

**Troy City Board
of Education**

FINANCIAL STATEMENTS

For the Year Ended September 30, 2017



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**Troy City Board of Education
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September 30, 2017**

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INDEPENDENT AUDITORS' REPORT

Members of the Board
Troy City Board of Education
Troy, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Troy City Board of Education (the "Board"), a component unit of the City of Troy, Alabama, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board as of September 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund and the child nutrition fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 10, schedule of the employer's proportionate share of the net pension liability, and schedule of employer contributions on pages 49 – 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

June 18, 2018

Introduction

The Management's Discussion and Analysis (MD&A) of Troy City Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2017. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Troy City Board of Education's financial performance.

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

Summary of Significant Accounting Policies

The Troy City Board of Education is a public educational agency operating under the applicable laws and regulations of the State of Alabama. A five member Board appointed by the City Council of the City of Troy, Alabama, governs it. The Troy City Board of Education prepares its basic financial statements as set forth by the Alabama State Department of Education's financial planning, budgeting and reporting guidelines and the requirements of grants of federal agencies from which it receives funds.

Overview of the Financial Statements

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

The first two statements are government-wide financial statements — the *Statement of Net Position* (page 11) and the *Statement of Activities* (page 12). These provide both long-term and short-term information about the Board's overall financial status. Although other governments may report governmental activities and business-type activities, the Board has no business-type activities.

The *Statement of Net Position* presents information on all of the Board's assets and deferred outflows of resources less liabilities and deferred inflows of resources, which result in net position. The statement is designed to display the financial position of the Board. Over time, increases and decreases in net position help determine whether the Board's financial position is improving or deteriorating.

The *Statement of Activities* provides information which shows how the Board's net position changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the basis of accounting used by private-sector businesses. All of the revenues

Management's Discussion and Analysis (MD&A)

and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

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

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

This report also presents budgetary comparison schedules for the General Fund and the Child Nutrition Program (CNP) that is prepared on a budgetary basis of accounting that differs from GAAP. Note 2 to the financial statements includes a schedule (page 32) explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting.

Financial Analysis of the Board as a Whole

As noted earlier, the Troy City Board of Education has no business-type activities. Consequently, the Board's net position is reported as governmental activities. Program revenues, specifically operating grants and contributions, are the largest component of total revenues.

Following is a condensed financial analysis, presented in comparative format, of the government-wide net position of the Board as of September 30, 2017:

Net Position - Governmental Activities

<i>September 30,</i>	2017	2016
Assets		
Current and other assets	\$ 5,037,903	\$ 5,531,782
Capital assets, net of depreciation	21,021,661	21,333,928
Total assets	26,059,564	26,865,710

Management's Discussion and Analysis (MD&A)

Deferred Outflows of Resources

Deferred loss on refunding	2,745,685	1,969,539
Deferred outflows related to pension	2,705,363	2,296,428
Total deferred outflows of resources	5,451,048	4,265,967

Liabilities

Current liabilities	2,058,447	2,079,214
Noncurrent liabilities	42,574,814	40,830,302
Total liabilities	44,633,261	42,909,516

Deferred Inflows of Resources

Unavailable revenue - property taxes	1,418,274	1,384,161
Deferred inflows related to pension	1,230,000	1,101,000
Total deferred inflows of resources	2,648,274	2,485,161

Net Position

Net investment in capital assets	(1,285,950)	(526,473)
Restricted	125,217	130,852
Unrestricted (deficit)	(14,610,190)	(13,867,379)
Total net position (deficit)	\$ (15,770,923)	\$ (14,263,000)

The Board's liabilities and deferred inflows exceeded its assets and deferred outflows by \$15,770,923 at the close of FY 2017 resulting in a deficit in net position. Net investment in capital assets has a deficit balance due to the refunding of a portion of the 2011 bond issue in the current year. The balance in unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements, is a deficit of \$14,610,190 at the end of FY 2017. The deficit in unrestricted net position is due primarily to the recognition of the Board's proportionate share of the collective net pension liability. The balance of this liability was \$17,291,000 at September 30, 2017. Restricted net position, consisting of those net assets restricted by debt covenants, federal program compliance, and future capital projects, is \$125,217 at September 30, 2017.

Following is a condensed schedule of revenues and expenses from the governmental activities for the year ended September 30, 2017, presented with comparative data for the previous year:

Management's Discussion and Analysis (MD&A)

Summary of Changes in Net Position From Operating Results

<i>Years ended September 30,</i>	2017	2016
Program Revenues		
Charges for services	\$ 1,656,758	\$ 1,817,174
Operating grants and contributions	11,678,164	11,451,798
Capital grants and contributions	465,511	466,907
General Revenues		
Local property taxes	1,642,248	1,660,080
Sales and use taxes	3,272,416	3,236,791
Grants and contributions not restricted for specific programs	85,000	80,000
Other taxes	65,443	66,213
Other	292,875	471,058
Total revenues	19,158,415	19,250,021
Expenses		
Instructional	12,062,359	11,519,308
Instructional support	2,673,391	2,634,531
Operation and maintenance	1,503,701	1,461,753
Transportation	213,003	210,521
Food service	1,257,487	1,188,955
General administration and central support	1,426,371	1,407,966
Interest on long-term debt	972,276	1,016,749
Other	557,750	589,092
Total expenses	20,666,338	20,028,875
Changes in net position	(1,507,923)	(778,854)
Net Position – Beginning	(14,263,000)	(13,484,416)
Net Position – Ending	\$ (15,770,923)	\$ (14,263,000)

Program revenues, specifically operating grants and contributions, are the largest component of the total revenues.

- Operating grants and contributions contribute 85% of program revenues and 61% of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state capital outlay funds and state fleet renewal funds to replace bus fleet.

Management's Discussion and Analysis (MD&A)

- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.
- General revenues, primarily property taxes, sales tax, and impact aid funds, used to provide \$5,357,982 for expenses not covered by program revenues.

Instructional services and instructional support expenses are the largest expense function of the Board (71%).

- In addition to teacher salaries and benefits, instructional services include: teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- Unallocated depreciation is used to report depreciation expense only for those assets that are used by multiple functions.
- Student transportation services include salaries and benefits for the bus mechanic, transportation director, bus drivers and transportation secretary. These funds also include depreciation of buses, bus maintenance supplies, fuel, bus cell phones, and fleet insurance.
- Food services include salaries and benefits for cooks, servers, cashiers, lunchroom managers, the program director and secretary, as well as professional development for the program staff, donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, lunchroom vehicle and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, office supplies, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest and principal on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for preschool teachers and aides, extended day personnel, and community education coordinator.

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the FY17, the Board's combined governmental funds reported ending fund balances of \$1,680,067 which is a decrease over the FY16 ending fund balances of \$2,250,813 primarily attributable to the statewide raises for teachers in the current fiscal year.

Management's Discussion and Analysis (MD&A)

General Fund – The General Fund is the primary operating fund of the Board. The General Fund balance decreased by \$669,424. As previously noted, the decrease is primarily due to the statewide raises. A decrease in local revenues also contributed to the decrease. Each school system is required to have a one month general fund operating balance. Troy City Schools met this requirement for FY 2017.

General Fund Budgetary Highlights

The original 2017 fiscal year budget, adopted on September 13, 2016, was based on guaranteed revenues, estimates of local tax/fee revenues and necessary expenditures. Amendment #1 includes incorporating the actual beginning balances, carry-over funds for federal programs and budgeting some state and federal programs that had not been authorized at the time the original budget was due. The Child Nutrition Program was over their two month operating balance which allowed the General Fund to keep some of the pass-thru funds. There were also some changes in various funds such as Perkins, Title I and IDEA Part B to bring the budget more in line with actual expenditures. The Troy City Board of Education approved amendment #1 on July 17, 2017. The comparison of General Fund original budget to the final amended budget is on page 17.

Capital Assets and Debt Administration

Capital Assets – At September 30, 2017, the Board had \$21,021,661 invested in capital assets including land, buildings, and equipment costing \$5,000 or more. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirement of assets during the year and depreciation of depreciable assets for the year. Note 6 to the financial statements provides information on these assets.

Capital Projects – The Board invested \$381,809 in capital expense during fiscal year 2017. This was used to improve Charles Henderson High School's gymnasium and Troy Elementary School heating and cooling equipment.

