted "Creating Hope and Opportunity for Our Students' Education Act of 2024, or the CHOOSE Act," creates Education Savings Accounts (ESAs) to be funded, beginning with the 2025-2026 academic year, with not less than \$100 million of appropriations by means of a refundable income tax credit. The tax credits deposited into individual ESAs may be used by parents of participating students on "qualifying educational expenses," which include, among other things, tuition and fees at participating public schools for which the student is not zoned or on qualifying private schools. The CHOOSE Act does not limit the total amount of tax credits that the legislature may determine to appropriate into the ESAs.

Additional School Choice Initiatives may be introduced and adopted during the period in which the Warrants are outstanding. These School Choice Initiatives may reduce the amount that would otherwise be available for the legislature to appropriate through the Education Trust Fund budget, thereby reducing the State funds available for distribution to the Board. School Choice Initiatives may also cause a decline in enrollment in the public schools operated by the Board. Certain local revenues, including the Special County Sales Tax, are distributed based on an attendance-based formula, and a reduction in attendance could result in a corresponding reduction in local tax distributions. At this time, the Board is unable to provide an estimate of the effect the CHOOSE Act or any other School Choice Initiative may have on the Board's financial condition or operations.

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MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion or estimates whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized.

References herein to the Constitution of the State of Alabama and all acts referred to herein are intended to be only brief outlines of certain provisions of each thereof and do not purport to summarize or describe all provisions thereof.

The distribution of this Official Statement has been approved by the Board.

CULLMAN CITY BOARD OF EDUCATION

By _____
President

Dated _____, 2024

APPENDIX A-1

FORM OF APPROVING LEGAL OPINION – SERIES 2024-A WARRANTS

Appendix A-1

Form of Approving Legal Opinion – Series 2024-A Warrants

BRADLEY ARANT BOULT CUMMINGS LLP
One Federal Place
1819 Fifth Avenue North
Birmingham, Alabama 35203-2119

[Date]

Cullman City Board of Education
Cullman, Alabama

Ladies and Gentlemen:

We have examined certified copies of proceedings of the Cullman City Board of Education ("the Board") in the State of Alabama and other documents pertaining to the authorization and issuance of

\$ _____
CULLMAN CITY BOARD OF EDUCATION
Special Tax School Warrants
Series 2024-A
Dated _____, 2024

(the "Warrants"). The opinions hereinafter expressed are based upon our examination of the said proceedings and documents. The Warrants recite that they are issued pursuant to the provisions of Article 14 of Chapter 13 of Title 16 of the Code of Alabama 1975, as amended ("the Alabama Code").

The said proceedings submitted to us show that (i) the Board has reserved the right to issue additional parity warrants ("Parity Warrants") payable from the Board's Share of the 2024-A Special Taxes and secured by a pledge of the 2024-A Pledged Tax Proceeds hereinafter referred to, subject to certain limitations and conditions, on a parity of lien with the pledge thereof made for the benefit of the Warrants and with pledges thereof made for the benefit of the Outstanding Parity Warrants hereinafter described; and (ii) the Warrants are payable solely out of and secured by a pledge of (a) the proceeds allocated, distributed and paid to the Board of a privilege license tax levied by the governing body of Cullman County ("the County") under the provisions of Section 40-12-4 of the Alabama Code, and (b) the proceeds paid to the Board of a 7.5 mill special ad valorem tax levied by the City of Cullman ("the City") pursuant to the provisions of Amendment No. 56 to the Constitution of Alabama of 1901 and an election held in the City on April 19, 1960. The two taxes are herein together called the "2024-A Special Taxes" and the proceeds of the 2024-A Special Taxes paid to the Board are herein together called "Board's Share of the 2024-A Special Taxes." The pledge of the 2024-A Pledged Tax Proceeds will be on a parity of lien with pledges heretofore made for the benefit of the Outstanding Parity Warrants hereinafter described.

We are of the following opinion: that the Warrants are in due and legal form and have been authorized, sold and issued in the manner required by the applicable provisions of the laws of Alabama; that the Warrants are valid warrants of the Board and constitute valid orders on the treasurer of the Board for the payment thereof as provided in the Warrants; that the principal of and interest on the Warrants are payable solely out of the Board's Share of the 2024-A Special Taxes; that the Board has irrevocably pledged so much of the Board's Share of the 2024-A Special Taxes as shall be necessary to pay the said principal and interest at the respective maturities thereof (the "2024-A Pledged Tax Proceeds"); that the said pledge is valid and irrevocable, subject to (i) the said pledges for the benefit of the Outstanding Parity Warrants; (ii) the said reserved right to issue Parity Warrants; and (iii) the reservation that the legislature of Alabama may make such amendments to the said Section 40-12-4, including changes in the apportionment of the said privilege license tax, as may be necessary to enable the County to perform its governmental functions; that the Warrants constitute a preferred charge on the 2024-A Pledged Tax Proceeds; that the said pledge for the benefit of the Warrants will take precedence over any pledge of the 2024-A Pledged Tax Proceeds for the benefit of any other warrants or other obligations of the Board that may hereafter be issued or entered into, other than Parity Warrants; and that, under existing statutes, the interest on the Warrants is exempt from Alabama income taxation.

We are further of the opinion that under the Internal Revenue Code of 1986, as amended (the "Code"), as presently construed and administered, and assuming compliance by the Board with the covenants set forth in the resolution of the Board pursuant to which the Warrants are being issued with respect to certain requirements of federal tax law, the interest on the Warrants will be excludable from gross income of the recipients thereof for federal income tax purposes pursuant to the provisions of Section 103(a) of the Code, and the interest on the Warrants will not be an item of tax preference included in alternative minimum taxable income for the purpose of computing the minimum tax imposed by Section 55 of the Code. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on "applicable corporations" (as defined in Section 59(k) of the Code), interest on the Warrants is not excluded from the determination of adjusted financial statement income. We express no opinion with respect to the federal tax consequences of ownership of the Warrants under any other provision of the Code.

The documents submitted to us include a certificate of officers of the Board that the Board has no outstanding obligations that are payable from the Board's Share of the 2024-A Special Taxes except the Warrants and the following (the "Outstanding Parity Warrants"): (i) the Special Tax School Warrants, Series 2012, outstanding in the aggregate principal amount of \$1,040,000; (ii) the Special Tax School Warrants, Series 2014-A, outstanding in the aggregate principal amount of \$1,555,000; (iii) the Special Tax School Warrants, Series 2020, outstanding in the aggregate principal amount of \$11,285,000; (iv) the Special Tax School Warrant, Series 2022-A, outstanding in the principal amount of \$8,980,000; (v) the Special Tax School Warrants, Series 2022-C, outstanding in the aggregate principal amount of \$22,615,000; and (vi) the Special Tax School Warrant (Forward Delivery Series), Series 2023, outstanding in the principal amount of \$8,255,000.

We express no opinion regarding the accuracy, adequacy, or completeness of the Official Statement of the Board respecting the Warrants. Further, we express no opinion regarding tax consequences arising with respect to the Warrants other than as expressly set forth herein.

The rights of the holders of the Warrants and the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Yours very truly,

APPENDIX A-2

FORM OF APPROVING LEGAL OPINION – SERIES 2024-B WARRANTS

Appendix A-2

Form of Approving Legal Opinion – Series 2024-B Warrants

BRADLEY ARANT BOULT CUMMINGS LLP
One Federal Place
1819 Fifth Avenue North
Birmingham, Alabama 35203-2119

[Date]

Cullman City Board of Education
Cullman, Alabama

Ladies and Gentlemen:

We have examined certified copies of proceedings of the Cullman City Board of Education ("the Board") in the State of Alabama and other documents pertaining to the authorization and issuance of

\$ _____
CULLMAN CITY BOARD OF EDUCATION
Special Tax School Warrants
Series 2024-B
Dated _____, 2024

(the "Warrants"). The opinions hereinafter expressed are based upon our examination of the said proceedings and documents. The Warrants recite that they are issued pursuant to the provisions of Article 14 of Chapter 13 of Title 16 of the Code of Alabama 1975, as amended ("the Alabama Code").

The said proceedings submitted to us show that (i) the Board has reserved the right to issue additional parity warrants ("Parity Warrants") payable from the Special City Sales Tax and secured by a pledge of the 2024-B Pledged Tax Proceeds hereinafter referred to, subject to certain limitations and conditions, on a parity of lien with the pledge thereof made for the benefit of the Warrants; and (ii) the Warrants are payable solely out of and secured by a pledge of the proceeds allocated, distributed and paid to the Board of a one-half cent privilege license tax levied by the governing body of City of Cullman, Alabama, under the provisions of Article 3 of Chapter 51 of Title 11 of the Alabama Code (the "Special City Sales Tax"). The proceeds of the Special City Sales Tax paid to the Board are called the "2024-B Pledged Tax Proceeds."

We are of the following opinion: that the Warrants are in due and legal form and have been authorized, sold and issued in the manner required by the applicable provisions of the laws of Alabama; that the Warrants are valid warrants of the Board and constitute valid orders on the treasurer of the Board for the payment thereof as provided in the Warrants; that the principal of and interest on the Warrants are payable solely out of the Special City Sales Tax; that the Board has irrevocably pledged so much of the 2024-B Pledged Tax Proceeds as shall be necessary to pay the said principal and interest at the respective maturities thereof; that the said pledge is valid and irrevocable, subject to (i) the said reserved right to issue Parity Warrants; and (ii) the law-imposed requirement that the necessary and legitimate governmental expenses of operating the City must first be paid; that the Warrants constitute a preferred charge on the 2024-B Pledged Tax Proceeds; that the said pledge for the benefit of the Warrants will take precedence over any pledge of the 2024-B Pledged Tax Proceeds for the benefit of any other warrants or other obligations of the Board that may hereafter be issued or entered into, other than Parity Warrants; and that, under existing statutes, the interest on the Warrants is exempt from Alabama income taxation.

We are further of the opinion that under the Internal Revenue Code of 1986, as amended (the "Code"), as presently construed and administered, and assuming compliance by the Board with the covenants set forth in the resolution of the Board pursuant to which the Warrants are being issued with respect to certain requirements of federal tax law, the interest on the Warrants will be excludable from gross income of the recipients thereof for federal income tax purposes pursuant to the provisions of Section 103(a) of the Code, and the interest on the Warrants will not be an item of tax preference included in alternative minimum taxable income for the purpose of computing the minimum tax

imposed by Section 55 of the Code. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on "applicable corporations" (as defined in Section 59(k) of the Code), interest on the Warrants is not excluded from the determination of adjusted financial statement income. We express no opinion with respect to the federal tax consequences of ownership of the Warrants under any other provision of the Code.

We express no opinion regarding the accuracy, adequacy, or completeness of the Official Statement of the Board respecting the Warrants. Further, we express no opinion regarding tax consequences arising with respect to the Warrants other than as expressly set forth herein.

The rights of the holders of the Warrants and the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Yours very truly,

APPENDIX B

**AUDITED FINANCIAL STATEMENTS AS OF AND FOR
THE FISCAL YEAR ENDED SEPTEMBER 30, 2023**

CULLMAN CITY BOARD OF EDUCATION
GOVERNMENT-WIDE FINANCIAL STATEMENTS
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board Members
Cullman City Board of Education
Cullman, Alabama

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11, the budgetary comparison information on pages 43 through 47, the schedule of the board's proportionate share of the net pension liability on page 48, the schedule of board pension contributions on page 49 the schedule of the board's proportionate share of the net OPEB liability on page 50, the schedule of board OPEB contributions on page 51 and notes to required OPEB supplementary information on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cullman City Board of Education's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 May 21, 2024, on our consideration of the Cullman City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cullman City Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cullman City Board of Education's internal control over financial reporting and compliance.

