

**Troy City Board
of Education**

FINANCIAL STATEMENTS

For the Year Ended September 30, 2018



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**Troy City Board of Education
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September 30, 2018**

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the Board adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended September 30, 2018. Our opinion is not modified with respect to this matter.

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 – 11, schedule of the employer’s proportionate share of the net pension liability and OPEB and schedule of employer contributions, on pages 55 – 59, 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 also 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 28, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 28, 2019

Introduction

The Management's Discussion and Analysis (MD&A) of Troy City Board of Education's (Board) financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2018. 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 Board'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 Board 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 Board 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 12) and the *Statement of Activities* (page 13). 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 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

Management's Discussion and Analysis (MD&A)

(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.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

In addition to the basic financial statements and the accompanying notes, this report also presents certain *Required Supplementary Information* (RSI) other than the MD&A consisting of 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 31) 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 Board 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, 2018:

Management's Discussion and Analysis (MD&A)

<i>September 30,</i>	2018	(Restated) 2017
Assets		
Current and other assets	\$ 4,939,560	\$ 5,037,903
Capital assets, net of depreciation	20,603,079	21,021,661
Total assets	25,542,639	26,059,564
Deferred Outflows of Resources		
Deferred loss on refunding of debt	2,611,428	2,745,685
Deferred outflows related to pension	2,167,460	2,705,363
Deferred outflows related to OPEB	451,747	436,230
Total deferred outflows of resources	5,230,635	5,887,278
Liabilities		
Current liabilities	2,233,232	2,058,447
Noncurrent liabilities	53,790,100	58,179,041
Total liabilities	56,023,332	60,237,488
Deferred Inflows of Resources		
Unearned property taxes	1,353,461	1,418,274
Deferred inflows related to pension	2,275,000	1,230,000
Deferred inflows related to OPEB	2,439,428	-
Total deferred inflows of resources	6,067,889	2,648,274
Net Position		
Net investment in capital assets	(1,508,978)	(1,285,950)
Restricted	433,979	125,217
Unrestricted (deficit)	(30,242,948)	(29,778,187)
Total net position	\$ (31,317,947)	\$ (30,938,920)

The Board's liabilities and deferred inflows exceeded its assets and deferred outflows by \$31,317,947 at the close of FY 2018 resulting in a deficit in net position due largely to the adoption of GASB 75 during 2018. Net investment in capital assets has a deficit balance due primarily to the refunding of a portion of the 2011 bond issue in the prior year.

It is important to note that the decrease in Total Net Position from fiscal years 2015 to 2018 is largely due to the impact of the GASB 68 which became effective in 2015 and GASB 75, which became effective in 2018. GASB 68 requires state and local governments and their related entities

Management's Discussion and Analysis (MD&A)

that participate in a defined benefit pension plan to disclose their proportionate share of any unfunded pension liability on their financial statements. GASB 75 established accounting and financial reporting requirements for governmental employers who provide Other Post-Employment Benefits (OPEB) to their employees through a trust. GASB 68 and 75 address only financial reporting requirements and have no impact on the funding requirements for pension and OPEB plans. Readers of the financial statements must understand that these new reporting requirements do not change the Board's cash position, credit worthiness, or overall financial health. The Board's financial ability to fund daily operations, meet debt obligations and allocate resources to achieve goals and objectives is unchanged. More detailed information regarding the calculations and reporting requirements of GASB 68 and GASB 75 can be found in the Notes to the Financial Statements.

Restricted net position, consisting of those net assets restricted by debt covenants, federal program compliance, and future capital projects, is \$433,979 at September 30, 2018.

Following is a condensed schedule of revenues and expenses from the governmental activities for the year ended September 30, 2018, presented with comparative data for the previous year:

Summary of Changes in Net Position From Operating Results

<i>Years ended September 30,</i>	2018	(Restated) 2017
Program Revenues		
Charges for services	\$ 1,682,506	\$ 1,656,758
Operating grants and contributions	11,748,631	11,678,164
Capital grants	451,695	465,511
General Revenues		
Local property taxes	1,682,830	1,642,248
Sales and use taxes	3,324,377	3,272,416
Grants and contributions not restricted for specific programs	90,000	85,000
Other taxes	65,751	65,443
Other	566,142	292,875
Total revenues	19,611,932	19,158,415

Management's Discussion and Analysis (MD&A)

<i>Years ended September 30,</i>	2018	(Restated) 2017
Expenses		
Instructional	11,970,553	12,062,359
Instructional support	2,692,731	2,673,391
Operation and maintenance	1,470,180	1,503,701
Transportation	199,915	213,003
Food service	975,133	1,257,487
General administration and central support	1,087,657	1,426,371
Interest on long-term debt	1,027,116	972,276
Other	567,674	557,750
Total expenses	19,990,959	20,666,338
Change in net position	(379,027)	(1,507,923)
Net position - beginning, as originally stated	(30,938,920)	(14,263,000)
Prior period adjustment (Note 15)	-	(15,167,997)
Net position - beginning, as restated	(30,938,920)	(29,430,997)
Net Position – Ending	\$ (31,317,947)	\$ (30,938,920)

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 60% 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.
- 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 \$5,729,100 for expenses not covered by program revenues.

Instructional services and instructional support expenses are the largest expense function of the Board (73%).

- 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.

Management's Discussion and Analysis (MD&A)

- 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 FY18, the Board's combined governmental funds reported ending fund balances of \$1,413,912 which is a decrease over the FY17 ending fund balances of \$266,155.

General Fund – The General Fund is the primary operating fund of the Board. The General Fund balance decreased by \$319,179. The decrease is primarily due to the loss of revenue from City Council Appropriations. Each school system is required to have a one-month general fund operating balance. Troy City Schools met this requirement for FY 2018.

