Troy City Board of Education

FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

CRI CARR RIGGS & INGRAM
CPAs and Advisors
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Troy City Board of Education
Table of Contents
September 30, 2016

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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") as of and for the year ended September 30, 2016, 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 auditors' 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, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund and the Child Nutrition Program for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C

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

Certified Public Accountants
Enterprise, Alabama

June 27, 2017

Introduction

The Management's Discussion and Analysis (MD&A) of Troy City Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2016. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Troy City Board of Education's financial performance.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments issued in June 1999*. Certain comparative information between the current year and the prior year is required to be presented in the MD&A and is included in this report.

Summary of Significant Accounting Policies

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

Overview of the Financial Statements

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

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

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

The *Statement of Activities* provides information which shows how the Board's net position changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the basis of accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

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

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

This report also presents budgetary comparison schedules for the general fund and the Child Nutrition Program (CNP) that is prepared on a budgetary basis of accounting that differs from GAAP. Note 2 to the financial statements includes a schedule (page 30) explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting.

Financial Analysis of the Board as a Whole

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

Following is a condensed financial analysis, presented in comparative format, of the government-wide net position of the Board as of September 30, 2016:

Net Position - Governmental Activities

September 30,	**2016**	2015 (As Restated)
Assets		
Current and other assets	**$ 5,531,782**	$ 4,015,036
Capital assets, net of depreciation	**21,333,928**	23,656,755
Total assets	**26,865,710**	27,731,791

Deferred Outflows of Resources		
Deferred loss on refunding	**1,969,539**	307,211
Deferred outflows related to pension	**2,296,428**	1,181,735
Total deferred outflows of resources	**4,265,967**	1,488,947
Liabilities		
Current liabilities	**2,079,214**	2,078,858
Noncurrent liabilities	**40,830,302**	37,673,957
Total liabilities	**42,909,516**	39,752,815
Deferred Inflows of Resources		
Unavailable revenue - property taxes	**1,384,161**	1,354,068
Deferred inflows related to pension	**1,101,000**	1,538,000
Total deferred inflows of resources	**2,485,161**	2,892,068
Net Position		
Net investment in capital assets	**(526,473)**	1,861,088
Restricted	**130,852**	10,213
Unrestricted (deficit)	**(13,867,379)**	(15,355,447)
Total net position	**$ (14,263,000)**	$ (13,484,146)

The Board's liabilities and deferred inflows exceeded its assets and deferred outflows by $14,263,000 at the close of FY 2016 resulting in a deficit in net position. Net investment in capital assets has a deficit balance due to the sale of the central office building and refunding of a portion of the 2011 bond issue in the current year. The balance in unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements, is a deficit of $13,867,379 at the end of FY 2016. The deficit in unrestricted net position is due primarily to the recognition of the Board's proportionate share of the collective net pension liability due to the implementation of GASB Statement 68 in FY 2015. The balance of this liability was $16,760,000 at September 30, 2016. Restricted net position, consisting of those net assets restricted by debt covenants, federal program compliance, and future capital projects, is $130,852 at September 30, 2016. See Note 14 of the accompanying notes to the financial statements for details on the prior period adjustments made in the current year.

Following is a condensed schedule of revenues and expenditures from the governmental activities for the year ended September 30, 2016, presented with comparative data for the previous year:

Summary of Changes in Net Position From Operating Results

Years ended September 30,	**2016**	2015 (As Restated)
Program Revenues		
Charges for services	**$ 1,817,174**	$ 1,868,601
Operating grants and contributions	**11,451,798**	11,424,306
Capital grants and contributions	**466,907**	577,601
General Revenues		
Local property taxes	**1,660,080**	1,598,795
Sales and use taxes	**3,236,791**	3,095,417
Grants and contributions not restricted for specific programs	**80,000**	220,000
Other taxes	**66,213**	65,104
Other	**471,058**	262,698
Total revenues	**19,250,021**	19,112,522
Expenses		
Instructional	**11,519,308**	11,454,286
Instructional support	**2,634,531**	2,700,333
Operation and maintenance	**1,461,753**	1,442,983
Transportation	**210,521**	212,606
Food service	**1,188,955**	1,323,603
General administration and central support	**1,407,966**	1,022,998
Interest on long-term debt	**1,016,749**	1,178,402
Other	**589,092**	549,576
Total expenses	**20,028,875**	19,884,787
Changes in net position	**(778,854)**	(772,265)
Net Position – Beginning	**(13,484,146)**	(12,711,881)
Net Position – Ending	**$ (14,263,000)**	$ (13,484,146)

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

- Operating grants and contributions contribute 83% of program revenues and 59% 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 $5,043,084 for expenses not covered by program revenues. The Board also sold the central office land and building in the current year reporting a gain of $161,455, which represents a significant portion of the increase in other income as reported on the condensed schedule.