Mercer & Associates, PC

May 21, 2024

**CULLMAN CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2023**

Our discussion and analysis of the Cullman City Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2023 (FY 2023). Please read it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

Financial Highlights: Significant Items to Note

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

- ✓ The Board's financial status increased for FY 2023. The Board's total net position increased by approximately \$6.25 million over the course of the fiscal year.
- ✓ Major local tax revenues remained steady for most of the year.
- ✓ The liabilities and deferred inflows of the Board exceeded its assets and deferred outflows at the close of the 2023 fiscal year by \$8,824,580 (net position).
- ✓ The total cost of the Board's programs for the year was \$45.0 million. After taking away a portion of these costs paid for with charges or fees, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from city and county taxpayers was \$11.7 million. (The state's Foundation Program provided \$18.1 million towards the cost of the programs.)
- ✓ For the General Fund, total revenues and other financing sources exceeded expenditures and other financing uses by \$1.56 million.
- ✓ At the end of the current fiscal year, fund balance for the General Fund was \$8.6 million.

Using the Financial Statements - An Overview for the User

The Board's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

Government-wide financial statements - The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the Board reported in the *government-wide financial statements* are classified as governmental activities. These activities include, but are not limited to, student transportation, school food services, facility maintenance, local school organizations, interest and fiscal charges on long-term debt, and student instruction. *Government-wide statements* report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets, deferred outflow of resources, liabilities and deferred inflows of resources perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

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

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

Using the Financial Statements - An Overview for the User, continued

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

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board are classified as governmental funds.

Governmental Funds - Governmental *fund financial statements* begin on page 14. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. The *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund, the Special Revenue Fund and the Capital Projects fund.

The *fund financial statements* are measured on the modified-accrual basis of accounting, where revenues and expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near-term use and availability of expendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of expendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 15 and 17 of these financial statements. The reconciliation is useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Notes to the Basic Financial Statements - The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 18 in this section.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

Using the Financial Statements - An Overview for the User, continued

Additional required supplemental information is presented following the notes to the basic financial statements. The required supplemental information beginning on page 43 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund and Special Revenue Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board's Overall Financial Position

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net position. The Board's liabilities and deferred inflows exceeded assets and deferred outflows by \$8,824,580 at September 30, 2023.

- ✓ Of this figure, \$16.1 million reflects the Board's investment in capital assets (e.g., land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets, reduced by debt related to unspent proceeds, if any. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.
- ✓ Restricted net position is \$8.2 million of total net position. Restricted net position is reported separately to show external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those assets for day-to-day operations.
- ✓ Unrestricted net position is (\$33.1) million. Unrestricted net position is a group of items owned by the government that have no external restrictions regarding their use or function; however, a portion of unrestricted net position is held by and available only to the local schools. The negative unrestricted net position is mainly due to the net pension liability and net OPEB liability.

Table 1: Summary of Net Position

As of September 30, 2023 and 2022

	2023 Governmental Activities	2023 Percent of Total	2022 Governmental Activities
Current and other assets	\$43,067,667	41%	\$59,393,222
Capital assets	62,391,229	59%	42,611,888
Total Assets	105,458,896	100%	102,005,110
 Deferred Outflows of Resources	 22,917,457	 100%	 15,345,969
 Current and other liabilities	 3,774,911	 3%	 4,358,506
Long-term liability	106,551,308	97%	100,481,982
Total Liabilities	110,326,219	100%	104,840,488
 Deferred Inflows of Resources	 26,874,713	 100%	 27,589,593
 Net Position:			
Net investment in capital assets	16,084,062		13,650,440
Restricted	8,158,792		6,350,731
Unrestricted	(33,067,434)		(35,080,173)
Total Net Position	(\$8,824,580)		(\$15,079,002)

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

Analysis of the School Board's Overall Financial Position, continued

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 13. *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2023.

Table 2: Summary of Changes in Net Position From Operating Results

Fiscal Years Ended September 30, 2023 and 2022

	2023 Governmental Activities	2023 Percent of Total	2022 Governmental Activities
Revenues			
Program Revenues:			
Charges for services	\$3,901,697	8%	\$4,483,907
Operating grants and contributions	27,871,196	54%	24,690,062
Capital grants and contributions	1,531,149	3%	4,326,896
General Revenues:			
Property taxes	7,535,877	15%	6,372,542
Local sales taxes	7,354,716	14%	6,616,482
Other taxes	438,213	1%	225,418
Investment earnings	342,893	1%	152,776
Other	2,280,409	4%	1,846,836
Total Revenues	51,256,150	100%	48,714,919
Expenses			
Instructional services	25,724,549	57%	22,415,570
Instructional support services	6,180,406	14%	5,387,934
Operation and maintenance services	4,684,551	11%	5,700,310
Auxiliary services	2,363,783	5%	2,243,194
General administrative services	1,844,915	4%	2,391,136
Other expenses	2,311,414	5%	2,076,415
Interest and fiscal charges	1,892,110	4%	1,491,102
Total Expenses	45,001,728	100%	41,705,661
(Decrease) Increase in Net Position	6,254,422		7,009,258
Net Position – Beginning	(15,079,002)		(22,088,260)
Net Position – Ending	(\$8,824,580)		(\$15,079,002)

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

Analysis of the School Board's Overall Financial Position, continued

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2023 was \$45.0 million. It is important to note that not all of these costs were borne by the taxpayers of Cullman:

- ✓ Some of the cost, \$3.9 million, was paid by users who benefited from services provided during the year, such as school lunches, local school fees and charges, and tuition.
- ✓ State and federal governments subsidized certain programs with grants and contributions totaling \$29.4 million.
- ✓ \$15.3 million was financed by district and state taxpayers.
- ✓ Other general revenue sources, such as interest earnings, city council appropriations, sale of surplus property, etc., provided for \$2.6 million in revenues.
- ✓ Revenues of \$51.3 million and expenses of \$45.0 million result in an increase in net position of \$6.3 million.

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

Table 3: Net Cost of Governmental Activities

Fiscal Year Ended September 30, 2023 and 2022

	2023	2023	2022	2022
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	\$25,724,549	\$3,746,829	\$22,415,570	\$1,256,938
Instructional support services	6,180,406	2,234,754	5,387,934	1,818,084
Operation and maintenance services	4,684,551	2,013,003	5,700,310	1,988,383
Auxiliary services	2,363,783	336,568	2,243,194	(449,432)
General administrative services	1,844,915	1,005,500	2,391,136	1,699,419
Other expenses	2,311,414	468,922	2,076,415	400,302
Interest and fiscal services	1,892,110	1,892,110	1,491,102	1,491,102
Total	\$45,001,728	\$11,697,686	\$41,705,661	\$8,204,796

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

Performance of School Board Funds

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

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 15 and 17). The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$33.06 million.

- ✓ The General Fund had a fund balance of \$8.63 million at September 30, 2023. The General Fund balance increased \$1.56 million during the year.
- ✓ The Special Revenue Fund had a fund balance of \$1.87 million at September 30, 2023. The Special Revenue Fund increased by \$0.04 million during the year.
- ✓ The Capital Projects Fund had a fund balance of \$19.54 million at September 30, 2023. The Capital Projects Fund decreased by \$16.91 million during the year.

Total Governmental Funds – Overall, the Board's governmental funds decreased by a total of \$15.20 million. Total governmental fund balances at September 30, 2023, are \$33.06 million.

Budgetary Highlights of Major Funds

On or before September 15 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year which shows expenditures in excess of income estimated to be available, plus any balances on hand. The superintendent with the approval of the Board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without Board approval.

The Board adopted budgeted amounts on September 8, 2022. On May 16, 2023, an amendment to the budget was passed.

General Fund - The comparison of general fund original budget to the final amended budget is on page 43. The differences between the original budget and the final amended budget of the Board were a \$2.5 million increase in overall revenue appropriations and a \$0.6 million increase in budgeted expenditures. Overall, the final amended budget reflected our best forecast of actual operations.

Special Revenue Fund - The comparison of general fund original budget to the final amended budget is on page 45. The differences between the original budget and the final amended budget of the Board were a \$0.2 million increase in overall revenue appropriations and a \$0.2 million increase in budgeted expenditures. The final amended budget reflected our best forecast of actual operations.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2023, amounted to \$16.08 million, net of accumulated depreciation and debt related to the acquisition of the assets. The Board's investment in capital assets includes land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, buildings under capital lease, equipment under capital lease, and construction in progress, and is shown in *Table 4*.

Table 4: Capital Assets (net of accumulated depreciation)
September 30, 2023 and 2022

	Governmental Activities	
	2023	2022
Land and land improvements	\$6,232,573	\$6,232,573
Construction in progress	29,477,624	9,191,985
Buildings and improvements	47,190,227	46,847,566
Vehicles & equipment	3,248,002	3,072,926
Leased assets	132,697	81,260
Less: accumulated depreciation	(23,889,894)	(22,814,422)
	62,391,229	42,611,888
Less: related debt, net debt related to unspent proceeds	(46,307,167)	(28,961,448)
Net Investment in Capital Assets	<u>\$16,084,062</u>	<u>\$13,650,440</u>

Capital assets, net of accumulated depreciation, increased by \$19.78 million for FY 2023. The Board expended available resources to acquire \$21.04 million in capital asset additions and retired net capital assets of \$0.00 million during the year. These net additions are reduced by the current year's depreciation expense of \$1.26 million. (Additional information on the Board's capital assets is presented in the notes to the basic financial statements).

Long-Term Debt – A summary of long-term debt outstanding at September 30, 2023 and 2024 is as follows:

Issue	September 30, 2023	September 30, 2024
Qualified School Construction Pool Bonds, Series 2009	\$ 3,901,000	\$ 3,901,000
2012 Special Tax School Warrants	\$ 1,370,000	\$ 1,695,000
2014-A & 2014-B Special Tax School Warrants	\$ 1,915,000	\$ 2,265,000
2020 Special Tax School Warrants	\$ 11,295,000	\$ 11,305,000
2022-A Special Tax School Warrants	\$ 9,060,000	\$ 9,170,000
2022-B Special Tax School Warrants	\$ 8,305,000	\$ 8,310,000
2022-C Special Tax School Warrants	\$ 23,065,000	\$ 23,500,000

Economic Factors and Next Year's Budget

The following are currently known Cullman and Cullman County economic factors considered going into FY 2024.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

Economic Factors and Next Year's Budget, continued

At September 30, 2023, the Board has committed to various contracts. Commitments include a \$13.3 million contract for primary school addition and renovations; at September 30, 2023, \$12.7 million is complete and included in construction in progress. The Board is also committed to a \$24.1 million contract for middle school addition and renovations; at September 30, 2023, \$13.7 million is complete and included in construction in progress.

- ✓ The unemployment rate in Cullman County for March 2024 was 2.5%, which is an increase from 1.7% in March 2023.
- ✓ The population for the City of Cullman for the year 2020 census was at 18,213. Since 2010, Cullman has had a population growth of 23 percent.
- ✓ State law requires us to maintain a one-month operating balance to meet state guidelines, which has been met. We must continue to be very diligent in our efforts to control expenditures.