Long-Term Debt – At year-end, the Board owed \$25,108,184 in outstanding bonds, net of unamortized bond discounts/premiums and \$175,630 in outstanding capital leases for various computer and office equipment. During FY 2017 the Board was advised and took advantage of favorable interest rates to refinance \$6.7 million of the 2011 outstanding bonds. The refinancing resulted in a decrease in monthly bond payments of over \$140,000 by the end of the fiscal year and projected savings over the remaining life of the bonds of approximately \$640,000 from lower interest rates.

Estimated Capital Needs – As of September 30, 2017, the Board's Five-Year Capital Plan, based upon critical needs, totaled \$665,000 throughout the system. These estimated capital needs include repairs to the roof at Elementary School, new technology for both schools and cafeteria renovations at both schools. School administration intends to direct a portion of the savings resulting from refinanced lower interest rates toward financing some of the capital needs for the school system.

Management's Discussion and Analysis (MD&A)

Student Enrollment

The student enrollment figure as of the forty-day report for the 2016-2017 school year was 1,899, which indicates a decline in enrollment of approximately 119 students for the 2017 fiscal year.

<u>Fiscal Year</u>	<u>Enrollment</u>
2017	1,899
2016	2,018
2015	2,040
2014	2,100
2013	2,076
2012	2,116
2011	2,161
2010	2,232

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 Mickey Daughtry, Chief Financial Officer, Troy City Board of Education, 358 Elba Highway, Troy, AL 36079 or by calling (334) 566-3741.

Troy City Board of Education
Statement of Net Position
September 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,230,359
Investments	18,000
Receivables	1,948,665
Inventories	49,707
Restricted assets:	
Cash and cash equivalents	474,620
Prepaid expenses	86,034
Unamortized bond insurance	230,518
Capital assets, not being depreciated	968,330
Capital assets, net of depreciation	20,053,331
Total assets	26,059,564
Deferred Outflows of Resources	
Deferred loss on refunding	2,745,685
Deferred outflows related to pension	2,705,363
Total deferred outflows of resources	5,451,048
Liabilities	
Accounts payable	359,903
Salaries and benefits payable	1,340,541
Accrued interest payable	349,403
Unearned revenue	8,600
Long-term liabilities	
Net pension liability	17,291,000
Due and payable within one year	339,654
Due and payable after one year	24,944,160
Total liabilities	44,633,261
Deferred Inflows of Resources	
Unearned property taxes	1,418,274
Deferred inflows related to pension	1,230,000
Total deferred inflows of resources	2,648,274
Net Position	
Net investment in capital assets	(1,285,950)
Restricted for debt service	125,217
Unrestricted (deficit)	(14,610,190)
Total net position (deficit)	\$ (15,770,923)

See accompanying notes to financial statements.

Troy City Board of Education
Statement of Activities
For the Year Ended September 30, 2017

Functions / Programs	Expenses
Instructional services	\$ 12,062,359
Instructional support services	2,673,391
Operation and maintenance services	1,503,701
Student transportation services	213,003
Food services	1,257,487
General administrative services	1,426,371
Interest and fiscal charges	972,276
Other expenses	557,750
Total	\$ 20,666,338

See accompanying notes to financial statements.

Charges For Services	Program Revenues		Net (Expenses) Revenues and Changes In Net Position Governmental Activities
	Operating Grants and Contributions	Capital Grants and Contributions	
\$ 328,184	\$ 8,764,737	\$ 452,747	\$ (2,516,691)
201,197	1,906,013	-	(566,181)
37,999	571,215	-	(894,487)
22,639	74,603	12,764	(102,997)
862,861	78,675	-	(315,951)
34,797	183,995	-	(1,207,579)
-	-	-	(972,276)
169,081	98,926	-	(289,743)
<u>\$ 1,656,758</u>	<u>\$ 11,678,164</u>	<u>\$ 465,511</u>	<u>(6,865,905)</u>

General Revenues

Taxes:	
Property taxes for general purposes	1,642,248
Local sales tax	3,272,416
Other taxes	65,443
Grants and contributions not restricted for specific programs	85,000
Investment earnings	23,670
Miscellaneous	269,205
<u>Total general revenues</u>	<u>5,357,982</u>
Change in net position	(1,507,923)
Net position (deficit) - beginning	(14,263,000)
<u>Net position (deficit) - ending</u>	<u>\$ (15,770,923)</u>

**Troy City Board of Education
Balance Sheet – Governmental Funds
September 30, 2017**

	General Fund	Child Nutrition Fund
Assets		
Cash and cash equivalents	\$ 1,903,245	\$ 132,827
Investments	-	-
Receivables	1,478,104	131,809
Due from other funds	31,049	-
Inventories	-	49,707
Prepaid expenses	86,034	-
Restricted assets:		
Cash and cash equivalents	-	-
Total assets	\$ 3,498,432	\$ 314,343
Liabilities		
Accounts payable	\$ 220,454	\$ 50,789
Due to other funds	-	-
Salaries and benefits payable	1,176,744	43,319
Unearned revenue	2,800	-
Total liabilities	1,399,998	94,108
Deferred Inflows of Resources		
Unearned revenue - property taxes	1,418,274	-
Fund Balances		
Non-spendable	86,034	49,707
Restricted	-	-
Assigned	-	170,528
Unassigned	594,126	-
Total fund balances	680,160	220,235
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,498,432	\$ 314,343

See accompanying notes to financial statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 194,287	\$ 2,230,359
-	18,000	18,000
236,209	102,543	1,948,665
-	-	31,049
-	-	49,707
-	-	86,034
474,620	-	474,620
<u>\$ 710,829</u>	<u>\$ 314,830</u>	<u>\$ 4,838,434</u>
\$ -	\$ 88,660	\$ 359,903
-	31,049	31,049
-	120,478	1,340,541
-	5,800	8,600
-	245,987	1,740,093
-	-	1,418,274
-	-	135,741
474,620	-	474,620
236,209	-	406,737
-	68,843	662,969
710,829	68,843	1,680,067
<u>\$ 710,829</u>	<u>\$ 314,830</u>	<u>\$ 4,838,434</u>

**Troy City Board of Education
Reconciliation of Balance Sheet of Governmental
Funds to Statement of Net Position
For the Year Ended September 30, 2017**

Amounts reported for governmental activities in the Statement of Net Position on page 11 are different because:

Total fund balance - governmental funds	\$	1,680,067
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	31,919,611	
Accumulated depreciation	(10,897,950)	21,021,661
<hr/>		

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred on the statement of net position.		230,518
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Deferred inflows and outflows represent an acquisition or consumption of net position, respectively, that applies to a future period and, therefore, are not reported as liabilities or assets in the governmental funds.

Deferred loss on refunding	2,745,685	
Deferred outflows related to pension	2,705,363	
Deferred inflows related to pension	(1,230,000)	4,221,048
<hr/>		

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

Accrued interest payable	(349,403)	
Net pension liability	(17,291,000)	
Current portion of long-term debt	(339,654)	
Non-current portion of long-term debt	(24,944,160)	(42,924,217)
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Total net position - governmental activities	\$	(15,770,923)
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See accompanying notes to financial statements.

Troy City Board of Education
Statement of Revenues, Expenditures and Changes
in Fund Balances – Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Child Nutrition Fund
Revenues		
State revenues	\$ 10,023,369	\$ -
Federal revenues	42,167	735,950
Local revenues	4,400,424	221,215
Other revenues	46,213	12,480
Total revenues	14,512,173	969,645
Expenditures		
Instructional services	9,988,488	-
Instructional support services	2,211,010	-
Operation and maintenance services	1,478,765	-
Student transportation services	152,409	-
Food services	4,524	1,336,144
General administrative services	1,030,584	-
Capital outlay	37,418	-
Debt service:		
Principal	93,459	-
Interest	9,463	-
Other debt service	-	-
Other expenses	362,148	39,536
Total expenditures	15,368,268	1,375,680
Excess (deficiency) of revenues over (under) expenditures	(856,095)	(406,035)
Other Financing Sources (Uses)		
Indirect cost	143,541	-
Acquisition under capital lease	160,986	-
Refunding bonds	-	-
Discounts on long-term debt issued	-	-
Payment to refunded bond escrow agent	-	-
Sale of capital assets	783	-
Transfers in	181,869	292,465
Transfers out	(300,508)	-
Total other financing sources (uses)	186,671	292,465
Net change in fund balances	(669,424)	(113,570)
Fund Balances (deficit) - beginning	1,349,584	333,805
Fund Balances - ending	\$ 680,160	\$ 220,235

See accompanying notes to financial statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 464,138	\$ 10,487,507
-	1,535,921	2,314,038
710,776	955,201	6,287,616
-	-	58,693
<u>710,776</u>	<u>2,955,260</u>	<u>19,147,854</u>
-	1,414,394	11,402,882
-	379,976	2,590,986
-	3,345	1,482,110
-	10,752	163,161
-	-	1,340,668
-	156,814	1,187,398
-	327,767	365,185
-	167,040	260,499
481,776	443,206	934,445
169,770	-	169,770
-	150,806	552,490
<u>651,546</u>	<u>3,054,100</u>	<u>20,449,594</u>
<u>59,230</u>	<u>(98,840)</u>	<u>(1,301,740)</u>
-	-	143,541
-	-	160,986
8,055,000	-	8,055,000
(101,671)	-	(101,671)
(7,527,645)	-	(7,527,645)
-	-	783
-	374,708	849,042
<u>(363,156)</u>	<u>(185,378)</u>	<u>(849,042)</u>
<u>62,528</u>	<u>189,330</u>	<u>730,994</u>
121,758	90,490	(570,746)
589,071	(21,647)	2,250,813
<u>\$ 710,829</u>	<u>\$ 68,843</u>	<u>\$ 1,680,067</u>

Troy City Board of Education

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended September 30, 2017**

Amounts reported for governmental activities in the Statement of Activities on page 12 are different because:

Total net change in fund balances - governmental funds \$ (570,746)

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 useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.