Child Nutrition Program Fund – The Child Nutrition Program is funded primarily by a USDA grant. Funds are received based on the number of free and reduced meals served. On average, 63% of our students receive free and reduced price meals. The summer feeding program continued in 2018. Anyone under the age of 18 is eligible to participate for free.

Management's Discussion and Analysis (MD&A)

General Fund Budgetary Highlights

The original 2018 fiscal year budget, adopted on September 12, 2017, 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. 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 May 21, 2018. The comparison of General Fund original budget to the final amended budget is on page 18.

Capital Assets and Debt Administration

Capital Assets – At September 30, 2018, the Board had \$20,603,079 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 \$367,160 in capital expense during fiscal year 2018. This was used to completed the Troy Elementary School heating and cooling equipment and begin improvements on the High School baseball stadium and start construction of the High School football practice field.

Long-Term Debt – At year-end, the Board owed \$24,835,497 in outstanding bonds, net of unamortized bond discounts/premiums and \$108,662 in outstanding capital leases for various computer and office equipment.

Estimated Capital Needs – As of September 30, 2018, the Board's Five-Year Capital Plan, based upon critical needs, totaled approximately \$1.8 million throughout the system. These estimated capital needs include renovations to Troy Elementary to enhance building security, update/replace technology at all schools, and renovations at Charles Henderson High School. 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.

Economic Factors Affecting Next Fiscal Year

Student Enrollment

The student enrollment figure as of the forty-day report for the 2017-2018 school year was 1,893, which indicates a decline in enrollment of approximately 6 students for the 2018 fiscal year.

Management's Discussion and Analysis (MD&A)

<u>Fiscal Year</u>	<u>Enrollment</u>
2018	1,893
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, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,272,818
Investments	18,000
Receivables	2,584,801
Inventories	42,587
Restricted assets:	
Cash and cash equivalents	715,698
Prepaid expenses	84,982
Unamortized bond insurance	220,674
Capital assets, not being depreciated	914,084
Capital assets, net of depreciation	19,688,995
Total assets	25,542,639
Deferred Outflows of Resources	
Deferred loss on refunding of debt	2,611,428
Deferred outflows related to pension	2,167,460
Deferred outflows related to OPEB	451,747
Total deferred outflows of resources	5,230,635
Liabilities	
Accounts payable	176,053
Salaries and benefits payable	1,328,483
Accrued interest payable	281,719
Note Payable	350,000
Unearned revenue	96,977
Long-term liabilities	
Net pension liability	15,499,000
Net OPEB liability	13,346,941
Due and payable within one year	383,899
Due and payable after one year	24,560,260
Total liabilities	56,023,332
Deferred Inflows of Resources	
Unearned property taxes	1,353,461
Deferred inflows related to pension	2,275,000
Deferred inflows related to OPEB	2,439,428
Total deferred inflows of resources	6,067,889
Net Position	
Net investment in capital assets	(1,508,978)
Restricted for debt service	433,979
Unrestricted (deficit)	(30,242,948)
Total net position (deficit)	\$ (31,317,947)

The accompanying "Notes to Financial Statements" form an integral part of this statement.

Troy City Board of Education
Statement of Activities
For the Year Ended September 30, 2018

Functions / Programs	Expenses
Instructional services	\$ 11,970,553
Instructional support services	2,692,731
Operation and maintenance services	1,470,180
Student transportation services	199,915
Food services	975,133
General administrative services	1,087,657
Interest and fiscal charges	1,027,116
Other expenses	567,674
Total	\$ 19,990,959

The accompanying "Notes to Financial Statements" form an integral part of this statement.

Charges For Services	Program Revenues		Net (Expenses) Revenues and Changes In Net Position Governmental Activities
	Operating Grants and Contributions	Capital Grants and Contributions	
\$ 317,539	\$ 8,847,891	\$ 445,352	\$ (2,359,771)
180,577	1,945,008	-	(567,146)
21,532	599,353	-	(849,295)
19,845	69,732	6,343	(103,995)
890,319	55,228	-	(29,586)
24,144	148,994	-	(914,519)
-	-	-	(1,027,116)
228,550	82,425	-	(256,699)
<u>\$ 1,682,506</u>	<u>\$ 11,748,631</u>	<u>\$ 451,695</u>	<u>(6,108,127)</u>

General Revenues

Taxes:	
Property taxes for general purposes	1,682,830
Local sales tax	3,324,377
Other taxes	65,751
Grants and contributions not restricted for specific programs	90,000
Investment earnings	8,683
Miscellaneous	557,459
<u>Total general revenues</u>	<u>5,729,100</u>
Change in net position	(379,027)
Net position - beginning, as originally stated	(15,770,923)
Prior Period Adjustment (Note 15)	(15,167,997)
<u>Net position (deficit) - beginning, as restated</u>	<u>(30,938,920)</u>
<u>Net position (deficit) - ending</u>	<u>\$ (31,317,947)</u>

Troy City Board of Education
Balance Sheet – Governmental Funds
September 30, 2018

	General Fund	Child Nutrition Fund
Assets		
Cash and cash equivalents	\$ 1,227,158	\$ 154,140
Investments	-	-
Receivables	1,969,762	99,532
Due from other funds	32,203	-
Inventories	-	42,587
Prepaid expenses	84,982	-
Restricted assets:		
Cash and cash equivalents	-	-
Total assets	\$ 3,314,105	\$ 296,259
Liabilities		
Accounts payable	\$ 150,508	\$ 800
Due to other funds	-	1,154
Ledger overdraft	-	-
Note payable	350,000	-
Salaries and benefits payable	1,096,355	46,900
Unearned revenue	2,800	-
Total liabilities	1,599,663	48,854
Deferred Inflows of Resources		
Unearned revenue - property taxes	1,353,461	-
Fund Balances		
Nonspendable	84,982	42,587
Restricted	-	-
Assigned	-	204,818
Unassigned	275,999	-
Total fund balances	360,981	247,405
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,314,105	\$ 296,259