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

Proration of State Appropriations - Applicable provisions of the Constitution of Alabama effectively prohibit the State from engaging in deficit financing--that is to say, state expenditures during any fiscal year may not exceed available revenues. State law provides procedures for delaying or, if necessary, reducing (or "prorating") appropriations of state revenues in order to maintain and enforce the constitutional ban on deficit financing. The Board received the largest share of its annual revenue from the State. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. The postponement or reduction of State appropriations to the Board as a consequence of proration may therefore result in reductions of expenditures by the Board for certain budget items other than salaries (e.g. instructional materials, supplies and maintenance). The following table sets forth the years in which proration has been enforced since 1985 and the amounts of such proration:

Fiscal Year	Percentage Proration
1985-86	4.2133%
1990-91	6.5000%
1991-92	3.0000%
2000-01	6.2000%
2001-02	4.4000%
2008-09	11.000%
2009-10	9.500%
2010-11	3.000%

Student Enrollment – The Board's enrollment figure based on the Average Daily Membership (ADM) as of the 20 days after Labor Day report for the 2022-23 scholastic year was 3,170.25, an increase of 6.85 from the previous year.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

Economic Factors and Next Year's Budget, continued

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). Premiums for PEEHIP insurance in FY 2024 are \$800 per month, or \$9,600 per year, per employee, which is the same as FY 2023. Employer contributions to the Teachers Retirement System (TRS) remain the same at 12.59 percent for fiscal year 2024. Employer contributions to TRS for Tier 2 employees increased from 11.44 percent to 11.57 percent for FY 2024.

Contacting the School Board's Financial Management – This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact James Brumley, Chief School Finance and Operations Officer.

**CULLMAN CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2023**

Assets

Cash and Cash Equivalents	\$ 34,952,972
Ad Valorem Property Taxes Receivable	6,393,580
Receivables	1,645,183
Inventories	75,932

Capital Assets

Land and Land Improvements, Non-Depreciable	\$ 1,680,352	
Construction in Progress, Not Depreciated	29,477,624	
Land Improvements - Exhaustible	4,552,221	
Buildings and Improvements	47,190,227	
Equipment and Furniture	1,867,391	
Vehicles	1,380,611	
Leased Assets	132,697	
Less: Accumulated Depreciation	(23,889,894)	
Total Capital Assets, Net of Depreciation		<u>62,391,229</u>
Total Assets		<u>105,458,896</u>

Deferred Outflows of Resources

Loss on Refunding of Debt	395,916	
Employer Pension Contribution	2,704,725	
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	12,527,000	
Employer OPEB Contribution	402,077	
Proportionate Share of Collective Deferred Outflows Related to Net OPEB Liability	6,887,739	
Total Deferred Outflows of Resources		<u>22,917,457</u>

Liabilities

Accounts Payable and Accrued Liabilities		835,870
Unearned Revenue		99,037
Salaries and Benefits Payable		2,681,621
Accrued Interest Payable		158,383
Long-Term Liabilities:		
Current Portion of Long-Term Obligations	1,429,428	
Noncurrent Portion of Bonds and Warrants Payable, Plus Unamortized Premium	59,883,228	
Leases Payable	36,877	
Net Pension Liability	40,228,000	
Net OPEB Liability	4,973,775	
Total Liabilities		<u>110,326,219</u>

Deferred Inflows of Resources

Unavailable Revenue - Property Taxes	6,393,580	
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	1,957,000	
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability	18,524,133	
Total Deferred Inflows of Resources		<u>26,874,713</u>

Net Position

Net Investment in Capital Assets		16,084,062
Restricted for:		
Restricted for Capital Projects		4,889,878
Restricted for Debt Service		3,020,902
Restricted for Other Purposes		248,012
Unrestricted		(33,067,434)
Total Net Position	\$	<u>(8,824,580)</u>

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

**CULLMAN CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets
Total Governmental Activities					
Governmental Activities					
Instruction	\$ 25,724,549	\$ 1,221,953	\$ 19,263,886	\$ 1,491,881	\$ (3,746,829)
Instructional Support	6,180,406	346,287	3,599,365	-	(2,234,754)
Operation and Maintenance	4,684,551	271,954	2,375,488	24,106	(2,013,003)
Student Transportation Services	261,088	107,817	87,271	15,162	(50,838)
Food Services	2,102,695	1,601,980	214,985	-	(285,730)
General Administration and Central Support	1,844,915	101,839	737,576	-	(1,005,500)
Interest and Fiscal Charges	1,892,110	-	-	-	(1,892,110)
Other	2,311,414	249,867	1,592,625	-	(468,922)
Total Governmental Activities	<u>\$ 45,001,728</u>	<u>\$ 3,901,697</u>	<u>\$ 27,871,196</u>	<u>\$ 1,531,149</u>	<u>(11,697,686)</u>
General Revenues					
Taxes:					
Property taxes for general purposes					7,341,021
Property taxes for specific purposes					194,856
Sales tax					7,354,716
Other taxes					438,213
Grants and contributions not restricted to specific purposes					600,360
Investment earnings					342,893
Miscellaneous					1,680,049
Total General Revenues					<u>17,952,108</u>
Change in Net Position					6,254,422
Net Position					<u>(15,079,002)</u>
Net Position - End of Year					\$ (8,824,580)

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

**CULLMAN CITY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023**

	General Fund	Special Revenue Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 10,681,675	\$ 1,023,615	\$ 20,226,780	\$ 3,020,902	\$ 34,952,972
Ad Valorem Property Taxes Receivable	6,393,580	-	-	-	6,393,580
Receivables	886,191	709,307	49,685	-	1,645,183
Due from Other Funds	-	300,000	-	-	300,000
Inventories	-	75,932	-	-	75,932
Other	-	-	-	-	-
Total Assets	<u>\$ 17,961,446</u>	<u>\$ 2,108,854</u>	<u>\$ 20,276,465</u>	<u>\$ 3,020,902</u>	<u>\$ 43,367,667</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts Payable	\$ 60,994	\$ 34,739	\$ 740,137	\$ -	\$ 835,870
Due to Other Funds	300,000	-	-	-	300,000
Unearned Revenue	-	99,037	-	-	99,037
Salaries and Benefits Payable	2,578,628	102,993	-	-	2,681,621
Total Liabilities	<u>2,939,622</u>	<u>236,769</u>	<u>740,137</u>	<u>-</u>	<u>3,916,528</u>
Deferred Inflows of Resources					
Unavailable Revenue - Property Taxes	<u>6,393,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,393,580</u>
Fund Balances					
Nonspendable	-	75,932	-	-	75,932
Restricted	-	248,012	19,536,328	3,020,902	22,805,242
Committed	-	-	-	-	-
Assigned	43,839	1,548,141	-	-	1,591,980
Unassigned	8,584,405	-	-	-	8,584,405
Total Fund Balances	<u>8,628,244</u>	<u>1,872,085</u>	<u>19,536,328</u>	<u>3,020,902</u>	<u>33,057,559</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 17,961,446</u>	<u>\$ 2,108,854</u>	<u>\$ 20,276,465</u>	<u>\$ 3,020,902</u>	<u>\$ 43,367,667</u>

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

**CULLMAN CITY BOARD OF EDUCATION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2023**

Total Fund Balances - Governmental Funds		\$ 33,057,559
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital Assets Used in Governmental Activities are Not Financial Resources and Therefore are Not Reported as Assets in Governmental Funds. These Assets Consist of:		
Land and Land Improvements, Non-Depreciable	\$ 1,680,352	
Construction in Progress, Not Depreciated	29,477,624	
Land Improvements - Exhaustible	4,552,221	
Buildings and Improvements	47,190,227	
Equipment and Furniture	1,867,391	
Vehicles	1,380,611	
Leased Assets	132,697	
Less: Accumulated Depreciation	<u>(23,889,894)</u>	
Total Capital Assets, Net of Depreciation		62,391,229
Losses on Refunding of Debt are Reported as Deferred Outflows and are not Available to Pay for Current-Period Expenditures and, Therefore, are Deferred on the Statement of Net Position		395,916
Deferred Outflows and Inflows of Resources Related to Pensions are Applicable to Future Periods and, Therefore, are not Reported in the Governmental Funds		13,274,725
Deferred Outflows and Inflows of Resources Related to OPEB Obligations are Applicable to Future Periods and, Therefore, are not Reported in the Governmental Funds		(11,234,318)
Long-term Liabilities, Including Bonds Payable, are Not Due and Payable in the Current Period and Therefore are Not Reported as Liabilities in the Funds. Interest on Long-term Debt is Not Accrued in the Funds but Rather is Recognized as an Expenditure When Due		
Current portion of long-term debt	1,429,428	
Non-current portion of long-term debt	<u>105,121,880</u>	(106,551,308)
Interest on Long-Term Debt is not Accrued in the Funds but Rather is Recognized as an Expenditure When Due		
Accrued Interest Payable		<u>(158,383)</u>
Total Net Position - Governmental Activities		<u>\$ (8,824,580)</u>

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

**CULLMAN CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	General Fund	Special Revenue Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
State	\$ 22,223,722	\$ -	\$ 1,456,035	\$ 72,753	\$ 23,752,510
Federal	360	6,438,591	-	-	6,438,951
Local	16,389,812	3,563,173	314,443	699,179	20,966,607
Other	71,724	26,357	-	-	98,081
Total Revenues	38,685,618	10,028,121	1,770,478	771,932	51,256,149
Expenditures					
Instruction	20,624,294	4,238,425	-	-	24,862,719
Instructional Support Services	5,205,693	925,957	-	-	6,131,650
Operation and Maintenance	3,377,242	861,836	434,295	-	4,673,373
Auxiliary Services:					
Student Transportation	148,869	67,403	-	-	216,272
Food Service	4,244	2,179,945	-	-	2,184,189
General Administration and Support	1,668,058	273,693	-	-	1,941,751
Other Expenditures	491,071	1,883,650	-	-	2,374,721
Capital Outlay	763,757	166,015	20,107,936	-	21,037,708
Debt Service:					
Principal Retirement	2,814	29,257	-	1,235,000	1,267,071
Interest and Fiscal Charges	275	2,587	-	1,926,120	1,928,982
Debt Issuance Costs/Other Debt Service	-	-	-	54,488	54,488
Total Expenditures	32,286,317	10,628,768	20,542,231	3,215,608	66,672,924
Excess (Deficiency) of Revenues Over Expenditures	6,399,301	(600,647)	(18,771,753)	(2,443,676)	(15,416,775)
Other Financing Sources (Uses)					
Indirect Cost	162,416	-	-	-	162,416
Transfers In	329,241	1,234,096	19,926,146	2,550,440	24,039,923
Long-Term Debt Issued	13,925	37,513	-	-	51,438
Other Financing Sources	-	-	-	-	-
Transfers Out	(5,342,485)	(635,638)	(18,061,800)	-	(24,039,923)
Total Other Financing Sources (Uses)	(4,836,903)	635,971	1,864,346	2,550,440	213,854
Net Changes in Fund Balances	1,562,398	35,324	(16,907,407)	106,764	(15,202,921)
Fund Balances at Beginning of Year	7,065,846	1,836,761	36,443,735	2,914,138	48,260,480
Fund Balances at End of Year	\$ 8,628,244	\$ 1,872,085	\$ 19,536,328	\$ 3,020,902	\$ 33,057,559

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

**CULLMAN CITY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Total Net Change in Fund Balances - Governmental Funds	\$ (15,202,921)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital Outlays to Purchase or Build Capital Assets are Reported in Governmental Funds as Expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$21,037,708) exceed depreciation (\$1,257,747) in the period.	19,779,961
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net position.	(51,438)
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	1,267,071
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds:	
Accrued Interest Payable, Current Year Increase/(Decrease)	5,211
Amortization of Bond Discounts/Premiums/Gain or Loss on Refunding/Issuance Costs	86,150
Pension Expense, Current Year Increase/Decrease	(2,629,827)
OPEB Expense, Current Year Increase/Decrease	3,000,835
	-
In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount.	
Proceeds from Sale of Capital Assets	-
Gain/(Loss) on Disposal of Assets	(620)
	(620)
Change in Net Position of Governmental Activities	\$ 6,254,422

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

CULLMAN CITY BOARD OF EDUCATION - CULLMAN, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Governmental Accounting Standards Board established a financial reporting model for state and local governments that includes the management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of internal service activities and the use of account groups to the required fund financial statements and notes.

The GASB determined that fund accounting has been and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

Reporting Entity

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

The Board is a legally separate agency of the State of Alabama. The Board is under the general supervision and financial jurisdiction of the Alabama State Department of Education.

Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Board's nonfiduciary activities with most interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. The Board has no business type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants to purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. Interfund activities between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide statements.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for Board operations, they are not included in the government-wide statements. The Board considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements, if any. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, deferred outflows, current liabilities, deferred inflows and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The Board considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of sales and property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the Board to refund all or part of the unused amount.

The Fiduciary Funds, if any, are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Accounting

The individual governmental funds are:

General Fund - The Board's General Fund primarily receives revenues from the Alabama Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF are allocated to the school board on a formula basis.

Special Revenue Funds - Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds include Federal Program Awards, Child Nutrition Program, and Education Stabilization Fund.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for and the payment of the Board's general long-term debt principal and interest.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Proprietary Funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The Board currently has no proprietary funds.

Fiduciary Funds are used to account for assets held on behalf of outside parties including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent. The Board currently has no fiduciary funds.

Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting -- under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation -- is utilized in the governmental funds financial statements throughout the fiscal year. Encumbrances outstanding at year-end are reported as assigned fund balance in the governmental fund financial statements and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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 used including commodities donated by the federal government, which are expensed when consumed.

Advertising

Advertising costs, if any, are expensed as incurred.

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Board.

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. Investments, if any, are stated at cost or amortized cost.

Short-term Interfund Receivable/Payable

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Receivables

Receivable due from other governments include amounts due from grantors for grants issued for specific purposes.

Advances to Other Funds

Currently, there are no advances to other funds.

Property Tax Calendar

The Cullman 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.

Deferred Outflows/Inflows of Resources

The Board has deferred outflows and inflows of resources. Deferred outflows of resources are a consumption of assets by the Board that is applicable to a future reporting period and consist of loss on debt refunding, pension-related deferred outflows and OPEB-related deferred outflows. Deferred inflows of resources are an acquisition of assets by the Board that is applicable to a future reporting period and consist of pension-related deferred inflows, OPEB-related deferred inflows and unavailable property tax revenue.

Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g. parking lots, stadium lights, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The estimates were based upon research in the original acquisition of the assets. Many estimates were based upon the selling prices of real property near the school during the time they were acquired. Estimation is limited to donated assets. Donated fixed assets are valued at their estimated fair market value on the date received.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, and are expensed as incurred. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Interest charges of \$1,928,982 were incurred and expensed. Major outlays of capital assets and improvements are capitalized as projects are constructed.

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

	Capitalization Threshold	Estimated Useful Life
Land improvements-exhaustible	\$ 50,000	20 years
Buildings	\$ 50,000	50 years
Building improvements	\$ 50,000	7-30 years
Equipment	\$ 5,000	5-20 years

The capitalization threshold for land and construction in progress is \$1 or more. However, land and construction in progress are not depreciated.

Leases - Right-to-use leased assets are recognized at the lease commencement date and represent the Board's right to use an underlying asset for the lease term. Right-to-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right-to-use leased assets are amortized over the lease term using the straight-line method.

Subscription-Based Information Technology Arrangements - Right-to-use subscription assets are recognized at the commencement of the subscription term. Right-to-use subscription assets are measured at the initial value of the subscription liability plus any prepayments and qualifying implementation costs. A corresponding subscription liability is recognized at the subscription commencement date based on the present value of the expected subscription payments required to be paid over the subscription term. The subscription liability is reduced as principal payments are made on the liability. For short-term subscription contracts (with a maximum term of twelve months or less), the Board will recognize short-term subscription payments based on the payment provisions in the contract.

Net Position and Fund Balance

Government-Wide Financial Statements – Net position on the Statement of Net Position includes the following:

Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted – The component of net position that represents amounts restricted by third parties.

Unrestricted – The difference between the assets and liabilities that is not reported in Net Investment in Capital Assets or Restricted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as follows:

Non-spendable – That portion of fund balance that is not in spendable form (e.g. inventories, prepaids) or that is legally or contractually required to be maintained intact (e.g. principal balance of permanent funds). The Board's non-spendable fund balance is comprised entirely of inventory and prepaid items.

Restricted – The portion of fund balance, if any, that has externally imposed restrictions by creditors, laws, or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – The portion of fund balance, if any, that may be used for specific purposes pursuant to constraints imposed by formal action of the Board. These funds can be used for an alternative purpose if due approval process is followed (i.e., a commitment is not legally enforceable.)

Assigned – The portion of fund balance, if any, constrained by the Board's intent, but not restricted or committed.

Unassigned – The residual fund balance that is not non-spendable, restricted, committed, or assigned.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the Board that committed amounts be reduced first, followed by assigned amounts and then unassigned amounts.

The Board, along with the Superintendent and Chief School Financial Officer will periodically review all restricted, committed and assigned fund balances, if any. The Chief School Financial Officer will prepare and submit an annual report of all restricted, committed and assigned funds, if any, for the Board.

The State of Alabama Department of Education requires local school boards to maintain a minimum of one month's operating expenses (as defined by law) in the General Fund fund balance, or have a subsequent budget that will cause the fund balance to exceed one month's operating expense.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Operating Transfers

Routine transfers of resources between funds that are not intended to be repaid are classified separately from fund revenues and expenditures. Such routine interfund transfers are identified as Operating Transfers In/Out in the Board's operating statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Debt Obligations

In the government-wide financial statements, the unmatured principal of long-term debt is 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 are recognized as an expense in the period incurred. Discounts and premiums are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported combined with the debt liability on 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

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

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

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

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

Professional and support personnel are provided a total of five days of personal leave per year with pay. The State provides funding, at the substitute rate, for up to two days while the Board provides one day of personal leave per employee per year. If the employee uses the fourth and fifth day, they are responsible for the cost of the substitute for each day which is deducted from their pay. Professional and support employees may elect to be paid, at the Board's substitute rate, all unused personal leave days or the unused days may be converted to sick leave.

Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

All twelve-month employees are allowed two weeks of vacation per year with pay. Up to 10 days of unused vacation leave can be carried over to succeeding years.

Economic Dependency

The Board depends on financial resources flowing from, or associated with, both the federal government and the State of Alabama. Because of this dependency, the Board is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. The Board also receives a significant portion of their revenue from property tax revenue and sales tax revenue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires use of management's estimates. Management has made estimates related to accruals of revenues and expenses.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

NOTE 2 - LEGAL COMPLIANCE

Budgets

On or before September 15 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year, which shows expenditures in excess of income estimated to be available, plus any balances on hand. The superintendent with the approval of the Board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without Board approval.

The Board adopted budgeted amounts on September 8, 2022. On May 16, 2023, an amendment to the budget was passed.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

At September 30, 2023, unrestricted deposits on hand at banks and in certificates of deposit were fully collateralized by banks qualifying under the Security for Alabama Funds Enhancement Act (SAFE) as qualified public depositories.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

Investments

The Board's credit risk policy follows investment statutes of Alabama which allows the Board to invest in obligations of the U.S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledge of the three- mill school tax and certificates of deposit.

NOTE 4 - RECEIVABLES

Receivables at September 30, 2023 consist of the following:

State Dept. of Education	\$695,925
Cullman County Board of Education	154,436
City of Cullman	503,433
Medicaid	63,208
Miscellaneous	228,181
	<u>\$1,645,183</u>

NOTE 5 - UNEARNED REVENUES

Governmental funds report unearned revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2023, the various components of unearned revenue reported in the governmental funds were as follows:

Total Unearned Revenue	\$ <u>99,037</u>
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - CAPITAL ASSET ACTIVITY

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

	Balance October 1, 2022	Additions	Retirements and Reclassifications	Balance September 30, 2023
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 1,680,352	\$ 0	\$ 0	\$ 1,680,352
Construction in progress	9,191,985	20,285,639	0	29,477,624
Capital assets being depreciated				
Buildings & improvements	46,847,566	342,661	0	47,190,227
Land improve.-exhaustible	4,552,221	0	0	4,552,221
Equipment and vehicles	3,072,926	357,971	182,895	3,248,002
Leased assets	81,260	51,437	0	132,697
Total at historic cost:	<u>65,426,310</u>	<u>21,037,708</u>	<u>182,895</u>	<u>86,281,123</u>
Less Accumulated Depreciation for:				
Buildings & improvements	16,546,565	935,406	0	17,481,971
Land improve.-exhaustible	3,802,848	130,670	0	3,933,518
Equipment and vehicles	2,442,308	155,879	182,275	2,415,912
Leased assets	22,701	35,792	0	58,493
Total accum. depr.	<u>22,814,422</u>	<u>1,257,747</u>	<u>182,275</u>	<u>23,889,894</u>
Governmental Capital Assets, Net	<u>\$ 42,611,888</u>	<u>\$ 19,779,961</u>	<u>\$ 620</u>	<u>\$ 62,391,229</u>

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

Instructional services	\$ 1,087,112
Instructional support services	4,035
Operation and maintenance services	49,175
Student transportation	56,234
Food services	39,449
General administrative	5,334
Other expenditures	16,408
Total governmental activities depreciation expense	<u>\$ 1,257,747</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial. At September 30, 2023, the Board has committed to various contracts. Commitments include a \$13.3 million contract for primary school addition and renovations; at September 30, 2023, \$12.7 million is complete and included in construction in progress. The Board is also committed to a \$24.1 million contract for middle school addition and renovations; at September 30, 2023, \$13.7 million is complete and included in construction in progress.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. Errors and omissions insurance is purchased from the Alabama School Boards Insurance Trust (ASBIT), a public entity risk pool. The ASBIT collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for property, fidelity bonds and automobile coverage. Settled claims in the past three years have not exceeded the commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), a public entity risk pool, administered by the Public Education Employees' Health Insurance Board. 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 set annually by the Alabama Legislature based on the amounts necessary to fund coverage. The Board contributes the specified amount monthly to the PEEHIF for each employee.

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

NOTE 9 - DONATED FOOD PROGRAM

The value of the commodities received from the Federal government and consumed during the year ended September 30, 2023 amounted to \$111,586 and are reflected in the accompanying financial statements.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

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

Contributions - Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation.

Effective October 1, 2021, the covered Tier 2 members contribution rate increased from 6.0% to 6.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2022 was 12.36% of annual pay for Tier 1 members and 11.22% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$2,704,725 for the year ended September 30, 2023.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions - At September 30, 2023 the Board reported a liability of \$40,228,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021. The Board's proportion of the collective net pension liability was based on the employers' share of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2022, the Board's proportion was 0.258856%, which was an increase (decrease) of (0.000451%) from its proportion measured as of September 30, 2021.

For the year ended September 30, 2023, the Board recognized pension expense of \$5,333,000. At September 30, 2023 the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 884,000	\$ 976,000
Changes of assumptions	1,825,000	0
Net difference between projected and actual earnings on pension plan investments	8,073,000	0
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,745,000	981,000
Employer contributions subsequent to the measurement date	2,704,725	0
Total	<u>\$ 15,231,725</u>	<u>\$ 1,957,000</u>

Deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date of \$2,704,725 will be recognized as a reduction of the net pension liability in the year ended September 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2024	\$3,193,000
2025	2,251,000
2026	1,923,000
2027	3,203,000
2028	0
Thereafter	0

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

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

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

*Net of pension plan investment expense

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

	Target Allocation	Long-Term Expected Rate of Return *
Fixed income	15.00%	2.8%
U.S. large stocks	32.00%	8.0%
U.S. mid stocks	9.00%	10.0%
U.S. small stocks	4.00%	11.0%
International developed market stocks	12.00%	9.5%
International emerging market stocks	3.00%	11.0%
Alternatives	10.00%	9.0%
Real estate	10.00%	6.5%
Cash equivalents	5.00%	2.5%
Total	100.00%	

* Includes assumed rate of inflation of 2.00%

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

	1% Decrease (6.45%)	Current Rate (7.45%)	1% Increase (8.45%)
Board's proportionate share of collective net pension liability	\$52,054,000	\$40,228,000	\$30,268,000

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, 2022. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2022. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

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

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

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

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retired members and covered dependents are eligible to enroll in the PEEHIP Supplemental Medical Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. Members who are enrolled in the PEEHIP Hospital Medical Plan (Group 14000), VIVA Health Plan (offered through PEEHIP), Marketplace (Exchange) Plans, State Employees Insurance Board (SEIB), Local Government Board (LGB), Medicare, Medicaid, ALL Kids, Tricare, or Champus as their primary coverage, or are enrolled in a Health Savings Account (HSA) or Health Reimbursement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Arrangement (HRA), are not eligible to enroll in the PEEHIP Supplemental Plan. The plan cannot be used as a supplement to Medicare. Retired members who become eligible for Medicare are eligible to enroll in the PEEHIP Group Medicare Advantage (PPO) Plan or the Optional Coverage Plans.