Capital outlays	381,809	
Depreciation expense	(643,505)	(261,696)

Donated capital assets do not use current financial resources and are not reported in the governmental funds 10,560

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.

Principal payments on long-term debt 260,499

Payments to refunded bond escrow agent are recorded as other financing uses in the governmental funds, but reduce long-term liabilities in the Statement of Net Position and do not affect the Statement of Activities. 7,527,645

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. (160,986)

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities. (8,055,000)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. 101,671

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.

Current year decrease in accrued interest expense	73,364	
Current year increase in pension expense	(251,064)	
Amortization of discounts/premiums and deferred loss on refunding	(121,039)	(298,739)

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 this amount. (61,131)

Change in net position of governmental activities \$ (1,507,923)

See accompanying notes to financial statements.

Troy City Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues				
State revenues	\$ 9,869,805	\$ 9,872,357	\$ 10,023,369	\$ 151,012
Federal revenues	82,768	82,768	42,167	(40,601)
Local revenues	4,332,948	4,332,948	4,400,424	67,476
Other revenues	52,177	52,177	46,213	(5,964)
Total revenues	14,337,698	14,340,250	14,512,173	171,923
Expenditures				
Instructional services	9,881,135	9,872,148	10,020,708	(148,560)
Instructional support services	2,276,101	2,220,656	2,215,826	4,830
Operation and maintenance services	1,450,903	1,472,455	1,474,354	(1,899)
Student transportation services	137,933	137,933	152,260	(14,327)
General administrative services	940,800	941,800	1,030,584	(88,784)
Food services	-	-	4,524	(4,524)
Capital outlay	-	-	37,418	(37,418)
Debt service:				
Principal	84,914	84,914	93,459	(8,545)
Interest	14,330	14,330	9,463	4,867
Other expenses	368,294	368,294	350,470	17,824
Total expenditures	15,154,410	15,112,530	15,389,066	(276,536)
Excess (deficiency) of revenues over (under) expenditures	(816,712)	(772,280)	(876,893)	(104,613)
Other Financing Sources (Uses)				
Indirect cost	144,131	145,478	143,541	(1,937)
Acquisition under capital lease	-	-	160,986	160,986
Sale of capital assets	-	-	783	783
Transfers in	202,052	202,445	181,869	(20,576)
Transfers out	(280,430)	(283,401)	(300,508)	(17,107)
Total other financing sources (uses)	65,753	64,522	186,671	122,149
Net change in fund balance	(750,959)	(707,758)	(690,222)	17,536
Fund Balance - beginning	1,349,584	1,349,584	1,349,584	-
Fund Balance - ending	\$ 598,625	\$ 641,826	\$ 659,362	\$ 17,536

See accompanying notes to financial statements

Troy City Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Child Nutrition Fund
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues				
Federal revenues	\$ 785,010	\$ 785,010	\$ 735,950	\$ (49,060)
Local revenues	309,625	309,625	221,215	(88,410)
Other revenues	21,500	21,500	12,480	(9,020)
Total revenues	1,116,135	1,116,135	969,645	(146,490)
Expenditures				
Food services	1,391,900	1,391,900	1,337,384	54,516
Other expenses	50,850	50,850	39,536	11,314
Total expenditures	1,442,750	1,442,750	1,376,920	65,830
Deficiency of revenues under expenditures	(326,615)	(326,615)	(407,275)	(80,660)
Other Financing Sources				
Transfers in	327,746	327,746	292,465	(35,281)
Net change in fund balance	1,131	1,131	(114,810)	(115,941)
Fund Balance - beginning	333,805	333,805	333,805	-
Fund Balance - ending	\$ 334,936	\$ 334,936	\$ 218,995	\$ (115,941)

See accompanying notes to financial statements.

NOTE

1. Summary of Significant Accounting Policies
2. Stewardship, Compliance and Accountability
3. Cash, Cash Equivalents and Investments
4. Receivables
5. Interfund Activity
6. Capital Assets
7. Unearned Revenue and Deferred Inflows of Resources
8. Long-Term Debt
9. Employee Retirement Plan
10. Postemployment Benefits Other than Pension (OPEB)
11. Commitments and Contingencies
12. Pledge Revenues
13. Risk Management
14. On-Behalf Payments
15. Subsequent Events

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Troy City Board of Education (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.

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 financial statements of the Board include local school activity funds and other funds under the control of school principals. These funds are reported on a reporting period ended September 30, 2017 as a special revenue fund.

Basis of Presentation, Basis of Accounting

Basis of Presentation

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements: The fund financial statements provide information about the Board's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The Board reports the following major governmental funds:

General Fund – This is the Board's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board's General Fund primarily receives revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the Board on a formula basis.

Child Nutrition – This fund accounts for the funds received from the State Department of Education and received from other sources which are to be used to provide breakfast and lunch to students.

Debt Service – This fund accounts for the accumulation of resources for, and the payment of, the Board's principal and interest payments on long-term debt.

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

Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of the following:

1. IDEA – Part B
2. Preschool Ages 3 – 5 Part B
3. Vocational Education – Basic Grant
4. Vocational Education – Program Improvement
5. Title I Part A
6. Title 1 Part A – School Improvement
7. Title II Part A Teacher and Principal Training
8. Title VI Part B – Low Income Program
9. Food and Nutrition Fund
10. Local school activity funds

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. 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. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

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

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

Receivables - Receivables are reported as *receivables* in the government-wide financial statements and as *receivables* in the fund financial statements. Receivables include amounts due from grantors or grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because the amounts are considered immaterial.

**Troy City Board of Education
Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Calendar - The Pike County Commission (the "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 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 Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

Inventories - Inventories are valued at cost using the first-in/first-out (FIFO) method. GAAP requires only material balances of inventories accounted for using the purchases method to be reported as an asset in the appropriate governmental fund.

Prepaid Items - Prepaid items, such as insurance premiums, are accounted for using the interperiod allocation method for both the government-wide financial statements and the governmental funds financial statements. Under this method, the cash outlay is reported as an asset in the governmental funds balance sheet and amortized ratably over the number of months the payment benefits.

Interfund Loans and Transfers - Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds"

Restricted Assets - Restricted assets at September 30, 2017 consist of cash and cash equivalents which are restricted by debt agreements for debt service payments. Cash and cash equivalents restricted for debt service payments totaled \$474,620.

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

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

Asset Class	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
Equipment under lease	5,000	5 - 20 years
Vehicles	5,000	8 - 10 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-Term Obligations - In the government-wide financial statements, the unmatured principal of long-term debt, capital leases, and compensated absences are reported in the statement of net position. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. For warrants (bonds) and other long-term debt issued after October 1, 2003, the related premiums and discounts are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported as an addition or deduction from the related debt 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 other financing sources. Debt issuance costs are not deducted from the amount reported as other financial sources but are reported as debt service expenditures. Any discount resulting from a disparity between the market rate and the stated rate of interest is reported as an other financing use. Expenditures for debt principal, interest and related costs are reported in the fiscal year payments are made. At the inception of a capital lease, an amount equal to the present value of the net minimum lease payments is reported as an other financing source and as an expenditure. The balance sheet does not reflect a liability for long-term debt.