The accompanying "Notes to Financial Statements" form an integral part of this statement.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,381,298
-	18,000	18,000
-	515,507	2,584,801
-	-	32,203
-	-	42,587
-	-	84,982
715,698	-	715,698
<u>\$ 715,698</u>	<u>\$ 533,507</u>	<u>\$ 4,859,569</u>
\$ -	\$ 24,744	\$ 176,052
-	31,049	32,203
-	108,481	108,481
-	-	350,000
-	185,228	1,328,483
-	94,177	96,977
-	443,679	2,092,196
-	-	1,353,461
-	-	127,569
715,698	-	715,698
-	-	204,818
-	89,828	365,827
715,698	89,828	1,413,912
<u>\$ 715,698</u>	<u>\$ 533,507</u>	<u>\$ 4,859,569</u>

Troy City Board of Education
Reconciliation of Balance Sheet of Governmental
Funds to Statement of Net Position
For the Year Ended September 30, 2018

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

Total fund balance - governmental funds	\$	1,413,912
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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	32,149,433	
Accumulated depreciation	(11,546,354)	20,603,079

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred on the statement of net position.		220,674
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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	2,611,428	
Deferred outflows related to pension	2,167,460	
Deferred outflows related to OPEB	451,747	
Deferred inflows related to pension	(2,275,000)	
Deferred inflows related to OPEB	(2,439,428)	516,207

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	(281,719)	
Net pension liability	(15,499,000)	
Net OPEB liability	(13,346,941)	
Current portion of long-term debt	(383,899)	
Non-current portion of long-term debt	(24,560,260)	(54,071,819)

Total net position - governmental activities	\$	(31,317,947)
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The accompanying "Notes to Financial Statements" form an integral part of this statement.

Troy City Board of Education
Statement of Revenues, Expenditures and Changes
in Fund Balances – Governmental Funds
For the Year Ended September 30, 2018

	General Fund	Child Nutrition Fund
Revenues		
State revenues	\$ 9,721,995	\$ -
Federal revenues	53,479	739,092
Local revenues	4,640,467	227,952
Other revenues	45,702	19,106
Total revenues	14,461,643	986,150
Expenditures		
Instructional services	9,703,306	-
Instructional support services	2,209,784	-
Operation and maintenance services	1,443,950	-
Student transportation services	150,692	-
Food services	-	1,191,503
General administrative services	948,060	-
Capital outlay	-	-
Debt service:		
Principal	66,967	-
Interest	11,612	-
Other expenses	316,256	40,999
Total expenditures	14,850,627	1,232,502
Excess (deficiency) of revenues over (under) expenditures	(388,984)	(246,352)
Other Financing Sources (Uses)		
Indirect cost	157,076	-
Transfers in	202,518	273,522
Transfers out	(289,789)	-
Total other financing sources (uses)	69,805	273,522
Net change in fund balances	(319,179)	27,170
Fund Balances - beginning	680,160	220,235
Fund Balances - ending	\$ 360,981	\$ 247,405

The accompanying "Notes to Financial Statements" form an integral part of this statement.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 458,024	\$ 10,180,019
-	1,893,537	2,686,108
634,537	1,167,482	6,670,438
-	-	64,808
<u>634,537</u>	<u>3,519,043</u>	<u>19,601,373</u>
-	1,811,074	11,514,380
-	446,695	2,656,479
-	2,335	1,446,285
-	9,010	159,702
-	-	1,191,503
-	162,933	1,110,993
-	72,533	72,533
-	266,066	333,033
629,668	325,886	967,166
-	215,275	572,530
<u>629,668</u>	<u>3,311,807</u>	<u>20,024,604</u>
<u>4,869</u>	<u>207,236</u>	<u>(423,231)</u>
-	-	157,076
-	17,685	493,725
-	(203,936)	(493,725)
-	(186,251)	157,076
<u>4,869</u>	<u>20,985</u>	<u>(266,155)</u>
<u>710,829</u>	<u>68,843</u>	<u>1,680,067</u>
<u>\$ 715,698</u>	<u>\$ 89,828</u>	<u>\$ 1,413,912</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, 2018**

Amounts reported for governmental activities in the Statement of Activities on page 13 are different because:

Total net change in fund balances - governmental funds		\$ (266,155)
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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	240,381	
Depreciation expense	(649,107)	(408,726)
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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		333,033
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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	67,685	
Current year decrease in pension expense	209,097	
Current year increase in OPEB expense	(166,625)	
Amortization of discounts/premiums and deferred loss on refunding	(137,480)	(27,323)
<hr/>		

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.

<hr/>		<hr/> (9,856) <hr/>
Change in net position of governmental activities		\$ (379,027)

The accompanying "Notes to Financial Statements" form an integral part of this statement.

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, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues				
State revenues	\$ 9,666,185	\$ 9,683,330	\$ 9,721,995	\$ 38,665
Federal revenues	76,821	76,821	53,479	(23,342)
Local revenues	4,815,225	4,815,221	4,640,467	(174,754)
Other revenues	57,254	57,254	45,702	(11,552)
Total revenues	14,615,485	14,632,626	14,461,643	(170,983)
Expenditures				
Instructional services	9,780,994	9,770,399	9,761,745	8,654
Instructional support services	2,156,431	2,184,066	2,214,650	(30,584)
Operation and maintenance services	1,434,906	1,434,906	1,443,255	(8,349)
Student transportation services	144,438	144,438	151,772	(7,334)
General administrative services	958,374	958,474	948,060	10,414
Debt service:				
Principal	66,967	66,967	66,967	-
Interest	11,547	11,547	11,612	(65)
Other expenses	358,070	358,070	332,955	25,115
Total expenditures	14,911,727	14,928,867	14,931,016	(2,149)
Excess (deficiency) of revenues over (under) expenditures	(296,242)	(296,241)	(469,373)	(173,132)
Other Financing Sources (Uses)				
Indirect cost	161,209	163,469	157,076	(6,393)
Transfers in	216,749	216,749	202,518	(14,231)
Transfers out	(260,445)	(260,445)	(289,789)	(29,344)
Total other financing sources (uses)	117,513	119,773	69,805	(49,968)
Net change in fund balance	(178,729)	(176,468)	(399,568)	(223,100)
Fund Balance - beginning	680,160	680,160	680,160	-
Fund Balance - ending	\$ 501,431	\$ 503,692	\$ 280,592	\$ (223,100)

The accompanying "Notes to Financial Statements" form an integral part of this statement.