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

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

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At September 30, 2023, the Board reported a liability of \$4,973,775 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2021. The Board's proportion of the net OPEB liability was based on the Board's share of contributions to the OPEB plan relative to the total employer contributions of all participating PEEHIP employers. At September 30, 2022, the Board's proportion was 0.28544744% percent, which was an increase/(decrease) of 0.02646444% from its proportion measured as of September 30, 2021.

For the year ended September 30, 2023, the Board recognized OPEB expense of (\$2,597,560), with no special funding situations. At September 30, 2023, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 228,117	\$ 10,056,565
Changes of assumptions	4,034,411	7,239,629
Net difference between projected and actual earnings on OPEB plan investments	625,499	0
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,999,712	1,227,939
Employer contributions subsequent to the measurement date	402,077	0
Total	<u>\$ 7,289,816</u>	<u>\$ 18,524,133</u>

Deferred outflows of resources related to OPEB of \$402,077 reported as resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2024.

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

Year ended September 30:	
2024	(\$2,962,785)
2025	(3,069,117)
2026	(1,403,254)
2027	(1,295,075)
2028	(1,821,624)
Thereafter	(1,084,539)

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

Inflation	2.50%
Salary increases, includes 2.75% wage inflation	3.25% - 5.00%
Long-Term Investment Rate of Return ¹	7.00%
Municipal Bond Index Rate at the Measurement Date	4.40%
Municipal Bond Index Rate at the Prior Measurement Date	2.29%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	N/A
Single Equivalent Interest Rate the Measurement Date	7.00%
Single Equivalent Interest Rate the Prior Measurement Date	3.97%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.50%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.50% in 2031
Medicare Eligible	4.50% in 2027

¹ Compounded annually, net of investment expense, and includes inflation.

**Initial Medicare claims are set based on scheduled increases through plan year 2025

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

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

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

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2011.

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, 2021 valuation.

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

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

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

	Target <u>Allocation</u>	Long-Term Expected <u>Rate of Return *</u>
Fixed income	30.00%	4.4%
U.S. large stocks	38.00%	8.0%
U.S. mid stocks	8.00%	10.0%
U.S. small stocks	4.00%	11.0%
International developed market stocks	15.00%	9.5%
Cash	5.00%	1.5%
Total	<u>100.00%</u>	

* Geometric mean, includes 2.50% inflation

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

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

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

	1% Decrease (5.50% decreasing to 3.50% for pre- Medicare, known decreasing to 3.50% for Medicare Eligible)	Current Healthcare Trend Rate (6.50% decreasing to 4.50% for pre- Medicare, known decreasing to 4.50% for Medicare Eligible)	1% Increase (7.50% decreasing to 5.50% for pre- Medicare, known decreasing to 5.50% for Medicare Eligible)
Net OPEB liability	\$3,771,624	\$4,973,775	\$6,448,100

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

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$6,149,338	\$4,973,775	\$3,986,925

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - LONG-TERM OBLIGATIONS

Pursuant to acts of the Alabama Legislature, the Alabama Public School and College Authority (PSCA) is authorized to issue bonds to finance loans to local boards of education. Bonds were issued as Capital Improvement Pool Qualified School Construction Bonds Series 2009-D on behalf of various boards of education in the state in the total amount of \$145,880,000. The bonds are secured by certain taxes deposited in the Education Trust Fund, as specified in Act No. 98-373.

Loans made to local school boards are payable solely out of and secured by capital outlay funds available to participating school boards from the Public School Fund pursuant to Section 16-13-234, Code of Alabama 1975.

The Board's share of the bonds, known as Capital Improvement Pool Warrant Series 2009-QSCB, was \$3,901,000. Interest is payable on March 15, June 15, September 15 and December 15 in each year. Interest is payable at 1.865%. The Board is required to make sinking fund deposits of \$203,013 each December 15 beginning on December 15, 2011 so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds. Rather than reducing principal annually, the Board makes annual payments to a Board held bond sinking fund. The bonds are due for maturity in December 2025.

The Board issued warrants, known as Special Tax School Warrants, Series 2012, in the amount of \$9,900,000 on December 20, 2012. The warrants are subject to the provisions of Rule 15c2-12, promulgated by the Securities and Exchange Commission of the United States of America pursuant to the Securities Exchange Act of 1934. The warrants were issued to provide for acquisition, construction and equipping of various capital improvements of public schools under the Board's jurisdiction and to pay the expenses related to the issuance of the warrants. The warrants bear interest semiannually on March 1 and September 1. The bonds were partially refunded in the year ended September 30, 2022, by Special Tax Warrants 2022-A; the remaining bonds are due for maturity in March 2027.

The Board issued warrants, known as Special Tax School Warrants, Series 2014-A and 2014-B, in the amount of \$12,550,000 on March 19, 2014. The warrants are subject to the provisions of Rule 15c2-12, promulgated by the Securities and Exchange Commission of the United States of America pursuant to the Securities Exchange Act of 1934. The warrants were issued to provide for acquisition, construction and equipping of various capital improvements of public schools under the Board's jurisdiction and to pay the expenses related to the issuance of the warrants. The warrants bear interest semiannually on March 1 and September 1. The 2014-A bonds were partially refunded in the year ended September 30, 2022, by Special Tax Warrants 2022-B; the remaining bonds are due for maturity in March 2028. The 2014-B bonds matured in March 2023.

The Board issued warrants, known as Special Tax School Warrants, Series 2020, in the amount of \$11,320,000 on February 13, 2020. The warrants are subject to the provisions of Rule 15c2-12, promulgated by the Securities and Exchange Commission of the United States of America pursuant to the Securities Exchange Act of 1934. The warrants were issued to provide for acquisition, construction and equipping of various capital improvements of public schools under the Board's jurisdiction and to pay the expenses related to the issuance of the warrants. The warrants bear interest semiannually on March 1 and September 1. The 2020 bonds are due for maturity in September 2049.

The Board issued private placement bonds, known as Special Tax School Warrants, Series 2022-A, in the amount of \$9,170,000 on March 24, 2022. This warrant was issued pursuant to the provisions of the laws of Alabama, including particularly Article 14 of Chapter 13 of Title 16 of the Code of Alabama 1975, as amended, for the purpose of paying or refinancing the costs of acquiring, constructing and equipping

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - LONG-TERM OBLIGATIONS (CONTINUED)

improvements to the public schools that are under the jurisdiction and control of the Board. The warrant is payable, as to both principal and interest, solely out of the proceeds allocated and distributed to the Board of the privilege license tax levied in Cullman County pursuant to Section 40-12-4 of the Code of Alabama, as amended, and the net proceeds derived from the levy of a special 7.5 mill ad valorem tax authorized at an election held in the City of Cullman, Alabama, to be levied and collected annually, without limit as to time, for general school purpose. The warrants bear interest at 2.34%, payable semiannually on March 1 and September 1. The 2022-A bonds are due for maturity in September 2042.

The Board issued private placement bonds, known as Special Tax School Warrants, Series 2022-B, in the amount of \$8,310,000 on March 24, 2022. This warrant was issued pursuant to the provisions of the laws of Alabama, including particularly Article 14 of Chapter 13 of Title 16 of the Code of Alabama 1975, as amended, for the purpose of paying or refinancing the costs of acquiring, constructing and equipping improvements to the public schools that are under the jurisdiction and control of the Board. The warrant is payable, as to both principal and interest, solely out of the proceeds allocated and distributed to the Board of the privilege license tax levied in Cullman County pursuant to Section 40-12-4 of the Code of Alabama, as amended, and the net proceeds derived from the levy of a special 7.5 mill ad valorem tax authorized at an election held in the City of Cullman, Alabama, to be levied and collected annually, without limit as to time, for general school purpose. The warrants bear interest at 3.01%, payable semiannually on March 1 and September 1. The 2022-B bonds are due for maturity in September 2042.

The Board issued warrants, known as Special Tax School Warrants, Series 2022-C, in the amount of \$23,500,000 on March 24, 2022. This warrant was issued pursuant to the provisions of Article 14 of Chapter 13 of Title 16 of the Code of Alabama 1975, as amended, for the purpose of providing funds to pay the costs of acquiring, providing, constructing and equipping certain capital improvements to the public schools that are under the jurisdiction and control of the Board. The warrant is payable, as to both principal and interest, solely out of the proceeds allocated and distributed to the Board of the privilege license tax levied in Cullman County pursuant to Section 40-12-4 of the Code of Alabama, as amended, and the net proceeds derived from the levy of a special 7.5 mill ad valorem tax authorized at an election held in the City of Cullman, Alabama, to be levied and collected annually, without limit as to time, for general school purpose. In the event of nonpayment of debt service on the warrants, a court having jurisdiction of the matter shall issue mandamus for the payment of the principal of and interest on the Warrants, when and as they become due and payable. The warrants bear interest at 3.00% - 5.00%, payable semiannually on March 1 and September 1. The 2022-C bonds are due for maturity in March 2051.

Debt service on the Board's long-term debt follows:

Maturity Fiscal Year	Qualified School Construction Pool Bonds, Series 2009	
	Principal Amount	Interest Due
2024	\$203,013	\$72,754
2025	203,013	72,754
2026	203,015	18,186
Total	<u>\$609,041</u>	<u>\$163,694</u>

Details of the debt service on the OSCB bonds payable to the sinking fund are as follows:

Total remaining required principal payments	\$609,041
Anticipated sinking fund earnings	261,280
Sinking fund balance at September 30, 2023	<u>3,030,679</u>
Total QSCB bonds outstanding	<u>\$3,901,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - LONG-TERM OBLIGATIONS (CONTINUED)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and Warrants Payable	\$ 42,666,000	\$ 0	\$ 1,120,000	\$ 41,546,000	\$ 1,150,000
Private Placement Bonds	17,480,000	0	115,000	17,365,000	130,000
Capital Leases	59,290	51,438	32,071	78,657	41,780
Net OPEB Liability	13,381,168	0	8,407,393	4,973,775	0
Net Pension Liability	24,428,000	15,800,000	0	40,228,000	0
Unamortized Premium	2,467,524	0	107,648	2,359,876	107,648
	<u>\$ 100,481,982</u>	<u>\$ 15,851,438</u>	<u>\$ 9,782,112</u>	<u>\$ 106,551,308</u>	<u>\$ 1,429,428</u>

Maturities are as follows:

Maturity Fiscal Year	2012 Special Tax School Warrants		2014 A & B Special Tax School Warrants		2020 Special Tax School Warrants	
	Principal Amount	Interest Due	Principal Amount	Interest Due	Principal Amount	Interest Due
2024	\$330,000	\$26,700	\$360,000	\$53,506	\$10,000	\$399,631
2025	340,000	19,575	370,000	42,556	10,000	399,469
2026	345,000	11,869	380,000	30,831	15,000	399,219
2027	355,000	3,994	400,000	18,656	5,000	399,019
2028			405,000	6,328	15,000	398,819
2029					15,000	398,519
2030					15,000	398,219
2031					15,000	397,919
2032					20,000	397,569
2033					10,000	397,244
2034					15,000	396,931
2035					15,000	396,556
2036					15,000	396,181
2037					15,000	395,806
2038					20,000	395,369
2039					20,000	394,869
2040					15,000	394,431
2041					20,000	393,994
2042					15,000	393,556
2043					1,400,000	365,369
2044					1,455,000	308,269
2045					1,510,000	248,969
2046					1,575,000	187,269
2047					1,640,000	122,969
2048					1,695,000	67,922
2049					1,740,000	22,838
Total	<u>\$1,370,000</u>	<u>\$62,138</u>	<u>\$1,915,000</u>	<u>\$151,877</u>	<u>\$11,295,000</u>	<u>\$8,866,925</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - LONG-TERM OBLIGATIONS (CONTINUED)

Maturity Fiscal Year	2022-A Special Tax School Warrants		2022-B Special Tax School Warrants		2022-C Special Tax School Warrants	
	Principal Amount	Interest Due	Principal Amount	Interest Due	Principal Amount	Interest Due
2024	\$80,000	\$211,068	\$50,000	\$207,817	\$450,000	\$843,760
2025	115,000	208,786	65,000	192,407	465,000	827,710
2026	120,000	206,037	65,000	190,885	485,000	808,710
2027	120,000	203,229	70,000	189,306	505,000	788,910
2028	485,000	196,150	70,000	187,668	525,000	765,685
2029	495,000	184,685	485,000	181,174	555,000	738,685
2030	510,000	172,926	500,000	169,650	580,000	710,310
2031	525,000	160,817	505,000	157,892	610,000	680,560
2032	535,000	148,414	520,000	145,899	640,000	649,310
2033	545,000	135,779	540,000	133,497	670,000	619,910
2034	560,000	122,850	550,000	120,744	700,000	592,510
2035	570,000	109,629	560,000	107,757	725,000	564,010
2036	590,000	96,057	575,000	94,478	755,000	534,410
2037	600,000	82,134	590,000	80,847	790,000	503,510
2038	610,000	67,977	605,000	66,866	820,000	471,310
2039	625,000	53,528	615,000	52,591	855,000	437,810
2040	645,000	38,668	630,000	38,025	890,000	402,910
2041	655,000	23,459	650,000	23,049	925,000	366,610
2042	675,000	7,897	660,000	7,722	965,000	328,810
2043					995,000	294,585
2044					1,025,000	264,285
2045					1,060,000	233,010
2046					1,090,000	200,760
2047					1,125,000	167,535
2048					1,160,000	132,680
2049					1,195,000	96,177
2050					1,235,000	58,513
2051					1,270,000	19,685
Total	\$9,060,000	\$2,430,090	\$8,305,000	\$2,348,274	\$23,065,000	\$13,102,670

The City of Cullman has designated a portion of its warrants payable to be used for school purposes. The warrants are obligations of the City of Cullman. While there is no written funding agreement between the City of Cullman and the Board for these warrants payable, the Board is making all principal and interest payments on the portion of the debt proceeds that were used for school purposes. Because no funding agreement exists, the liability for these warrants has not been included in the Board's financial statements.

NOTE 13 – LEASES

GASB Statement No. 87, *Leases* issued in June 2017, is effective for fiscal years beginning after June 15, 2021. GASB 87 requires lessees to recognize an intangible right-to-use asset and liability for leases that were previously classified as operating leases. The right-to-use assets are amortized over the lease term. The Board had the following lease in effect during FY 2023:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – LEASES (CONTINUED)

Copier lease, monthly payments of \$1,119 for 36 months, commencing on August 1, 2021
 Copier lease, monthly payments of \$643 for 36 months, commencing on June 1, 2022
 Copier lease, monthly payments of \$707 for 36 months, commencing on June 1, 2021
 Copier lease, monthly payments of \$386 for 38 months, commencing on February 1, 2023
 Copier lease, monthly payments of \$419 for 36 months, commencing on August 1, 2023
 Copier lease, monthly payments of \$605 for 36 months, commencing on August 1, 2023
 Copier lease, monthly payments of \$169 for 36 months, commencing on September 1, 2023

Leased assets are presented separately on the Statements of Net Position and amortization is reported on the Statements of Activities. The Board's right-to-use leased assets are recognized at the lease commencement date.

The following table presents the Board's leased asset balances as of September 30, 2023:

	Gross Asset Balance	Accumulated Amortization	Net Asset Balance
Leased Copiers	\$ 132,697	\$ 58,493	\$ 74,204

Lease liabilities are recognized at the lease commencement date based on the present value of the lease payments required to be paid over the lease term. An incremental borrowing rate to discount the lease payments to present value is used when lease agreements do not provide an implicit rate. Lease liabilities are separated into a current portion, included within current liabilities, and a noncurrent portion included within long term liabilities on the Statements of Net Position.

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

	Balance at October 1, 2022	Lease Financing	Principal Payments	Balance at September 30, 2023
Copiers	\$ 59,290	\$ 51,438	\$ 32,071	\$ 78,657
Current Lease Liability				(41,780)
Long Term Lease Liability				\$ 36,877

Lease principal and interest payments for the lease commitments are as follows:

	Principal	Interest
2024	\$41,780	\$3,556
2025	22,937	1,801
2026	13,940	474
	<u>\$78,657</u>	<u>\$5,831</u>

The lease liability commitments related to the leases are as follows:

	Current	Long Term	Total
2023	\$41,780	\$36,877	\$78,657
2024	22,937	13,940	36,877
2025	13,940	0	13,940

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES

Interfund accounts receivable are considered available spendable resources.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE

The Board adopted new accounting guidance, GASB Statement No. 96, Subscription-Based Information Technology Arrangements. All Board subscription contracts are short-term. There was no impact on net income or net position.

Statement on Auditing Standards (SAS) No. 142 takes effect for audits of financial statements for periods ending on or after December 15, 2022. SAS No. 142 explains what constitutes audit evidence in an audit of financial statements and sets out attributes of information that are taken into account by the auditor when evaluating information to be used as audit evidence. There was no impact on net income or net position.

NOTE 16 - SUBSEQUENT EVENTS

The date through which subsequent events have been evaluated is May 21, 2024. The financial statements were available to be issued at that time.

**SUPPLEMENTAL SCHEDULE OF REVENUE
CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget-- Positive (Negative)
<u>Revenues</u>				
State	\$ 19,540,224	\$ 20,065,787	\$ 22,223,722	\$ 2,157,935
Federal	500	500	360	(140)
Local	13,909,740	15,909,740	16,389,812	480,072
Other	47,500	47,500	71,724	24,224
Total Revenues	33,497,964	36,023,527	38,685,618	2,662,091
<u>Expenditures</u>				
Instruction	20,481,771	20,900,297	20,358,217	(542,080)
Instructional Support	5,247,483	5,283,701	5,156,240	(127,461)
Operation and Maintenance	3,398,957	3,218,148	3,382,763	164,615
Auxiliary Services:				
Student Transportation	159,345	159,345	148,345	(11,000)
Food Service	4,845	4,845	4,244	(601)
General Administrative Services	1,642,276	1,723,076	1,674,452	(48,624)
Other	284,912	299,912	467,514	167,602
Capital Outlay	472,923	661,011	763,757	102,746
Debt Service				
Principal Retirement	-	-	2,814	2,814
Interest and Fiscal Charges	-	-	275	275
Total Expenditures	31,692,512	32,250,335	31,958,621	(291,714)
Excess (deficiency) of revenues over expenditures	1,805,452	3,773,192	6,726,997	2,953,805
<u>Other Financing Sources (Uses)</u>				
Indirect Cost	197,273	226,531	162,416	(64,115)
Long-Term Debt Issued	-	-	13,925	13,925
Transfers In	121,000	121,000	329,241	208,241
Other	-	-	-	-
Sale of Capital Asset	-	-	-	-
Transfers Out	(3,019,711)	(5,019,711)	(5,342,485)	(322,774)
Total Other Financing Sources (Uses)	(2,701,438)	(4,672,180)	(4,836,903)	(164,723)
Net Change in Fund Balances	(895,986)	(898,988)	1,890,094	2,789,082
Fund Balances at Beginning of Year	9,095,986	9,316,776	9,316,776	-
Fund Balances at End of Year	\$ 8,200,000	\$ 8,417,788	\$ 11,206,870	\$ 2,789,082

The accompanying Notes to the Budgetary Comparison Schedules are an integral part of this statement.

**SUPPLEMENTAL SCHEDULE OF REVENUE
CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGETARY BASIS TO GAAP BASIS - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Budgeted Amounts		Actual (Budgetary Basis)	Budget to GAAP Differences Over (Under)	Actual Amount GAAP Basis
Revenues	Original	Final			
State	\$ 19,540,224	\$ 20,065,787	\$ 22,223,722	\$ -	\$ 22,223,722
Federal	500	500	360	-	360
Local	13,909,740	15,909,740	16,389,812	-	16,389,812
Other	47,500	47,500	71,724	-	71,724
Total Revenues	33,497,964	36,023,527	38,685,618	-	38,685,618
Expenditures					
Instruction	20,481,771	20,900,297	20,358,217	266,077	20,624,294
Instructional Support	5,247,483	5,283,701	5,156,240	49,453	5,205,693
Operation and Maintenance	3,398,957	3,218,148	3,382,763	(5,521)	3,377,242
Auxiliary Services:					
Student Transportation	159,345	159,345	148,345	524	148,869
Food Service	4,845	4,845	4,244	-	4,244
General Administrative Services	1,642,276	1,723,076	1,674,452	(6,394)	1,668,058
Other	284,912	299,912	467,514	23,557	491,071
Capital Outlay	472,923	661,011	763,757	-	763,757
Debt Service					
Principal Retirement	-	-	2,814	-	2,814
Interest and Fiscal Charges	-	-	275	-	275
Total Expenditures	31,692,512	32,250,335	31,958,621	327,696	32,286,317
Excess (deficiency) of revenues over expenditures	1,805,452	3,773,192	6,726,997	(327,696)	6,399,301
Other Financing Sources (Uses)					
Indirect Cost	197,273	226,531	162,416	-	162,416
Long-Term Debt Issued	-	-	13,925	-	13,925
Transfers In	121,000	121,000	329,241	-	329,241
Other	-	-	-	-	-
Sale of Capital Assets	-	-	-	-	-
Transfers Out	(3,019,711)	(5,019,711)	(5,342,485)	-	(5,342,485)
Total Other Financing Sources (Uses)	(2,701,438)	(4,672,180)	(4,836,903)	-	(4,836,903)
Net Change in Fund Balances	(895,986)	(898,988)	1,890,094	(327,696)	1,562,398
Fund Balances at Beginning of Year	9,095,986	9,316,776	9,316,776	(2,250,930)	7,065,846
Fund Balances at End of Year	\$ 8,200,000	\$ 8,417,788	\$ 11,206,870	\$ (2,578,626)	\$ 8,628,244

Explanation of differences:

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

\$ (327,696)

The accompanying Notes to the Budgetary Comparison Schedules are an integral part of this statement.