Compensated Absences – For vacation leave and other compensated absences with similar characteristics, GASB Codification Section 60, Paragraph 104 requires the accrual of a liability (as the benefits are earned by the employees), if both of these conditions are met:

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

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

Professional and support employees earn nonvesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the Teachers' Retirement System of Alabama, 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 two days of personal leave per year with pay. The State provides funding, at the substitute rate, for up to two days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to two days of unused personal leave. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain employees are allowed two weeks of vacation per year with pay. Personnel considered full time support personnel and instructional personnel contracted for the fiscal year are eligible for vacation leave. Because unused vacation leave is not paid out upon termination, no liability for unpaid leave is accrued in the financial statements.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board has two items that qualify for reporting in this category, deferred loss on refunding and deferred outflows related to pension. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows related to pension result from differences between projected and actual earnings on plan investments, changes in proportion and differences between employer contributions and proportionate share of contributions, and pension contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two items that qualify for reporting in this category, unearned property taxes and the deferred inflows related to pension. Deferred inflows related to pension result from differences between expected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions.

Deferred outflows and inflows related to pension that arise from differences in projected and actual earnings on plan investments are amortized over a closed five year period beginning with the year the difference occurred. All other deferred outflows and inflows related to pension are amortized over the average of the expected remaining service lives of all employees (active and inactive) provided pensions through the plan.

Unamortized Bond Insurance - Unamortized debt expense related to bond insurance is amortized by using the outstanding principal method over the life of the related debt and is reported as unamortized bond insurance on the statement of net position. Other bond issuance costs are expensed as incurred.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fund balances are reported in the fund financial statements in accordance with GASB 54. The intent of GASB 54 is to provide a more structured classification of fund balances and to improve the usefulness of fund balance reporting to the users of the Board's financial statements. The reporting standard established a hierarchy for fund balance classifications and the constraints imposed on the users of those resources. In governmental funds, the Board's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

As of September 30, 2017, fund balances of the governmental funds are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the Board, the highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Board's policy, only the Superintendent may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

**Troy City Board of Education
Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund balances at September 30, 2017 are as follows:

	General Fund	Child Nutrition	Debt Service	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventories	\$ -	\$ 49,707	\$ -	\$ -	\$ 49,707
Prepaid expenses	86,034	-	-	-	86,034
Restricted:					
Debt service	-	-	474,620	-	474,620
Assigned:					
Child Nutrition	-	170,528	-	-	170,528
Debt service	-	-	236,209	-	236,209
Unassigned	594,126	-	-	68,843	662,969
	<u>\$ 680,160</u>	<u>\$ 220,235</u>	<u>\$ 710,829</u>	<u>\$ 68,843</u>	<u>\$ 1,680,067</u>

The financial statements include summary reconciliations of the fund financial statements to the government-wide statements after each of the fund statements. The governmental fund balance sheet is followed by a reconciliation between *Total fund balance - governmental funds* and *Total net position - governmental activities* as reported in the government-wide statement of net position.

The governmental funds statement of revenues, expenditures and changes in fund balances is followed by a reconciliation between *Total net change in fund balances - governmental funds* and *Change in net position of governmental activities* as reported in the government-wide statement of activities.

Management Estimates and Assumptions

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

Impact of Recently Issued Accounting Pronouncements

Recently Issued and Adopted

Impact of Recently Issued Accounting Pronouncements

In fiscal year 2017, the Board adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board ("GASB"):

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”).
- GASB Statement No. 77, *Tax Abatement Disclosures* (“GASB 77”).
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* (“GASB 78”).
- GASB Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14* (“GASB 80”).

GASB 74 establishes accounting and financial reporting standards, but not funding or budgetary standards, for state and local governmental other postemployment benefit (“OPEB”) plans. GASB 74 replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The adoption of GASB 74 had no impact on the Board’s governmental fund financial statements.

GASB 77 defines a tax abatement and contains required disclosures about a reporting government’s own tax abatement agreements and those agreements that are entered into by other governments and that reduce the reporting government’s tax revenues. There was no impact on the Board’s financial statements as a result of the implementation of GASB 77. There was no material impact on the Board’s financial statements as a result of the implementation of GASB 77.

GASB 78 amends the scope and applicability of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*—and amendment of GASB Statement No. 27 to exclude pension plans provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (a) is not a state or local government pension plan, (b) is used to provide defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governments, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The Statement also establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. There was no material impact on the Board’s financial statements as a result of the implementation of GASB 78.

GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments by providing an additional criterion. A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member as identified in the component unit’s articles of incorporation or bylaws. There was no impact on the Board’s financial statements as a result of the implementation of GASB 80.

**Troy City Board of Education
Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the Board upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
75	<i>Account and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
81	<i>Irrevocable Split-Interest Agreements</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2020
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2021

GASB Statement No. 75 (“GASB 75”) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for OPEB that is provided to the employees of state and local governmental employers through OPEB Plans that are administered through trusts or equivalent arrangements meeting certain criteria. GASB 75 also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. For defined benefit OPEB plans the statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information are addressed. GASB 75 is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 81 (“GASB 81”) requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The requirements of GASB 81 are effective for periods beginning after December 15, 2016.

GASB Statement No. 83 (“GASB 83”) addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB 83. GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. GASB 83 requires that recognition occur when the liability is both incurred and reasonably estimable. The

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. GASB 83 requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. GASB 83 requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement. GASB 83 requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset. A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of GASB 83. In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. GASB 83 requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements. GASB 83 also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. GASB 83 requires similar disclosures for a government's minority shares of AROs. The requirements for GASB 83 are effective for reporting periods beginning after June 15, 2018.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 84 (“GASB 84”) establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. GASB 84 also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of GASB 84 are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 85 (“GASB 85”) addresses practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of GASB 85 are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 (“GASB 86”) improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017.

The objective of GASB Statement No. 87 (“GASB 87”) is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019.

**Troy City Board of Education
Notes to Financial Statements**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Annual budgets are adopted for all governmental funds except the permanent funds. All annual appropriations lapse at fiscal year-end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2017 fiscal year was September 15, 2016. The Board approved and submitted its original 2016 annual budget on September 13, 2016.

The 2017 budget was amended in July 2017 primarily to budget carryover federal funds, adjust federal allocations, and budget additional state and other grant funds that became available after submission of the original budget.

The City Superintendent of Education (the “Superintendent”) or Board cannot approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The Superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The Superintendent may approve amendments to program budgets without Board approval.

The budget is prepared under a budgetary basis of accounting that differs from GAAP. Salaries of teachers and other personnel with contracts of less than twelve months are paid over a twelve month period. Expenditures for salaries (and related fringe benefits) and interest expense are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements. Similarly, interest expense incurred but not paid as of year-end is reported as an expenditure on the financial statements.

Adjustments to convert the results of operations of the General Fund at the end of the year from the budgetary basis of accounting to the GAAP basis of accounting are as follows:

	Total Expenditures	
	General Fund	Child Nutrition Fund
Budget basis	\$ 15,389,066	\$ 1,376,920
Non-budgeted accrued salaries and fringe benefits		
Instructional services	(32,220)	-
Instructional support services	(4,816)	-
Operations and maintenance	4,411	-
Student transportation services	149	-
Food services	-	(1,240)
Other expenditures	11,678	-
GAAP basis	\$ 15,368,268	\$ 1,375,680

**Troy City Board of Education
Notes to Financial Statements**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess Expenditures Over Appropriations

The General Fund actual expenditures exceeded budgeted expenditures by \$276,536. The excess was funded with unanticipated revenues.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to recover 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 deposit 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 with original maturities of greater than three months. 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.

The Board's sole investment is in a certificate of deposit with a maturity of March 31, 2019. This certificate of deposit is classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

NOTE 4 - RECEIVABLES

Receivables at September 30, 2017 consist of the following:

	General	Child Nutrition	Debt Service	Other Non- major	Total
State Department of Education					
IDEA-Part B	\$ -	\$ -	\$ -	\$ 15,866	\$ 15,866
Basic Grant	-	-	-	2,144	2,144
Title II, Part A	-	-	-	1,315	1,315
Pike County Rev Commissioner	1,418,274	-	-	-	1,418,274
Pike County Board of Education	28,250	-	236,209	-	264,459
School Lunch Program	-	131,809	-	-	131,809
Other	31,580	-	-	83,218	114,798
Total receivables	\$ 1,478,104	\$ 131,809	\$ 236,209	\$ 102,543	\$ 1,948,665

**Troy City Board of Education
Notes to Financial Statements**

NOTE 4 – RECEIVABLES (Continued)

All receivables are considered fully collectible and, accordingly, no allowance for uncollectible accounts has been recorded.