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, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues				
Federal revenues	\$ 733,300	\$ 733,300	\$ 739,092	\$ 5,792
Local revenues	304,625	304,625	227,952	(76,673)
Other revenues	17,000	17,000	19,106	2,106
Total revenues	1,054,925	1,054,925	986,150	(68,775)
Expenditures				
Food services	1,273,581	1,273,581	1,187,922	85,659
Other expenses	51,280	51,280	40,999	10,281
Total expenditures	1,324,861	1,324,861	1,228,921	95,940
Deficiency of revenues under expenditures	(269,936)	(269,936)	(242,771)	27,165
Other Financing Sources				
Transfers in	277,461	277,461	273,522	(3,939)
Net change in fund balance	7,525	7,525	30,751	23,226
Fund Balance - beginning	220,235	220,235	220,235	-
Fund Balance - ending	\$ 227,760	\$ 227,760	\$ 250,986	\$ 23,226

The accompanying "Notes to Financial Statements" form an integral part of this statement.

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. Short-Term Debt
9. Long-Term Debt
10. Employee Retirement Plan
11. Postemployment Benefits Other than Pension (OPEB)
12. Commitments and Contingencies
13. Pledge Revenues
14. Risk Management
15. Prior Period Adjustment
16. 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, 2018 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. IDEA High Cost Fund
3. Preschool Ages 3 – 5 Part B
4. IDEA Part B, E C & Y
5. Vocational Education – Basic Grant
6. Vocational Education – Program Improvement
7. Vocational Rehab - Other
8. Title I Part A
9. Title 1 Part A – School Improvement
10. Title II Part A Teacher and Principal Training
11. Title IV Part A – Safe & Drug Free
12. Title VI Part B – Low Income Program
13. Food and Nutrition Fund
14. Local school activity funds

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2018 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 \$715,698.

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 three items that qualify for reporting in this category, deferred loss on refunding of debt, deferred outflows related to pension, and deferred outflows related to OPEB. A deferred loss on refunding of debt 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 and OPEB result from pension and OPEB contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date, the net difference between projected and actual earnings on plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions.

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 three items that qualify for reporting in this category, unearned property taxes, deferred inflows related to pension and deferred inflows related to OPEB. Deferred inflows related to pension and OPEB result from differences between expected and actual experience, changes in assumptions, changes in projected and actual earnings on plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions.

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:

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018, 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, 2018 are as follows:

	General Fund	Child Nutrition	Debt Service	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventories	\$ -	\$ 42,587	\$ -	\$ -	\$ 42,587
Prepaid expenses	84,982	-	-	-	84,982
Restricted:					
Debt service	-	-	715,698	-	715,698
Assigned:					
Child Nutrition	-	204,818	-	-	204,818
Unassigned	275,999	-	-	89,828	365,827
	<u>\$ 360,981</u>	<u>\$ 247,405</u>	<u>\$ 715,698</u>	<u>\$ 89,828</u>	<u>\$ 1,413,912</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

In Fiscal Year 2018, the Board adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75)
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 85, *Omnibus 2017* (GASB 85)
- GASB Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86)

GASB 75 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for OPEB that is provided to 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 Employers and Agent Multiple-Employer Plans*. For defined benefit OPEB plans, GASB 75 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 period of employee service. Note disclosure and required supplementary information are addressed. The adoption of GASB 75 has no impact on the Board's governmental fund financial statements. However, the adoption has resulted in the restatement of the Board's Fiscal Year 2017 government-wide financial statements to reflect the reporting of net OPEB liabilities, deferred inflows of resources, deferred outflows of resources and the recognition of OPEB expense in accordance with the provisions of GASB 75. Refer to Note 11 for more information regarding the Board's OPEB.

GASB 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources as the inception of the agreement. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. There was no material impact on the Board's financial statement as a result of the implementation of GASB 81.

GASB 85 addresses practice issues that were identified during the 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 (pension and other postemployment benefits). The adoption of GASB 85 had no impact on the Board's current accounting practices nor its financial reporting.

GASB 86 establishes standards of accounting and financial reporting requirements, for in-substance defeasance of debt transactions in which cash and other monetary assets acquired with only existing resources – that is, resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of future repayment of outstanding debt. There was no material impact on the Board's financial statements as a result of the implementation of GASB 86.

Pronouncements 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2020
87	<i>Leases</i>	2021
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>	2021
90	<i>Majority Equity Interest an amendment of GASB Statements No. 14 and No. 61</i>	2020
91	<i>Conduit Debt Obligation</i>	2022

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 2018 fiscal year was September 15, 2017. The Board approved and submitted its original 2018 annual budget on September 12, 2017.

The 2018 budget was amended in May 2018 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.

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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:

	<u>Total Expenditures</u>	
	<u>General Fund</u>	<u>Child Nutrition Fund</u>
Budget basis	\$ 14,931,016	\$ 1,228,921
Non-budgeted accrued salaries and fringe benefits		
Instructional services	(58,439)	-
Instructional support services	(4,866)	-
Operations and maintenance	695	-
Student transportation services	(1,080)	-
Food services	-	3,581
Other expenditures	(16,699)	-
GAAP basis	\$ 14,850,627	\$ 1,232,502

Excess Expenditures Over Appropriations

The General Fund actual expenditures exceeded budgeted expenditures by \$2,149. The excess was funded with existing fund balance.