**SUPPLEMENTAL SCHEDULE OF REVENUE
CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget-- Positive (Negative)
<u>Revenues</u>				
State	\$ -	\$ -	\$ -	\$ -
Federal	9,221,952	9,466,587	6,438,591	(3,027,996)
Local	2,419,358	2,419,358	3,563,173	1,143,815
Other	25,000	25,000	26,357	1,357
Total Revenues	11,666,310	11,910,945	10,028,121	(1,882,824)
<u>Expenditures</u>				
Instruction	3,888,080	5,193,650	4,238,425	(955,225)
Instructional Support	963,023	1,285,454	925,957	(359,497)
Operation and Maintenance	3,103,802	1,230,112	861,836	(368,276)
Auxiliary Services				
Student Transportation	38,250	38,250	67,403	29,153
Food Service	1,930,448	1,932,648	2,176,742	244,094
General Administrative Services	306,081	335,888	273,693	(62,195)
Other	1,684,176	1,636,289	1,883,650	247,361
Capital Outlay	8,100	514,305	166,015	(348,290)
Debt Service				
Principal Retirement	-	-	29,257	29,257
Interest and Fiscal Charges	-	-	2,587	2,587
Total Expenditures	11,921,960	12,166,596	10,625,565	(1,541,031)
Excess (deficiency) of revenues over expenditures	(255,650)	(255,651)	(597,444)	(341,793)
<u>Other Financing Sources (Uses)</u>				
Indirect Cost	-	-	-	-
Long-Term Debt Issued	-	-	37,513	37,513
Transfers In	755,130	834,740	1,234,096	399,356
Other Financing Sources	-	-	-	-
Sale of Capital Asset	-	-	-	-
Transfers Out	(284,730)	(364,340)	(635,638)	(271,298)
Total Other Financing Sources (Uses)	470,400	470,400	635,971	165,571
Net Change in Fund Balances	214,750	214,749	38,527	(176,222)
Fund Balances at Beginning of Year	1,194,389	1,936,552	1,936,552	-
Fund Balances at End of Year	\$ 1,409,139	\$ 2,151,301	\$ 1,975,079	\$ (176,222)

The accompanying Notes to the Budgetary Comparison Schedules are an integral part of this statement.

**SUPPLEMENTAL SCHEDULE OF REVENUE
CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGETARY BASIS TO GAAP BASIS - SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Budgeted Amounts		Actual	Budget to GAAP	Actual
	Original	Final	(Budgetary Basis)	Differences Over (Under)	Amount GAAP Basis
Revenues					
State	\$ -	\$ -	\$ -	\$ -	\$ -
Federal	9,221,952	9,466,587	6,438,591	-	6,438,591
Local	2,419,358	2,419,358	3,563,173	-	3,563,173
Other	25,000	25,000	26,357	-	26,357
Total Revenues	11,666,310	11,910,945	10,028,121	-	10,028,121
Expenditures					
Instruction	3,888,080	5,193,650	4,238,425	-	4,238,425
Instructional Support	963,023	1,285,454	925,957	-	925,957
Operation and Maintenance	3,103,802	1,230,112	861,836	-	861,836
Auxiliary Services					
Student Transportation	38,250	38,250	67,403	-	67,403
Food Service	1,930,448	1,932,648	2,176,742	3,203	2,179,945
General Administrative Services	306,081	335,888	273,693	-	273,693
Other	1,684,176	1,636,289	1,883,650	-	1,883,650
Capital Outlay	8,100	514,305	166,015	-	166,015
Debt Service					
Principal Retirement	-	-	29,257	-	29,257
Interest and Fiscal Charges	-	-	2,587	-	2,587
Total Expenditures	11,921,960	12,166,596	10,625,565	3,203	10,628,768
Excess (deficiency) of Revenues over Expenditures	(255,650)	(255,651)	(597,444)	(3,203)	(600,647)
Other Financing Sources (Uses)					
Indirect Cost	-	-	-	-	-
Long-Term Debt Issued	-	-	37,513	-	37,513
Transfers In	755,130	834,740	1,234,096	-	1,234,096
Other Financing Sources	-	-	-	-	-
Sale of Capital Asset	-	-	-	-	-
Transfers Out	(284,730)	(364,340)	(635,638)	-	(635,638)
Total Other Financing Sources (Uses)	470,400	470,400	635,971	-	635,971
Net Change in Fund Balances	214,750	214,749	38,527	(3,203)	35,324
Fund Balances at Beginning of Year	1,194,389	1,936,552	1,936,552	(99,791)	1,836,761
Fund Balances at End of Year	\$ 1,409,139	\$ 2,151,301	\$ 1,975,079	\$ (102,994)	\$ 1,872,085

Explanation of differences:

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

\$ (3,203)

The accompanying Notes to the Budgetary Comparison Schedules are an integral part of this statement.

**CULLMAN CITY BOARD OF EDUCATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Note A -

Explanation of Differences between Budgetary Inflows and Outflows and GAAP
Revenues and Expenditures:

	General Fund	Special Revenue Fund
Sources/inflows of resources		
Actual amounts (budgetary basis) available for appropriation shown as Total Revenues on the budgetary comparison schedule	\$ 38,685,618	\$ 10,028,121
Differences - Budget to GAAP		
Local taxes are not budgeted as revenues unless receivable in time to pay budgeted expenditures	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - gov funds	<u>\$ 38,685,618</u>	<u>\$ 10,028,121</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison	\$ 31,958,621	\$ 10,625,565
Differences - budget to GAAP		
Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries earned but not paid are reported as expenditures on financial statements	327,696	3,203
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - gov funds	<u>\$ 32,286,317</u>	<u>\$ 10,628,768</u>

Note B -

Budgetary Comparison Schedules are not presented as Required Supplementary Information for major fund Capital Projects because a legally adopted budget for this fund is not required.
The requirement to present Budgetary Comparison Schedules is, therefore, eliminated.

**CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF THE BOARD'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Board's proportion of the net pension liability	<u>0.258856%</u>	<u>0.259307%</u>	<u>0.237822%</u>	<u>0.260222%</u>	<u>0.243465%</u>
Board's proportionate share of the net pension liability	<u>\$40,228,000</u>	<u>\$24,428,000</u>	<u>\$29,418,000</u>	<u>\$28,772,000</u>	<u>\$24,207,000</u>
Board's covered payroll *	<u>\$19,929,626</u>	<u>\$18,831,540</u>	<u>\$18,327,021</u>	<u>\$17,040,664</u>	<u>\$16,277,447</u>
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>201.85%</u>	<u>129.72%</u>	<u>160.52%</u>	<u>168.84%</u>	<u>148.71%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>62.21%</u>	<u>76.44%</u>	<u>67.72%</u>	<u>69.85%</u>	<u>72.29%</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Board's proportion of the net pension liability	<u>0.242270%</u>	<u>0.240902%</u>	<u>0.242371%</u>	<u>0.238777%</u>	
Board's proportionate share of the net pension liability	<u>\$23,811,000</u>	<u>\$26,080,000</u>	<u>\$25,366,000</u>	<u>\$21,692,000</u>	
Board's covered payroll *	<u>\$15,865,697</u>	<u>\$15,346,809</u>	<u>\$15,360,490</u>	<u>\$15,159,043</u>	
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>150.08%</u>	<u>169.94%</u>	<u>165.14%</u>	<u>143.10%</u>	
Plan fiduciary net position as a percentage of the total pension liability	<u>71.50%</u>	<u>67.93%</u>	<u>67.51%</u>	<u>71.01%</u>	

* - Employer's covered payroll during the measurement period is the total covered payroll.
For FY 2023, the measurement period for covered payroll is October 1, 2021 - September 30, 2022.

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

**CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF BOARD PENSION CONTRIBUTIONS
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contributions	\$ 2,704,725	\$ 2,417,551	\$ 2,268,527	\$ 2,234,908	\$ 2,078,557
Contributions in relation to the contractually required contribution	<u>2,704,725</u>	<u>2,417,551</u>	<u>2,268,527</u>	<u>2,234,908</u>	<u>2,078,557</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	<u>\$22,099,818</u>	<u>\$19,929,626</u>	<u>\$18,831,540</u>	<u>\$18,327,021</u>	<u>\$ 17,040,664</u>
Contributions as a percentage of covered-employee payroll	<u>12.24%</u>	<u>12.13%</u>	<u>12.05%</u>	<u>12.19%</u>	<u>12.20%</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Contractually required contributions	\$ 1,955,579	\$ 1,880,496	\$ 1,817,255	\$ 1,791,825	
Contributions in relation to the contractually required contribution	<u>1,955,579</u>	<u>1,880,496</u>	<u>1,817,255</u>	<u>1,791,825</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Board's covered-employee payroll	<u>\$16,277,447</u>	<u>\$15,865,697</u>	<u>\$15,346,809</u>	<u>\$15,360,490</u>	
Contributions as a percentage of covered-employee payroll	<u>12.01%</u>	<u>11.85%</u>	<u>11.84%</u>	<u>11.67%</u>	

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

**CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF THE BOARD'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Board's proportion of the net OPEB liability	<u>0.28544744%</u>	<u>0.258983%</u>	<u>0.259282%</u>
Board's proportionate share of the net OPEB liability	<u>\$ 4,973,775</u>	<u>\$13,381,168</u>	<u>\$16,827,041</u>
Board's covered payroll during the measurement period *	<u>\$19,929,626</u>	<u>\$18,831,540</u>	<u>\$17,857,818</u>
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	<u>24.96%</u>	<u>71.06%</u>	<u>94.23%</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>48.39%</u>	<u>27.11%</u>	<u>19.80%</u>
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Board's proportion of the net OPEB liability	<u>0.286308%</u>	<u>0.276472%</u>	<u>0.270904%</u>
Board's proportionate share of the net OPEB liability	<u>\$10,801,736</u>	<u>\$22,722,477</u>	<u>\$20,121,202</u>
Board's covered payroll during the measurement period *	<u>\$16,476,991</u>	<u>\$15,923,400</u>	<u>\$15,717,747</u>
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	<u>65.56%</u>	<u>142.70%</u>	<u>128.02%</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>28.14%</u>	<u>14.81%</u>	<u>15.37%</u>

* - Employer's covered payroll during the measurement period is the total covered payroll.
For FY 2023, the measurement period for covered payroll is October 1, 2021 - September 30, 2022.

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

**CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF BOARD OPEB CONTRIBUTIONS
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contributions	\$ 402,077	\$ 544,318	\$ 452,502
Contributions in relation to the contractually required contribution	<u>402,077</u>	<u>544,318</u>	<u>452,502</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	<u>\$22,099,818</u>	<u>\$19,929,626</u>	<u>\$18,831,540</u>
Contributions as a percentage of covered-employee payroll	<u>1.82%</u>	<u>2.73%</u>	<u>2.40%</u>
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 504,514	\$ 812,018	\$ 680,139
Contributions in relation to the contractually required contribution	<u>504,514</u>	<u>812,018</u>	<u>680,139</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	<u>\$17,857,818</u>	<u>\$16,476,991</u>	<u>\$15,923,400</u>
Contributions as a percentage of covered-employee payroll	<u>2.83%</u>	<u>4.93%</u>	<u>4.27%</u>

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

**CULLMAN CITY BOARD OF EDUCATION
NOTES TO REQUIRED OPEB SUPPLEMENTARY INFORMATION
FISCAL YEARS ENDED SEPTEMBER 30**

Changes in actuarial assumptions

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

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

Recent Plan Changes

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

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

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

Method and assumptions used in calculations of actuarially determined contributions

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

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

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

**CULLMAN CITY BOARD OF EDUCATION
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Pass- Through Grantor's Number	Assistance Listing Number	Expenditures
<u>U.S. Department of Education</u>			
Passed through State Department of Education:			
IDEA Part B - School Program	125	84.027	\$ 701,871
COVID-19 - IDEA Part B	125	84.027X	52,693
IDEA Part B - Preschool	125	84.173	46,355
COVID-19 - IDEA Part B - Preschool	125	84.173X	11,080
Special Education Cluster			<u>811,999</u>
COVID-19 - Education Stabilization Fund Under the CARES Act			
Elementary and Secondary School Emergency Relief (ESSER II) Fund	125	84.425D	1,211,283
COVID-19 - Education Stabilization Fund American Rescue Plan			
Elementary and Secondary School Emergency Relief (ARP ESSER) Fund	125	84.425U	1,344,684
			<u>2,555,967</u>
Vocational Education - Basic Grant	125	84.048A	40,959
Title I - Part A	125	84.010	586,646
Title II - Part A - Teacher Training	125	84.367	88,655
Title IV - Student Support and Academic Enrichment	125	84.424	42,538
Total U.S. Department of Education			<u>4,126,764</u>
<u>Social Security Administration</u>			
Passed through State Department of Education:			
Disability Determination	125	96.001	360
Total Social Security Administration			<u>360</u>
<u>U.S. Department of Health and Human Services</u>			
Head Start		93.600	1,182,119
COVID-19 - Head Start		93.600	58,210
Head Start Cluster			<u>1,240,329</u>
Total U.S. Department of Health and Human Services			<u>1,240,329</u>
<u>U.S. Department of Agriculture</u>			
Passed through State Department of Education:			
National School Lunch Program	125	10.555	716,746
National School Breakfast Program	125	10.553	144,026
Food Distribution Programs	125	10.555	111,586
Supply Chain Assistance	125	10.555	99,140
Child Nutrition Cluster			<u>1,071,498</u>
Total U.S. Department of Agriculture			<u>1,071,498</u>
Total			<u>\$ 6,438,951</u>

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

**CULLMAN CITY BOARD OF EDUCATION
NOTES TO THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
SEPTEMBER 30, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Supplementary Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting, in accordance with generally accepted accounting principles.