NOTE 5 - INTERFUND ACTIVITY

Due to/from other funds at September 30, 2017, consisted of the following amounts:

Due from	Due to			Total
	General Fund	Child Nutrition	Nonmajor Governmental	
Nonmajor governmental	\$ 31,049	\$ -	\$ -	\$ 31,049

Amounts due to the general fund and nonmajor governmental funds are for reimbursement of expenses.

Interfund transfers consisted of the following for the year ended September 30, 2017:

Transfers Out	Transfers In				Total
	General	Child Nutrition	Debt Service	Nonmajor Governmental	
General	\$ 18,103	\$ 279,447	\$ -	\$ 2,958	\$ 300,508
Debt Service	-	-	-	363,156	363,156
Nonmajor governmental	163,765	13,019	-	8,594	185,378
	\$ 181,868	\$ 292,466	\$ -	\$ 374,708	\$ 849,042

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 892,701	\$ -	\$ -	\$ 892,701
Construction in progress	-	75,629	-	75,629
Total capital assets, not being depreciated	892,701	75,629	-	968,330

**Troy City Board of Education
Notes to Financial Statements**

NOTE 6 - CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Deductions	Ending Balance
Other capital assets:				
Buildings	24,334,770	-	-	24,334,770
Building improvements	3,727,589	252,138	80,435	3,899,292
Land improvements	570,605	37,418	-	608,023
Equipment	1,080,694	27,184	-	1,107,878
Vehicles	1,068,976	-	67,658	1,001,318
Total other capital assets at historical cost	30,782,634	316,740	148,093	30,951,281
Less accumulated depreciation for:				
Buildings	7,329,585	441,911	-	7,771,496
Building improvements	854,682	89,373	19,304	924,751
Land improvements	542,432	6,475	-	548,907
Equipment	719,624	48,967	-	768,591
Vehicles	895,084	56,779	67,658	884,205
Total accumulated depreciation	10,341,407	643,505	86,962	10,897,950
Capital assets, net of depreciation	20,441,227	(326,765)	61,131	20,053,331
Total governmental activities capital assets, net	\$ 21,333,928	\$ (251,136)	\$ 61,131	\$ 21,021,661

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 516,196
Instructional support services	43,290
Operation and maintenance services	22,002
Student transportation services	49,606
Food services	12,411
Total governmental activities depreciation expense	\$ 643,505

NOTE 7 - UNEARNED REVENUE AND DEFERRED INFLOWS OF RESOURCES

	General Fund	Other Governmental
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	\$ 1,418,274	\$ -

**Troy City Board of Education
Notes to Financial Statements**

NOTE 7 - UNEARNED REVENUE AND DEFERRED INFLOWS OF RESOURCES (Continued)

	General Fund	Other Governmental
Unearned Grant Revenue – Grant funds received but not yet expended represent revenues that will be used for future grant expenses subsequent to year end.	-	5,800
Unearned Revenue – Deposits made by students of the Board's Pre-K program that will recognized in the future as tuition is due.	2,800	-
	\$ 1,421,074	\$ 5,800

As discussed in Note 1, unearned revenue related to property taxes is classified as a deferred inflow of resources on the statement of net position.

NOTE 8 - LONG-TERM DEBT

During the year ended September 30, 2017, the following changes occurred in long-term liabilities reported in the statement of net position:

	Balance October 1, 2016	Proceeds	Refunding	Retirements	Balance September 30, 2017	Amounts Due Within One Year
Notes Payable						
Regions Equipment Finance Corporation	\$ 10,340	\$ -	\$ -	\$ (10,340)	\$ -	\$ -
Bonds Payable						
Capital Improvement Pool Series 2009-B	\$ 274,195	\$ -	\$ -	\$ (86,700)	\$ 187,495	\$ 91,066
Educational Facilities Revenue Bonds Series 2011	11,775,000	-	(6,715,000)	(70,000)	4,990,000	75,000
School Tax Warrants Series 2013	2,400,000	-	-	-	2,400,000	-
School Tax Refunding Warrants Series 2016	9,330,000	-	-	-	9,330,000	60,000
School Tax Refunding Warrants Series 2017	-	8,055,000	-	-	8,055,000	40,000
Unamortized bond discounts	(349,764)	(101,671)	81,384	14,930	(355,121)	(14,997)
Unamortized bond premiums	522,428	-	-	(21,618)	500,810	21,618
Total bonds payable	\$ 23,951,859	\$ 7,953,329	\$ (6,633,616)	\$ (163,388)	\$ 25,108,184	\$ 272,687

**Troy City Board of Education
Notes to Financial Statements**

NOTE 8 - LONG-TERM DEBT (Continued)

	Balance October 1, 2016	Proceeds	Refunding	Retirements	Balance September 30, 2017	Amounts Due Within One Year
Other liabilities						
Capital leases						
iPads	\$ 46,757	\$ -	\$ -	\$ (23,042)	\$ 23,715	\$ 23,715
Copiers	23,389	-	-	(23,389)	-	-
Computer equipment	36,184	-	-	(11,265)	24,919	12,044
Computer equipment	-	52,650	-	(10,818)	41,832	11,575
Phone equipment	-	108,336	-	(24,301)	84,035	18,866
Duplicator	1,773	-	-	(644)	1,129	767
Total other liabilities	108,103	160,986	-	(93,459)	175,630	66,967
Total long-term liabilities	\$ 24,070,302	\$ 8,114,315	\$ (6,633,616)	\$ (267,187)	\$ 25,283,814	\$ 339,654

Notes Payable

During the year ended September 30, 2014, the Board entered into a financing agreement with Regions Equipment Finance Corporation for the acquisition of a special needs bus. The total cost of the bus was \$92,153, which is held as collateral, of which \$45,622 was financed. The note is payable in annual installments of \$9,570 at 2.26% interest with remaining principal and interest due at maturity in February 2018. The carrying amount of the collateral at September 30, 2017 was \$59,899. The Board repaid the remaining balance during fiscal year ended September 30, 2017.

Bonds Payable

Capital Improvement Pool Bonds, Series 2009-B

Pursuant to Act 1998-373 and 2009-813 enacted by the Alabama Legislature, the Alabama Public School and College Authority (PSCA) issued the Series 2009-B Capital Improvement Pool Bonds to loan funds to participating local school boards for the purpose of funding capital improvements approved by the Authority and State Superintendent of Education. The Board received the loan during the year ended September 30, 2010.

The loan is scheduled to be paid back through a reduction of annual Public School Fund allocations received from the Alabama Department of Education. Principal payments are due annually on May 1, and interest payments are due semi-annually May 1 and November 1. Interest rates range from 4% to 5% of the original amount borrowed.

Annual debt service requirements to maturity for the Series 2009-B Capital Improvement Pool Bonds are payable as follows:

Fiscal Year Ending September 30,	Principal	Interest
2018	\$ 91,066	\$ 9,374
2019	96,429	4,822
	\$ 187,495	\$ 14,196

**Troy City Board of Education
Notes to Financial Statements**

NOTE 8 - LONG-TERM DEBT (Continued)

Educational Facilities Revenue Bonds Series 2011

On March 1, 2011, The Public Building Authority of the City of Troy, Alabama (the "Authority"), in its role as conduit debt issuer for the Board, issued \$22,125,000 of Educational Facilities Revenue Bonds Series 2011. The Series 2011 bonds are payable in annual installments of principal and bi-annual interest payments, ranging from 3% to 5.25%, beginning June 1, 2011 with maturity of December 1, 2040. The Authority was formed to act as a vehicle to issue and collectively guarantee payment of the Series 2011 bonds. The mechanism for payment of the bonds by the Board is a long-term lease agreement dated March 1, 2011 between the Board and the Authority, whereby the Board agreed to pay all bond payments of principal and interest to the Authority as they become due to the trust agent, and the Authority assigned their rights to receive such payments under the lease directly to Regions Trust Department. Proceeds of the bonds were used to refund the Board's Series 2001, 2002, and 2004 bonds; pay issuance costs; and make available \$15,000,000 for capital improvements of the Board, which has been exhausted to date. In conjunction with the Series 2011 bonds, the Board pledged certain sales and use taxes as well as certain ad valorem taxes levied by Pike County and remitted to the Board. See Note 12.

As a result, the Series 2001, 2002, and 2004 bonds are considered to be defeased and the liabilities for those bonds have been removed from the financial statements. The outstanding principal of the defeased bonds is \$3,340,000 at September 30, 2017.