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.

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

NOTE 4 - RECEIVABLES

Receivables at September 30, 2018 consist of the following:

	General	Child Nutrition	Other Non- major	Total
State Department of Education				
IDEA-Part B	\$ -	\$ -	\$ 168,298	\$ 168,298
IDEA High Cost Fund	-	-	76,330	76,330
Pre-School Ages 3-5-Part B	-	-	5,727	5,727
Basic Grant	-	-	21,706	21,706
Vocational Rehab	-	-	5,014	5,014
Title I, Part A	-	-	188,712	188,712
Title II, Part A	-	-	42,471	42,471
Title IV, Part A	-	-	2,067	2,067
Title IV, Rural Ed Initiative	-	-	2,524	2,524
Pike County Rev Commissioner	1,353,461	-	-	1,353,461
Pike County Board of Education	567,114	-	-	567,114
School Lunch Program	-	99,532	-	99,532
Pike County Probate Judge	25,100	-	-	25,100
Other	24,087	-	2,658	26,745
Total receivables	\$ 1,969,762	\$ 99,532	\$ 515,507	\$ 2,584,801

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, 2018, consisted of the following amounts:

Due from	Due to General Fund	Total
Nonmajor governmental	\$ 31,049	\$ 31,049
Child Nutrition	1,154	1,154
	\$ 32,203	\$ 32,203

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

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

NOTE 5 - INTERFUND ACTIVITY (Continued)

Interfund transfers consisted of the following for the year ended September 30, 2018:

Transfers Out	Transfers In			Total
	General	Child Nutrition	Nonmajor Governmental	
General	\$ -	\$ 273,522	\$ 16,267	\$ 289,789
Nonmajor governmental	202,518	-	1,418	203,936
	<u>\$ 202,518</u>	<u>\$ 273,522</u>	<u>\$ 17,685</u>	<u>\$ 493,725</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 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	72,533	126,779	21,383
Total capital assets, not being depreciated	968,330	72,533	126,779	914,084
Other capital assets:				
Buildings	24,334,770	-	-	24,334,770
Building improvements	3,899,292	126,779	-	4,026,071
Land improvements	608,023	-	-	608,023
Equipment	1,107,878	167,848	10,560	1,265,166
Vehicles	1,001,318	-	-	1,001,318
Total other capital assets at historical cost	30,951,281	294,627	10,560	31,235,348
Less accumulated depreciation for:				
Buildings	7,771,496	441,910	-	8,213,406
Building improvements	924,751	98,317	-	1,023,068
Land improvements	548,907	5,930	-	554,837
Equipment	768,591	56,269	704	824,156
Vehicles	884,205	46,681	-	930,886
Total accumulated depreciation	10,897,950	649,107	704	11,546,353

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

NOTE 6 - CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets, net of depreciation	20,053,331	(354,480)	9,856	19,688,995
Total governmental activities capital assets, net	\$ 21,021,661	\$ (281,947)	\$ 136,635	\$ 20,603,079

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 525,754
Instructional support services	42,818
Operation and maintenance services	22,326
Student transportation services	39,508
Food services	18,701
Total governmental activities depreciation expense	\$ 649,107

NOTE 7 - UNEARNED REVENUE AND DEFERRED INFLOWS OF RESOURCES

	General Fund
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.	\$ 1,353,461
Unearned Grant Revenue – Grant funds received but not yet expended represent revenues that will be used for future grant expenses subsequent to year end.	94,177
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
	\$ 1,450,438

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.

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

NOTE 8 – SHORT-TERM DEBT

For the year ended September 30,

2018

Line of Credit – Regions Bank – The Board has an unsecured line of credit with Regions Bank with a maximum amount available of \$350,000 and none available to draw as of September 30, 2018. The Line of Credit was dated September 1, 2018 and the outstanding balance is payable at maturity on October 1, 2018. Interest, at a variable rate, is due at maturity.

\$ 350,000

NOTE 9 - LONG-TERM DEBT

During the year ended September 30, 2018, the following changes occurred in long-term liabilities reported in the statement of net position:

	Balance October 1, 2017	Proceeds	Refunding	Retirements	Balance September 30, 2018	Amounts Due Within One Year
Bonds Payable						
Capital Improvement Pool Series 2009-B	\$ 187,495	\$ -	\$ -	\$ (91,066)	\$ 96,429	\$ 96,429
Educational Facilities Revenue Bonds Series 2011	4,990,000	-	-	(75,000)	4,915,000	75,000
School Tax Warrants Series 2013	2,400,000	-	-	-	2,400,000	-
School Tax Refunding Warrants Series 2016	9,330,000	-	-	(60,000)	9,270,000	65,000
School Tax Refunding Warrants Series 2017	8,055,000	-	-	(40,000)	8,015,000	95,000
Unamortized bond discounts	(355,121)	-	-	14,997	(340,124)	(14,997)
Unamortized bond premiums	500,810	-	-	(21,618)	479,192	21,618
Total bonds payable	\$ 25,108,184	\$ -	\$ -	\$ (272,687)	\$ 24,835,497	\$ 338,050
Other liabilities						
Capital leases						
iPads	\$ 23,715	\$ -	\$ -	\$ (23,715)	\$ -	\$ -
Computer equipment	24,919	-	-	(12,044)	12,875	12,875
Computer equipment	41,832	-	-	(11,575)	30,257	12,385
Phone equipment	84,035	-	-	(18,866)	65,169	20,228
Duplicator	1,129	-	-	(768)	361	361
Total other liabilities	175,630	-	-	(66,968)	108,662	45,849
Total long-term liabilities	\$ 25,283,814	\$ -	\$ -	\$ (339,655)	\$ 24,944,159	\$ 383,899

NOTE 9 - LONG-TERM DEBT (Continued)

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
2019	\$ 96,429	\$ 4,822

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 13.