The Board did not elect to use the 10% de minimis indirect cost rate.

**CULLMAN CITY BOARD OF EDUCATION
SUPPLEMENTARY SCHEDULE OF BOND DISCLOSURES
SEPTEMBER 30, 2023**

This supplementary information to the financial statements is intended to constitute, along with the independent auditor's report, the annual report that the Board is required to provide under various Continuing Disclosure Agreements in connection with the provisions of Rule 15c 2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities and Exchange Act of 1934.

1. The net proceeds of the Special Tax (that is, the portion of the proceeds allocated and distributed to the Board of the special privilege license tax and the net proceeds of the 7.5 mill ad valorem tax) were \$5,454,283 for the fiscal year that ended September 30, 2023.
2. The audited financial statements report is a summary of revenue, expenditures and changes in fund balances for all governmental funds for the current year.
3. The following issues are payable solely out of the proceeds of the Special Tax:
 - a. \$9,900,000 aggregate principal amount of the Board's Special Tax School Warrants, Series 2012, dated December 20, 2012, and (as of September 30, 2023) outstanding in the aggregate principal amount of \$1,370,000.
 - b. \$12,550,000 aggregate principal amount of the Board's Special Tax School Warrants, Series 2014-A and 2014-B, dated March 19, 2014, and (as of September 30, 2023) outstanding in the aggregate principal amount of \$1,915,000.
 - c. \$11,320,000 aggregate principal amount of the Board's Special Tax School Warrants, Series 2020, dated February 13, 2020, and (as of September 30, 2023) outstanding in the aggregate principal amount of \$11,295,000.
 - d. \$9,170,000 aggregate principal amount of the Board's Special Tax School Warrants, Series 2022-A, dated March 24, 2022, and (as of September 30, 2023) outstanding in the aggregate principal amount of \$9,060,000.
 - e. \$8,310,000 aggregate principal amount of the Board's Special Tax School Warrants, Series 2022-b, dated March 24, 2022, and (as of September 30, 2023) outstanding in the aggregate principal amount of \$8,305,000.
 - f. \$23,500,000 aggregate principal amount of the Board's Special Tax School Warrants, Series 2022-c, dated March 24, 2022, and (as of September 30, 2023) outstanding in the aggregate principal amount of \$23,065,000.
4. The average annual debt service on the warrants listed above is \$2,927,571.
5. The maximum annual debt service on the warrants listed above is \$3,058,114.

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

To the Board Members
Cullman City Board of Education
Cullman, Alabama

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

it would influence the judgment made by a reasonable user of the report on compliance about the Cullman City Board of Education's compliance with the requirements of each major federal program as a whole.

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

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

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2003-001 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on Cullman City Board of Education's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Cullman City Board of Education's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Mercer & Associates, PC

May 21, 2024

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

To the Board Members
Cullman City Board of Education
Cullman, 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 component unit financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cullman City Board of Education, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Cullman City Board of Education's basic financial statements, and have issued our report thereon, dated May 21, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Mercer & Associates, PC

May 21, 2024

**CULLMAN CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None reported

Type of auditor's report issued Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? X Yes No

The programs tested as major programs include:

	Assistance Listing #
National School Lunch Program	10.555
National School Breakfast Program	10.553
Food Distribution Programs	10.555
Supply Chain Assistance	10.555
COVID-19 - Education Stabilization Fund Under the CARES Act	
Elementary and Secondary School Emergency Relief (ESSER II) Fund	84.425D
COVID-19 - Education Stabilization Fund American Rescue Plan	
Elementary and Secondary School Emergency Relief (ARP ESSER) Fund	84.425U
Dollar threshold used to distinguish between Type A & Type B programs	\$750,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

SECTION II - FINANCIAL STATEMENTS FINDINGS

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

SECTION III -FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference No.: 2023-001

Program: U.S. Department of Agriculture; Passed through Alabama Department of Education; Child Nutrition Cluster, Assistance Listing #10.555 and #10.553, for 10/1/2022 through 9/30/2023.

Criteria: The Uniform Guidance in 2 CFR Section 200.303 requires that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal Statutes, regulations, and the terms and conditions of the Federal award.

Condition: Certain timecards were not properly approved prior to payment of the payroll expenditure.

Context: This is a condition identified per review of the Board's compliance with specified requirements using a statistically valid sample.

Effect: Without adherence to controls in place to ensure costs are properly reviewed, the Board could request funds for costs or activities that are unallowable.

Cause: Policies and procedures were not followed to properly authorize transactions.

Repeat of a Prior-Year Finding: No

Recommendation: The Board should strengthen its policies and procedures over the review of appropriate authorization to ensure that expenditures are allowable costs and for allowable activities.

View of Responsible Officials: The Board and management agree with this finding.

Auditee Response / Corrective Action Plan



CULLMAN CITY SCHOOLS

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Jill Bradberry
Place 1

Chris Branham
Place 2

Cheryl Harrison
Place 3

Jason Neal
Place 4

Amy Carter
Place 5

Kyle Kallhoff
Superintendent

Auditee Response / Corrective Action Plan For the Year Ended September 30, 2023

As required by the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, 2 CFR 200.511(c), the Cullman City Board of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2023.

Finding 2023-001

Finding: Certain timecards were not properly approved prior to payment of the payroll expenditure within Assistance Listing #10.555 and #10.553 in regards to the Child Nutrition Program.

Response: This took place during a period of transition in management personnel within the Child Nutrition Program. The Chief School Finance Officer (CSFO) has implemented the following procedure: If a timesheet has not been approved by a supervisor, the timesheet will be deleted from the payroll run that month and payment will be delayed until the supervisor approval is obtained or approval is granted by the CSFO.

Completion Date: April 1, 2024

If there are any questions regarding this plan, please contact James Brumley, CSFO, at jbrumley@cullmancats.net.

James Brumley, SFO
Chief School Finance & Operations Officer
Cullman City Schools

*Inspiring students for
lifelong success through
character, citizenship,
and scholarship.*

APPENDIX C

**SUMMARY OF
CONTINUING DISCLOSURE AGREEMENT**

Appendix C

**SUMMARY OF
CONTINUING DISCLOSURE AGREEMENT**

The following is a summary of the Continuing Disclosure Agreement (the "Agreement") entered into by the Board, for the benefit of the holders of the Warrants, in order to assist the purchasers of the Warrants in complying with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934. Except where otherwise defined in the Appendix, all capitalized terms have the meaning assigned in the front portion of this Official Statement.

Annual Report. The Board agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to the Electronic Municipal Market Access ("EMMA") System or such other system as may be established and designated by the said Commission in accordance with the Rule, (i) in the case of audited financial statements referred to in clause (a) below, when available, and (ii) in all other cases, within 270 days after the close of each fiscal year of the Board, commencing with the fiscal year of the Board ended September 30, 2024, the following annual financial information and operating data (the "Annual Report"):

- (a) the audited financial statements of the Board and notes thereto, prepared in accordance with generally accepted accounting principles; and
- (b) unless included in the audited financial statements referred to in clause (a) above and submitted with the balance of the Annual Report, financial information with respect to the Board comparable to that set forth in the tables in the Official Statement under the headings (1) "SECURITY AND SOURCE OF PAYMENT – The Series 2024-A Warrants – Historical Receipts of the 2024-A Special Taxes"; (2) "SECURITY AND SOURCE OF PAYMENT – The Series 2024-B Warrants – Historical Receipts of the Special City Sales Tax"; and (3) "GENERAL INFORMATION CONCERNING THE BOARD – General Financial Information," but in all cases only with respect to the fiscal year of the Board then most recently concluded.

The Board reserves the right to modify from time to time the specific types of information provided or the format of the presentation of the Annual Report, to the extent necessary or appropriate in the judgment of the Board; provided that, the Board agrees that any such modification will be done in a manner consistent with the Rule.

Notice of Reportable Events. The Board agrees to provide or cause to be provided through EMMA, in a timely manner not in excess of ten (10) business days after its occurrence, notice of the occurrence of any of the following events with respect to the Warrants:

- (a) delinquency in payment when due of any principal of or interest on the Warrants;
- (b) non-payment related defaults (if material);
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status (if any) of the Warrants;
- (g) modifications of the rights of holders of the Warrants;
- (h) calls for redemption, other than scheduled mandatory redemption, of any of the Warrants;

- (i) defeasance of the Warrants or any portion thereof;
- (j) release, substitution or sale of property securing repayment of the Warrants;
- (k) any change in any rating on the Warrants;
- (l) bankruptcy, insolvency, receivership or similar event of the Board or of any obligated person respecting the Warrants;
- (m) the consummation of a merger, consolidation, or acquisition involving the Board or any obligated person respecting the Warrants (each, an "Obligated Person") or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinance course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement related to any such actions, other than pursuant to its terms, if material;
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (o) incurrence of a Financial Obligation of the Board or Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the Board or Obligated Person, any of which affect security holders, if material; and
- (p) default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the Board or Obligated Person, any of which reflect financial difficulties.

As used herein, "Financial Obligation" means (a) a debt obligation; (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of (a) or (b). The term Financial Obligation does not include municipal securities as to which a final official statement has been otherwise provided to the Municipal Securities Rulemaking Board under the Rule.

The Board may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Board such other event is material with respect to the Warrants, but the Board does not undertake to commit to provide any such notice of the occurrence of any reportable event except those events listed above.

Notice of Non-Compliance. The Board agrees to provide or cause to be provided, in a timely manner, through EMMA, notice of any failure by it to provide the annual financial information described in Sections 1 and 2 hereof on or prior to the dates respectively set forth in said sections.

Beneficiaries and Enforcement. The Board agrees that its undertaking pursuant to the Rule set forth in the Agreement is intended to be for the benefit of the holders of the Warrants and shall be enforceable by such holders; provided, that the right of the holders of the Warrants to enforce the provisions of the Agreement shall be limited to a right to obtain specific enforcement of the respective obligations of the Board hereunder. No failure by the Board to comply with its obligations under the Agreement shall constitute an event of default under the Authorizing Resolution.

Amendment. The Agreement may be amended without the consent of any holders of the Warrants if

- (a) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Board;
- (b) the agreement, as so amended, would have complied with the requirements of the Rule at the time of the execution hereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the Board receives an opinion of nationally recognized bond counsel that such amendment does not materially impair the interests of any of the holders of the Warrants.