As required by GASB Statement No. 23 and No. 65, the carrying difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as a deferred loss on refunding and will be amortized over the remaining life of the old bond issue on the straight line basis. The Board has recorded a deferred outflow of resources of \$217,215 in the government-wide Statement of Net Position. The unamortized portion of these costs as of September 30, 2017 was \$97,161. The total amount amortized for the year ended September 30, 2017 was \$18,236 and was reported as part of interest expense.

Annual debt service requirements to maturity for the Educational Facilities Revenue Bonds Series 2011 are payable as follows:

Fiscal Year Ending	Principal	Interest
September 30,		
2018	\$ 75,000	\$ 217,255
2019	75,000	215,005
2020	535,000	205,186
2021	555,000	186,503
2022	575,000	165,013
2023-2027	1,015,000	642,469
2028-2032	605,000	485,494
2033-2037	775,000	310,669
2038-2041	780,000	129,936
	\$ 4,990,000	\$ 2,557,530

**Troy City Board of Education
Notes to Financial Statements**

NOTE 8 - LONG-TERM DEBT (Continued)

Bond discount expense on the Series 2011 bonds for the year ended September 30, 2017 was \$8,968. In addition, \$81,834 of the discount was allocated as part of the 2017 refunding of a portion of 2011 issuance. This amount is being amortized over the life of 2011 issuance and recorded as part of the deferred loss on refunding in the Board's Statement of Net Position.

School Tax Warrants Series 2013

On December 1, 2013, the Board issued \$2,400,000 of School Tax Warrants Series 2013 to refund \$2,095,000 of the Board's Educational Facilities Revenue Bonds Series 2011 dated March 1, 2011 and pay issuance costs and discounts incurred. The Series 2013 warrants are payable in bi-annual interest payments at 4.75% beginning June 1, 2014 with principal due beginning December 1, 2041. The warrants series matures December 1, 2042. In conjunction with the Series 2013 warrants, the Board continued its pledge of certain sales and use taxes as well as certain ad valorem taxes levied by Pike County and remitted to the Board. See Note 12.

The portion of the Educational Facilities Revenue Bonds Series 2011 bonds refunded is considered to be defeased and the liabilities for those bonds have been removed from the financial statements. The outstanding principal of the defeased bonds is \$875,000 at September 30, 2017.

As required by GASB Statement No. 23 and No. 65, the carrying difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as a deferred loss on refunding and will be amortized over the remaining life of the old bond issue on the straight line basis. The Board has recorded a deferred outflow of resources of \$186,224 in the government-wide Statement of Net Position. The unamortized portion of these costs as of September 30, 2017 was \$159,785. The total amount amortized for the year ended September 30, 2016 was \$6,897 and was reported as part of interest expense.

Annual debt service requirements to maturity for the School Tax Warrants Series 2013 are payable as follows:

Fiscal Year Ending September 30,	Principal	Interest
2018	\$ -	\$ 114,000
2019	-	114,000
2020	-	114,000
2021	-	114,000
2022	-	114,000
2023-2027	-	570,000
2028-2032	-	570,000
2033-2037	-	570,000
2038-2042	-	533,900
2043	2,400,000	20,900
	\$ 2,400,000	\$ 2,834,800

**Troy City Board of Education
Notes to Financial Statements**

NOTE 8 - LONG-TERM DEBT (Continued)

Bond discount expense on the Series 2013 bonds for the year ended September 30, 2017 was \$2,905.

School Tax Refunding Warrants Series 2016

On March 1, 2016, the Board issued \$9,330,000 of School Tax Refunding Warrants Series 2016 to refund \$8,210,000 of the Board's Educational Facilities Revenue Bonds Series 2011 dated March 1, 2011 and pay issuance costs, net of original issue premium of the new issue. The Series 2016 warrants are payable in annual installments of principal and bi-annual interest payments, ranging from 1.25% to 4%, beginning December 1, 2016 with maturity of December 1, 2040. The Board in conjunction with the Series 2016 warrants, the Board continued its pledge of certain sales and use taxes as well as certain ad valorem taxes levied by Pike County and remitted to the Board. See Note 12.

The portion of the Educational Facilities Revenue Bonds Series 2016 bonds refunded is considered to be defeased and the liabilities for those bonds have been removed from the financial statements. The outstanding principal of the defeased bonds is \$8,120,000 at September 30, 2017.

As required by GASB Statement No. 23 and No. 65, the carrying difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred loss on refunding and will be amortized over the remaining life of the old bond issue on the straight line basis. The Board has recorded a deferred outflow of resources of \$1,728,192 in the government-wide Statement of Net Position. The unamortized portion of these costs as of September 30, 2017 was \$1,617,634. The total amount amortized for the year ended September 30, 2017 was \$69,826 and was reported as part of interest expense.

Annual debt service requirements to maturity for the School Tax Refunding Warrants Series 2016 are payable as follows:

Fiscal Year Ending September 30,	Principal	Interest
2018	\$ 60,000	\$ 333,249
2019	65,000	332,468
2020	65,000	331,655
2021	65,000	330,721
2022	65,000	329,664
2023-2027	350,000	1,627,713
2028-2032	1,865,000	1,538,653
2033-2037	4,685,000	852,550
2038-2041	2,110,000	226,274
	\$ 9,330,000	\$ 5,902,947

**Troy City Board of Education
Notes to Financial Statements**

NOTE 8 - LONG-TERM DEBT (Continued)

Bond premium amortization on the Series 2016 bonds for the year ended September 30, 2016 was \$21,618.

School Tax Refunding Warrants Series 2017

On March 1, 2017, the Board issued \$8,055,000 of School Tax Refunding Warrants Series 2017 to refund \$6,715,000 of the Board's Educational Facilities Revenue Bonds Series 2011 dated March 1, 2011 and pay issuance costs, net of original issue discount of the new issue. The Series 2017 warrants are payable in annual installments of principal and bi-annual interest payments, ranging from 1.9% to 3.5%, beginning December 1, 2017 with maturity of December 1, 2039. The Board in conjunction with the Series 2017 warrants, the Board continued its pledge of certain sales and use taxes as well as certain ad valorem taxes levied by Pike County and remitted to the Board. See Note 12.

The portion of the Educational Facilities Revenue Bonds Series 2017 bonds refunded is considered to be defeased and the liabilities for those bonds have been removed from the financial statements. The outstanding principal of the defeased bonds is \$6,715,000 at September 30, 2017.

As required by GASB Statement No. 23 and No. 65, the carrying difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred loss on refunding and will be amortized over the remaining life of the old bond issue on the straight line basis. The Board has recorded a deferred outflow of resources of \$894,029 in the government-wide Statement of Net Position. The unamortized portion of these costs as of September 30, 2017 was \$871,105. The total amount amortized for the year ended September 30, 2017 was \$22,924 and was reported as part of interest expense.

Annual debt service requirements to maturity for the School Tax Refunding Warrants Series 2017 are payable as follows:

Fiscal Year Ending September 30,	Principal		Interest	
2018	\$	40,000	\$	285,180
2019		95,000		227,339
2020		100,000		225,955
2021		100,000		224,255
2022		100,000		222,555
2023-2027		2,685,000		977,014
2028-2032		2,220,000		578,736
2033-2037		195,000		458,219
2038-2040		2,520,000		104,825
	\$	8,055,000	\$	3,304,078

Bond discount amortization on the Series 2017 bonds for the year ended September 30, 2017 was \$2,607.

NOTE 8 - LONG-TERM DEBT (Continued)

Capital Leases

The Board has entered into a lease agreement as lessee for financing the acquisition of Apple iPads. This lease agreement qualifies as a capital lease for accounting purposes (fair market value of iPads equals the net present value of lease payments and the Board has a nominal purchase option at the end of the lease) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of the inception. The interest rate on this lease is 2.93%.

The Board has entered into a lease agreement as lessee for financing the acquisition of twenty-one copiers. This lease agreement qualifies as a capital lease for accounting purposes (fair market value of the copiers equals the net present value of lease payments and the Board has a nominal purchase option at the end of the lease) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of the inception. The interest rate on this lease is 10.435%.

The Board has entered into a lease agreement as lessee for financing the acquisition of computer equipment. This lease agreement qualifies as a capital lease for accounting purposes (fair market value of the computer equipment equals the net present value of lease payments and the fair market value purchase at lease end will be minimal) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of the inception. The interest rate on this lease is 6.699%.

The Board has entered into a lease agreement as lessee for financing the acquisition of duplicator. This lease agreement qualifies as a capital lease for accounting purposes (fair market value of the duplicator equals the net present value of lease payments and the Board has a nominal purchase option at the end of the lease) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of the inception. The interest rate on this lease is 17.496%.