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 \$2,885,000 at September 30, 2018.

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

NOTE 9 - LONG-TERM DEBT (Continued)

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, 2018 was \$78,925. The total amount amortized for the year ended September 30, 2018 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 September 30,	Principal	Interest
2019	\$ 75,000	\$ 215,005
2020	535,000	205,186
2021	555,000	186,503
2022	90,000	165,013
2023	575,000	151,713
2024-2028	1,035,000	599,169
2029-2033	635,000	455,044
2034-2038	815,000	268,931
2039-2041	600,000	84,524
	\$ 4,915,000	\$ 2,331,088

Bond discount expense on the Series 2011 bonds for the year ended September 30, 2018 was \$7,623.

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 \$445,000 at September 30, 2018.

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

NOTE 9 - LONG-TERM DEBT (Continued)

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, 2018 was \$152,888. The total amount amortized for the year ended September 30, 2018 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
2019	\$ -	\$ 114,000
2020	-	114,000
2021	-	114,000
2022	-	114,000
2023	-	114,000
2024-2028	-	570,000
2029-2033	-	570,000
2034-2038	-	570,000
2039-2043	2,400,000	440,800
	\$ 2,400,000	\$ 2,720,800

Bond discount expense on the Series 2013 bonds for the year ended September 30, 2018 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 13.

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, 2018.

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

NOTE 9 - LONG-TERM DEBT (Continued)

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, 2018 was \$1,547,808. The total amount amortized for the year ended September 30, 2018 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
2019	\$ 65,000	\$ 332,468
2020	65,000	331,655
2021	65,000	330,721
2022	65,000	329,664
2023	65,000	328,486
2024-2028	360,000	1,619,756
2029-2033	2,655,000	1,462,073
2034-2038	3,830,000	682,275
2039-2041	2,100,000	152,600
	\$ 9,270,000	\$ 5,569,698

Bond premium amortization on the Series 2016 bonds for the year ended September 30, 2018 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 13.

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, 2018.

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

NOTE 9 - LONG-TERM DEBT (Continued)

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, 2018 was \$831,807. The total amount amortized for the year ended September 30, 2018 was \$39,298 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
2019	\$ 95,000	\$ 227,339
2020	100,000	225,955
2021	100,000	224,255
2022	100,000	222,555
2023	605,000	215,958
2024-2028	2,775,000	910,129
2029-2033	1,560,000	523,933
2034-2038	1,250,000	433,075
2039-2040	1,430,000	35,700
	\$ 8,015,000	\$ 3,018,899

Bond discount amortization on the Series 2017 bonds for the year ended September 30, 2018 was \$4,469.

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

NOTE 9 - LONG-TERM DEBT (Continued)

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 a 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.

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
2019	\$ 53,577
2020	44,055
2021	24,932
<hr/>	
Total minimum lease payments	122,564
Less: Amount representing interest	13,902
<hr/>	
Present value of future minimum lease payments	108,662
Less: Current portion	45,849
<hr/>	
Capital lease obligation, net of current portion	\$ 62,813

NOTE 10 - 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, pursuant to the *Code of Alabama 1975, Title 16, Chapter 25* (Act 419 of the Legislature of 1939) for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operating of TRS is vested in its Board of Control which consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 16, Chapter 25* grants the authority to establish and amend the benefit terms to the TRS Board on Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS 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

NOTE 10 - EMPLOYEE RETIREMENT PLAN (Continued)

determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

Contributions. Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by 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, 2018 was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$1,242,460 for the year ended September 30, 2018.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At September 30, 2018, the Board reported a liability of \$15,499,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. 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, 2017, the System's proportion was 0.157690%, which was a decrease of 0.002023% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized pension expense of \$1,033,363. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

NOTE 10 - EMPLOYEE RETIREMENT PLAN (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 664,000
Changes of assumptions	925,000	-
Net difference between projected and actual earnings on pension plan investments	-	927,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	684,000
Employer contributions subsequent to the measurement date	1,242,460	-
Total	\$ 2,167,460	\$ 2,275,000

\$1,242,460 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension's expense as follows:

**Year Ended
September 30,**

2019	\$ (449,000)
2020	(121,000)
2021	(410,000)
2022	(344,000)
2023	(26,000)
Thereafter	-0-

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

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

NOTE 10 - EMPLOYEE RETIREMENT PLAN (Continued)

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

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

	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%

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 (6.75%) or 1-percentage point higher (8.75%) than the current rate:

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

NOTE 10 - EMPLOYEE RETIREMENT PLAN (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	\$ 21,377,000	\$ 15,499,000	\$ 10,525,000

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, 2017. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2017. The auditor's report dated August 20, 2018 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, 2017 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

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

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

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

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

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

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

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

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

Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

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

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At September 30, 2018, the Board reported a liability of \$13,346,941 for its proportionate share of the net OPEB liability. The net OPEB liability measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2018, the Board's proportion was 0.179698%, which was a decrease of 0.014572% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the System recognized OPEB expense of \$618,372, with no special funding situations. At September 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	1,385,812
Net difference between projected and actual earnings on OPEB plan investments	-	71,060
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	982,556
Employer contributions subsequent to the measurement date	451,747	-
Total	\$ 451,747	\$ 2,439,428

\$451,747 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019.

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

**Year Ended
September 30,**

2019	\$ (470,608)
2020	(470,608)
2021	(470,608)
2022	(470,608)
2023	(452,843)
Thereafter	(104,153)

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of September 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected salary increases ¹	3.25% - 5.00%
Long-term investment rate of return ²	7.25%
Municipal Bond Index rate at the measurement date	3.57%
Municipal Bond Index rate at the prior measurement date	2.93%
Projected year for fiduciary net position (FNP) to be depleted	2042
Single equivalent interest rate the measurement date	4.63%
Single equivalent interest rate the prior measurement date	4.01%

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

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

Healthcare cost trend rate	
Pre-Medicare eligible	7.75%
Medicare eligible	5.00%
Ultimate trend rate	
Pre-Medicare eligible	5.00%
Medicare eligible	5.00%
Year of ultimate trend rate	2022

¹ Includes 3.00% wage inflation.