The Board has entered into a lease agreement as lessee for financing the acquisition of computer equipment. This lease agreement qualifies as a capital lease for accounting purposes (fair market value of the computer equipment equals the net present value of lease payments and the fair market value purchase at lease end will be minimal) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of the inception. The interest rate on this lease is 7.000%.

The Board has entered into a lease agreement as lessee for financing the acquisition of phone equipment. This lease agreement qualifies as a capital lease for accounting purposes (fair market value of the computer equipment equals the net present value of lease payments and the fair market value purchase at lease end will be minimal) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of the inception. The interest rate on this lease is 6.990%.

No capital assets under the above capital lease met the Board's capitalization threshold and were therefore expensed upon purchase in the government-wide Statement of Net Position.

**Troy City Board of Education
Notes to Financial Statements**

NOTE 8 - LONG-TERM DEBT (Continued)

The following is a schedule of the future minimum lease payments due under the Board’s capital lease obligations:

Fiscal Year Ending September 30,	Total
2018	\$ 78,515
2019	53,577
2020	44,055
2021	24,933
<hr/>	
Total minimum lease payments	201,080
Less: Amount representing interest	25,450
<hr/>	
Present value of future minimum lease payments	175,630
Less: Current portion	66,967
<hr/>	
Capital lease obligation, net of current portion	\$ 108,663

NOTE 9 - EMPLOYEE RETIREMENT PLAN

Summary of Significant Accounting Policies for the Pension Plan

Pensions. The Teachers’ Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the 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.

General Information about the Pension Plan

Plan description. The Teachers’ Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of 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 operating of TRS is vested in its Board of Control.

The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama 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.

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

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

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

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members.

These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$1,234,363 for the year ended September 30, 2017.

**Troy City Board of Education
Notes to Financial Statements**

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At September 30, 2017, the Board reported a liability of \$17,291,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016, the System's proportion was 0.159713%, which was a decrease of 0.000427% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2017, the Board recognized pension expense of \$1,485,428. At September 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 445,000
Changes of assumptions	1,221,000	-
Net difference between projected and actual earnings on pension plan investments	250,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	785,000
Employer contributions subsequent to the measurement date	1,234,363	-
Total	\$ 2,705,363	\$ 1,230,000

\$1,234,363 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension's expense as follows:

**Year Ended
September 30,**

2018	\$	(46,000)
2019		(46,000)
2020		286,000
2021		(10,000)
2022		57,000

**Troy City Board of Education
Notes to Financial Statements**

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment rate of return*	7.75%
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, 2015 were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes on September 13, 2016, which became effective at the beginning of fiscal year 2016.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 set back one year for females.

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	17.00%	4.40%
U.S. large stocks	32.00%	8.00%
U.S. mid stocks	9.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stocks	12.00%	9.50%
International emerging market stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

* Includes assumed rate of inflation of 2.50%

**Troy City Board of Education
Notes to Financial Statements**

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board’s proportionate share of the net pension liability to changes in the discount rate. The following table presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.75%, 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 (7%) or 1-percentage point higher (9%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Board’s proportionate share of collective net pension liability	\$ 23,035,000	\$ 17,291,000	\$ 12,427,000

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, 2016. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016. The auditor’s report dated March 27, 2017 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Board contributes to the Alabama Retired Education Employee’s Health Care Trust (Trust), a multiple employer cost sharing defined benefit health care plan established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. The Trust is administered by members of the Public Education Employees’ Health Insurance Board (the PEEHIB). The Trust provides health care benefits to state and local school system retirees. *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. The Teachers’ Retirement System of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. The report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150 or by visiting www.rsa-al.gov.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Code of Alabama 1975, Section 16-25A-8 provides the PEEHIB explicit authority to set the contribution requirements for plan members and employers. The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you-go basis. Retirees eligible for Medicare benefits must pay \$10 per month for coverage while those not eligible for Medicare must pay \$151 per month for coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$421,218 or 19.07% of total Board allocations paid during fiscal year 2017. 100% of the required contributions were paid by the Board. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment. 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 amount, if any, to be immaterial.

The Board is subject to compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The amount, if any, of which the Board is liable for noncompliance cannot be determined at this time although the Board expects such amount, if any, to be immaterial.

The Board is involved in various claims and litigation arising in the ordinary course of operations. In the opinion of legal counsel, the range of potential recoveries or liabilities in excess of insurance coverage, if any, is not determinable.

NOTE 12 – PLEDGED REVENUES

As discussed in Note 8, certain bonds payable of the Board are collateralized by certain sales and use tax revenues. Pledged revenues recognized for the year ended September 30, 2017 were \$4,980,107 while total debt service collateralized was \$981,233.

NOTE 13 - 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. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence. The SIF purchases commercial insurance for claims,

NOTE 13 - RISK MANAGEMENT (Continued)

which in the aggregate exceed \$3.5 million. Errors and omissions insurance is purchased from Alabama Risk Management for Schools (ARMS), a public entity risk pool. ARMS collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for vehicle liability and fidelity bonds. 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) 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 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. No claims or related settlements have occurred in the past three years.

NOTE 14 - ON-BEHALF PAYMENTS

The U.S. Government makes certain retiree drug subsidy payments on-behalf of the Board for its employees to the Retirement Systems of Alabama. The Board records these payments as both a revenue and expenditure in the general fund. The total of on-behalf payments for the fiscal year ended September 30, 2017 was \$144,019.

NOTE 15 - SUBSEQUENT EVENTS

The Board has evaluated subsequent events between September 30, 2017 and June 18, 2018, the date the financials were available to be issued, and there were none to disclose.

**Troy City Board of Education
Required Supplementary Information
Schedule of the Employer's Proportionate Share of the Net Pension Liability**

<i>As of September 30,</i>	2016	2015	2014
Employer's proportion of the net pension liability	0.159713%	0.160140%	0.169204%
Employer's proportionate share of the net pension liability	\$17,291,000	\$ 16,760,000	\$ 15,371,000
Employer's covered-employee payroll*	\$10,135,066	\$ 10,143,132	\$ 10,738,350
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	170.61%	165.23%	143.14%
Plan fiduciary net position as a percentage of the total pension liability	67.93%	67.51%	71.01%

* Employer's covered-employee payroll during the measurement period is the total payroll of those employees who are participating in the pension plan. For FY 2017, the measurement period is October 1, 2015 through September 30, 2016.

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

**Troy City Board of Education
Required Supplementary Information
Schedule of Employer Contributions**

<i>For the year ended September 30,</i>	2017	2016	2015
Contractually required contribution**	\$ 1,234,363	\$ 1,199,428	\$ 1,181,735
Contributions in relation to the actuarially determined	1,234,363	1,199,428	1,181,735
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Employer's covered-employee payroll*	\$ 10,451,627	\$ 10,135,066	\$ 10,143,132
Contributions as a percentage of covered-employee payroll	11.81%	11.83%	11.65%

* Employer's covered-employee payroll is the total payroll of those employees who are participating in the pension plan.

**The amount of contractually required contributions is equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year. For participation in the TRS, this would not include amounts paid to TRS for the Pre-retirement Death Benefit, Term Life Insurance or Administrative Expenses. It does include the amounts paid to TRS for the Employer's portion of the Normal Cost and Accrued Liability.

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

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

Members of the Board
Troy City Board of Education
Troy, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Enterprise City Board of Education (the "Board") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 18, 2018.

Internal Control Over Financial Reporting

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

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency [2016-005].

Compliance and Other Matters

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

We noted certain other matters that we reported to the Board's management in a separate letter dated June 18, 2018.

The Boards' Response to Findings

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

June 18, 2018

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

Members of the Board
Troy City Board of Education
Troy, Alabama

Report on Compliance for Each Major Federal Program

We have audited Troy City Board of Education's (the "Board's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the Board's major federal programs for the year ended September 30, 2017. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

June 18, 2018

**Troy City Board of Education
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA No.	Pass Through Grantor's Number	Passed Through to Subrecipients	Expenditures
Social Security Administration				
Direct Program				
Social Security - Disability Insurance (DI)	96.001	N/A	\$ -	\$ 1,098
Total Disability Insurance/SSI Cluster			-	1,098
U.S. Department of Education				
Passed through State Department of Education				
Title I Grants to Local Educational Agencies	84.010	131	-	801,492
Supporting Effective Instruction State Grant	84.367	131	-	136,897
Rural Education	84.358	131	-	43,159
Rehabilitation Services				
Vocational Rehabilitation Grants to States	84.126	131	-	14,361
English Language Acquisition State Grants	84.365	131	-	7,283
Career and Technical Education – Basic Grants to States	84.048	131	-	32,857
Subtotal			-	1,036,049
Special Education Cluster				
Special Education Grants to States	84.027	131	-	475,873
Special Education Preschool Grants	84.173	131	-	16,267
Subtotal Special Education Cluster (IDEA)			-	492,140
Total U.S. Department of Education			-	1,528,189
U.S. Department of Agriculture				
Passed through State Department of Education				
Child Nutrition Cluster				
School Breakfast Program (SBP)	10.553	131	-	143,120
National School Lunch Program*	10.555	131	-	77,800
National School Lunch Program	10.555	131	-	511,873
Subtotal Child Nutrition Cluster			-	732,793
State Administrative Expense	10.560	131	-	3,159
Total U.S. Department of Agriculture			-	735,952
U.S. Department of Defense				
Direct Programs				
ROTC Language and Cultural Training Grants	12.357	N/A	-	41,069
Total expenditures of federal awards			\$ -	\$ 2,306,308

*USDA Food Distribution Program and Fresh Fruit and Vegetable Program - No actual cash transactions.

See Independent Auditors' report and accompanying notes to the schedule of expenditures of federal awards.

Troy City Board of Education
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the SEFA) summarizes the federal expenditures of the Board under programs of the federal government for the year ended September 30, 2017. The amounts reported as federal expenditures were obtained from the Board's general ledger. Because the SEFA presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position and changes in net position of the Board.

For purposes of the SEFA, federal awards include all grants, contracts, and similar agreements entered into directly with the federal government and other pass through entities. The Board has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all programs have been identified in the SEFA. CFDA numbers have been appropriately listed by applicable programs. Federal programs with different CFDA numbers that are closely related because they share common compliance requirements are defined as a cluster by the Uniform Guidance. Three clusters are separately identified in the SEFA and are the following:

Child Nutrition Cluster

The cluster includes awards that assist states in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs; and encourages the domestic consumption of nutritious agricultural commodities.

Special Education Cluster

The cluster includes awards that helps ensure that all children with disabilities have available to them a free appropriate public education (FAPE) which emphasizes special education and related services designed to meet their unique needs; ensure that the rights of children with disabilities and their parents or guardians are protected; assist States, localities, educational service agencies and Federal agencies to provide for the education of all children with disabilities; and assess and ensure the effectiveness of efforts to educate children with disabilities

Disability Insurance/SSI Cluster

The cluster includes awards that provides benefits to financially needy individuals who are aged, blind or disabled

NOTE 2 - RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS

The amounts reflected in the financial reports submitted to the awarding Federal, State and/or pass-through agencies and the SEFA may differ. Some of the factors that may account for any difference include the following:

Troy City Board of Education
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017

NOTE 2 - RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS (Continued)

- The Board's fiscal year end may differ from the program's year end.
- Accruals recognized in the SEFA, because of year-end procedures, may not be reported in the program financial reports until the next program reporting period.
- Fixed asset purchases and the resultant depreciation charges are recognized as fixed assets in the Board's financial statements and as expenditures in the program financial reports.

NOTE 3 - FEDERAL PASS-THROUGH FUNDS

The Board is also the sub-recipient of federal funds that have been subjected to testing and are reported as expenditures and listed as federal pass-through funds. Federal awards other than those indicated as "pass-through" are considered direct and will be designated accordingly.

NOTE 4 - BASIS OF ACCOUNTING

This SEFA was prepared on the modified accrual basis of accounting. The modified accrual basis differs from the full accrual basis of accounting in that expenditures for property and equipment are expensed when incurred, rather than being capitalized and depreciated over their useful lives, and expenditures for the principal portion of debt service are expensed when incurred, rather than being applied to reduce the outstanding principal portion of debt, which conforms to the basis of reporting to grantors for reimbursement under the terms of the Board's federal grants.

NOTE 5 - INDIRECT COSTS

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

NOTE 6 - CONTINGENCIES

Grant monies received and disbursed by the Board are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Board does not believe that such disallowance, if any, would have a material effect on the financial position of the Board. As of June 18, 2018, there were no known material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 7 - NONCASH ASSISTANCE

The Board received federal noncash assistance for the period ended September 30, 2017 in the amount of \$77,800.



**Troy City Board of Education
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017**

NOTE 8 - SUBRECIPIENTS

The Board did not provide federal funds to subrecipients for the fiscal year ending September 30, 2017.

NOTE 9 - LOANS AND LOAN GUARANTEES

The Board did not have any loans or loan guarantee programs required to be reported on the schedule for the fiscal year ending September 30, 2017.

**Troy City Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Any material weakness(es) identified? yes no
- Significant deficiencies identified that are not
considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not
considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Uniform Guidance 2 CFR Part 200.516(a)? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553	Child Nutrition Cluster
10.555	USDA Breakfast Program
84.010	National School Lunch Program
	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs? \$ 750,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statements Findings

2016-005 Procurement (Repeat)

Condition – Our audit procedures revealed the following:

- In a test of 60 local school disbursements, we noted 3 instances in which the date of the supporting purchase order was after the date of purchase.

Troy City Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Criteria – The purchase order is the Board’s primary control over purchase authorization. Monitoring the use of purchase orders reduces the possibility of unauthorized purchases and maintains control over the purchasing environment. A purchase order process documents the individual requesting the purchase, need, quantity, time frame, and department approval prior to the issuance of a purchase order.

Cause – The Board of Education’s policies and procedures require that purchase orders have approval of the administrator, CSFO and/or superintendent; approved purchase orders be obtained prior to placing a procurement order; and proper cancellation of the purchase orders is documented. This Policy has multiple functions, including documenting the authorized individual requisitioning the purchase, the person approving the transaction, helping to ensure the price paid and vendor utilized was approved, and ensuring purchases orders are not paid more than once.

Effect – Monitoring is an essential detection measure in any purchase order system. Requisitions and initiator signatures also play a key role in an effective procurement system of control. If requisitions or initiator signatures are not required, the authorizer has the ability to unilaterally initiate and authorize a transaction.

Recommendation – We recommend all departments and schools follow the Board policy of documentation and approval for those employees responsible for initiating and approving purchase orders in a timely manner (before the invoice date). Controls within the purchasing process reduce the likelihood of fraud and abuse, and provide written evidence as to the authorization and execution of each purchase.

Views of Responsible Officials and Planned Corrective Actions – Management agrees with the finding and has policies in place regarding internal controls over the procurement/purchase order process. The Board will review the policies with employees providing training as needed to strengthen internal controls over procurement.

Section III – Federal Award Findings and Questioned Costs

No such findings or questioned costs in the current year.



**Troy City Board of Education
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2017**

2016-004 – Corrected in the current year.

2016-005 – Repeated in current year

MANAGEMENT LETTER

Members of the Board
Troy City Board of Education
Troy, Alabama

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Troy City Board of Education (the "Board"), a component unit of the City of Troy, Alabama for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2016-005 to be a significant deficiency.

During our audit, we also became aware of the matters noted below that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Board's internal control in our letter dated June 18, 2018. This letter does not affect our report dated June 18, 2018 on the financial statements of the Board.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with management, and we will be pleased to discuss the comments in further detail at your convenience or to perform any additional study of these matters. Our comments are summarized as follows:

2017-001 ITGC – Environmental Controls

Processes, policies and procedures related to preparing for recovery or continuation of technology infrastructure, logical access, and change management policies are vital to ongoing risk management.

Finding – The server room should be free of any hazardous materials, which includes water. Water pipes and sprinklers installed in the server room increase the risk of server damage. Only fire suppression that has been certified for electronics should be utilized. Water pipes and sprinklers above server room should be disabled. Also, batter backup power appears to need replacing.

Recommendation – Management should develop implement environmental controls in the server room that mitigate the risk of data loss. This should include closing off water pipes and disabling sprinklers in server room. Also, battery backups (UPN) should be replaced.

2016-003 ITGC (Repeat) – External Vulnerability/Penetration Testing

Best Practices recommends periodic vulnerability and penetration testing to help identify unknown exploitable vulnerabilities in an entity’s network. Such testing would help prevent malicious individuals from penetrating the network and obtaining potentially sensitive data.

Finding – The Board performs no vulnerability and penetration testing of its IT network.

Recommendation – A network penetration test should be performed at least annually and upon any network infrastructure changes.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

June 18, 2018