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

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

There were no ad hoc postemployment benefit changes, including ad hoc cost of living adjustments, during fiscal year 2017.

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2016 valuation were based on a review of recent plan experience done concurrently with the September 30, 2016 valuation.

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

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

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

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	30.00%	4.40%
U.S. large stocks	38.00%	8.00%
U.S. mid stocks	8.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	

*Geometric mean, includes 2.5% inflation

Discount Rate. The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2017 was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2016 and it is assumed that the amount will increase by 3.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long term rate of return is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

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

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

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

	1% Decrease (6.75% decreasing to 4% for pre-Medicare, 4% for Medicare eligible 1% for Optional Plans)	Current Healthcare Trend Rate (7.75% decreasing to 5% for pre-Medicare, 5% for Medicare eligible 2% for Optional Plans)	1% Increase (8.75% decreasing to 6% for Medicare, 6% for Medicare eligible 3% for Optional Plans)
Net OPEB liability	\$ 10,776,071	\$ 13,346,941	\$ 16,664,067

The following table presents the Board's proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 4.63%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (3.63%)	Current Discount Rate (4.63%)	1% Increase (5.63%)
Net OPEB liability	\$ 16,133,675	\$ 13,346,941	\$ 11,125,566

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2017. Additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 12 - 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 13 – PLEDGED REVENUES

As discussed in Note 9, certain bonds payable of the Board are collateralized by certain sales and use tax revenues. Pledged revenues recognized for the year ended September 30, 2018 were \$5,072,957 while total debt service collateralized was \$1,124,683.

NOTE 14 - 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, 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 15 – PRIOR PERIOD ADJUSTMENT

The Board adopted GASB 75 in the current fiscal year and recorded a prior period adjustment of \$15,167,997, the effect of adding the September 30, 2017 net OPEB liability of \$15,604,227 and deferred outflows of resources of \$436,230. This entry was made and recorded as long-term liabilities and deferred outflows, respectively, in the financial statements at September 30, 2018.

NOTE 16 - SUBSEQUENT EVENTS

The Board has evaluated subsequent events between September 30, 2018 and June 28, 2019, 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
Teachers' Retirement System of Alabama**

<i>As of September 30,</i>	2017	2016	2015	2014
Employer's proportion of the collective net pension liability	0.157690%	0.159713%	0.160140%	0.169204%
Employer's proportionate share of the collective net pension liability	\$ 15,499,000	\$ 17,291,000	\$ 16,760,000	\$ 15,371,000
Employer's covered payroll*	\$ 10,774,800	\$ 10,135,066	\$ 10,143,132	\$ 10,738,350
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	143.84%	170.61%	165.23%	143.14%
Plan fiduciary net position as a percentage of the total pension liability	71.50%	67.93%	67.51%	71.01%

* Employer's covered payroll during the measurement period is the total payroll on which contributions to the pension plan are based. For FY 2018, the measurement period is October 1, 2016 through September 30, 2017.

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
Teachers' Retirement System of Alabama**

<i>For the year ended September 30,</i>	2018	2017	2016	2015
Contractually required contribution**	\$ 1,242,460	\$ 1,234,363	\$ 1,199,428	\$ 1,181,735
Contributions in relation to the actuarially determined contribution	\$ 1,242,460	1,234,363	1,199,428	1,181,735
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll*	\$ 10,364,906	\$ 10,451,627	\$ 10,135,066	\$ 10,143,132
Contributions as a percentage of covered payroll	11.99%	11.81%	11.83%	11.65%

* Employer's covered payroll is the total payroll on which contributions to the pension plan are based for 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.

**Troy City Board of Education
Required Supplementary Information
Schedule of the Employer's Proportionate Share of the Net OPEB Liability
Alabama Retired Education Employees' Health Care Trust**

<i>As of September 30,</i>	2017
Employer's proportion of the collective net pension liability	0.179698%
Employer's proportionate share of the collective net pension liability	\$ 13,346,941
Employer's covered-employee payroll during the measurement period*	\$ 10,774,800
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	123.87%
Plan fiduciary net position as a percentage of the total collective OPEB liability	15.37%

*Employer's covered payroll during the measurement period is the total covered payroll. For FY 2018, the measurement period is October 1, 2016 through September 30, 2017.

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 the Employer Contribution-OPEB
Alabama Retired Education Employees' Health Care Trust**

<i>For the year ended September 30,</i>	2018
Contractually required contribution	\$ 451,747
Contributions in relation to the actuarially determined contribution	\$ 451,747
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll*	\$ 10,364,906
Contributions as a percentage of covered-employee payroll	4.36%

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

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

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

Recent Plan Changes. Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan. The Health Plan was changed in 2017 to reflect the ACA maximum annual out-of-pocket amounts.

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2014 three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay
Remaining Amortization Period	27 year, closed
Asset Valuation Method	Market Value of Assets
Inflation	3.00%

**Troy City Board of Education
Required Supplementary Information
Schedule of the Employer Contribution-OPEB (Continued)
Alabama Retired Education Employees' Health Care Trust**

Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.50%
Medicare Eligible	5.75%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2019 for Pre-Medicare Eligible 2017 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

**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 Troy City Board of Education (the "Board") as of and for the year ended September 30, 2018, 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 28, 2019.

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 as item 2016-005 that we consider to be a significant deficiency.

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 28, 2019.

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 28, 2019

**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, 2018. 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, 2018.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 28, 2019

**Troy City Board of Education
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018**

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 Disability/SSI Cluster Social Security Disability Insurance	96.001	N/A	\$ -	\$ 2,380
Total Disability Insurance/SSI Cluster				2,380
U.S. Department of Education				
Passed through State Department of Education				
Title I Grants to Local Educational Agencies	84.010	199	-	1,034,392
School Improvement Grants	84.377	199	-	89,424
Supporting Effective Instruction State Grant	84.367	199	-	100,296
Rural Education	84.358	199	-	35,049
Rehabilitation Services				
Vocational Rehabilitation Grants to States	84.126	199	-	30,037
English Language Acquisition State Grants	84.365	199	-	4,603
Student Support and Academic Enrichment Program	84.424A	199	-	17,404
Career and Technical Education – Basic Grants to States	84.048	199	-	43,697
Subtotal				1,354,902
Special Education Cluster				
Special Education Grants to States	84.027	199	-	462,012
Special Education Grants to States - IDEA High Cost	84.027A	199	-	76,330
Special Education Preschool Grants	84.173	199	-	15,355
Subtotal Special Education Cluster (IDEA)				553,697
Total U.S. Department of Education				1,908,599
U.S. Department of Agriculture				
Passed through State Department of Education				
Child Nutrition Cluster				
School Breakfast Program (SBP)	10.553	199	-	150,641
National School Lunch Program*	10.555	199	-	53,794
National School Lunch Program	10.555	199	-	530,984
Subtotal Child Nutrition Cluster				735,419
State Administrative Expenses for Child Nutrition	10.560	199	-	3,672
Total U.S. Department of Agriculture				739,091
U.S. Department of Defense				
Direct Programs				
ROTC Language and Cultural Training Grants	12.357	N/A	-	51,100
Total expenditures of federal awards			\$ -	\$ 2,701,170

*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, 2018

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, 2018. 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

This cluster includes awards that provide benefits to disabled wage earners and their families in the event the family wage earner becomes disabled. These awards provide payments 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, 2018

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 28, 2019, there were no known material questioned or disallowed costs as a result of grant audits in process or completed.



Troy City Board of Education
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

NOTE 7 - NONCASH ASSISTANCE

The Board received federal noncash assistance in the form of commodities for the period ended September 30, 2018 in the amount of \$53,794. The value of non-cash commodities received from the federal government in connection with the donated food program is reflected in the accompanying financial statements.

NOTE 8 - SUBRECIPIENTS

The Board did not provide federal funds to subrecipients for the fiscal year ending September 30, 2018.

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, 2018.

**Troy City Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018**

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
84.027, 84.027A & 84.173 84.010	Special Education Cluster (IDEA) 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 40 local school disbursements, we noted 3 instances in which the date of the supporting purchase order was after the date of purchase and 2 instances in which the purchase order did not match the invoice.
- In a test of 40 central office disbursements, we noted 1 instance 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, 2018

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.

Section III – Federal Award Findings and Questioned Costs

Item 2018-001 – Suspension and Debarment

Special Education Cluster (IDEA) – CFDA # 84.027 & 84.173

Title I Grants to Local Educations Agencies (Title I, Part A of the ASEA) CFDA # 84.010

U.S. Department of Education

Passed through the State Department of Education

Pass-through Grant No. 199 (10/1/17-9/30/18)

Criteria – 2 CFR 200.303 requires the non-Federal entity to “(a) establish and maintain effective internal controls over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal statutes, regulations, and the terms and conditions of the Federal award.” Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.



**Troy City Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018**

Condition – Adequate controls were not in place to provide for proper review of covered transactions for suspension and debarment. Covered transactions, not on the State Department of Education’s approved vendor purchasing list, over \$25,000 paid with grant funding were not reviewed for suspension and debarment.

Cause – The Board lacked sufficient controls to ensure evidence of compliance with suspension and debarment.

Questioned Costs – Not determinable

Effect – Failure to properly verify that a party has not been suspended or debarred could result in unallowable expenditures and disallowed costs.

Recommendation – We recommend that controls should be put into place to better monitor and document the compliance of vendors for suspension and debarment.



**Troy City Board of Education
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2018**

2016-005 – Repeated in current year



Dr. Lee A. Hicks
Superintendent

TROY CITY BOARD OF EDUCATION

358 Elba Highway, Troy, Alabama 36079

Phone: (334) 566-3741 | Fax: (334) 566-1425

"Trojans Committed to Success"

2016-005

Finding –

- In a test of 40 local school disbursements, we noted 3 instances in which the date of the supporting purchase order was after the date of purchase and 2 instances in which the purchase order did not match the invoice.
- In a test of 40 central office disbursements, we noted 1 instance in which the date of the supporting purchase order was after the date of purchase.

Management Response – 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. CFSO will be responsible for the corrective action and anticipates completion of corrective action will be taken before 9/30/19.

2018-001

Finding – Adequate controls were not in place to provide for proper review of covered transactions for suspension and debarment. Covered transactions, not on the State Department of Education's approved vendor purchasing list, over \$25,000 paid with grant funding were not reviewed for suspension and debarment.

Management Response – The Board will implement additional controls to ensure there is evidence of review of covered transactions over \$25,000 for suspension and debarment prior to payment. CFSO will be responsible for the corrective action and anticipates completion of corrective action will be taken before 9/30/19.

Responsible Party: Chief School Finance Officer

Effective date of completion: within the fiscal ending September 30, 2019

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, 2018, 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 *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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2018-001 to be a material weakness. 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 deficiency 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 28, 2019. This letter does not affect our report dated June 28, 2019 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 (Repeat) – 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, one battery backup power source appears to need replacing.

Recommendation – Management should develop and 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 backup (UPS) should be replaced.

2018–002 Password Security

Finding: The Board’s password security policy does not follow best practice such as having lockouts for failed attempts and expiration.

Recommendation – We recommend that management consider implementing a password policy to include greater security concerning passwords used by employees.

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

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

Enterprise, Alabama

June 28, 2019