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

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

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the FY16, the Board's combined governmental funds reported ending fund balances of $2,250,813 which is an increase over the FY15 ending fund balances of $1,498,314 primarily attributable to the proceeds from the sale of the central office building to the City of Troy in the current fiscal year.

General Fund – The general fund is the primary operating fund of the Board. The general fund balance increased by $1,354,257. As previously noted, the increase is primarily due to the sale of the central office building to the City of Troy. Each school system is required to have a one month general fund operating balance. Troy City Schools met this requirement for FY 2016 but did not in FY 2015, only having approximately 91% of the required one month balance. The shortfall at 9/30/15 resulted from anticipated funding of $500,000 that was not received from the City of Troy. By December 2016 the school system was at 1.2 months in the General Fund reserve in compliance with the State's requirement.

<u>General Fund Budgetary Highlights</u>

The original 2016 fiscal year budget, adopted on September 14, 2015, was based on guaranteed revenues**,** estimates of local tax/fee revenues and necessary expenditures. Amendment #1 includes incorporating the actual beginning balances, carry-over funds for federal programs and budgeting some state and federal programs that had not been authorized at the time the original budget was due. The Child Nutrition Program was over their two month operating balance which allowed the General Fund to keep some of the Pass-Thru funds. There were also some changes in various funds such as Perkins, Title I and IDEA Part B to bring the budget more in line with actual expenditures. The Troy City Board of Education approved amendment #1 on April 20, 2016. The comparison of general fund original budget to the final amended budget is on page 17.

<u>Capital Assets and Debt Administration</u>

Capital Assets – At September 30, 2016, the Board had $21,333,928 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 comparative information on these assets.

Capital Projects – Expenditures during FY 2016 the investment of $41,188 in capital expense. This was for the upgrade of the school system's wireless network on all campuses with additional access points and closet data switches to expand capacity to accommodate the system's student one-to-one initiative at the high school and addition of technology at all campuses.

Long-Term Debt – At year-end, the Board owed $23,951,859 in outstanding bonds, net of unamortized bond discounts/premiums; $10,340 outstanding principal debt to Regions Equipment Finance Corporation for bus purchase; and $108,103 in outstanding capital leases for various computer and office equipment. During FY 2017 the Board was advised and took advantage of favorable interest rates to refinance $8.12 million of the 2011 outstanding bonds. The refinancing resulted in a decrease in monthly bond payments of over $140,000 by the end of the fiscal year and projected savings over the remaining life of the bonds of approximately $640,000 from lower interest rates.

Estimated Capital Needs – As of September 30, 2016, the Board's Five-Year Capital Plan, based upon critical needs, totaled $665,000 throughout the system. These estimated capital needs include repairs to the roof at Elementary School, new technology for both schools and cafeteria renovations at both schools. School administration intends to direct a portion of the savings resulting from refinanced lower interest rates toward financing some of the capital needs for the school system. Financing advisers indicated a possible opportunity to add to this in the first half of FY 2017 with a final refinancing of the remaining portion of the outstanding 2011 bonds. Savings realized would be directed into capital projects by summer 2017.

Student Enrollment

The student enrollment figure as of the forty-day report for the 2015-2016 school year was 2,018, which indicates a decline in enrollment of approximately 22 students for the 2016 fiscal year.

Fiscal Year	Enrollment
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, 2016

		Governmental Activities
Assets		
Cash and cash equivalents	$	2,747,408
Investments		18,000
Receivables		1,864,668
Inventories		28,917
Restricted assets:		
Cash and cash equivalents		553,620
Prepaid expenses		78,807
Unamortized bond insurance		240,362
Capital assets, not being depreciated		892,701
Capital assets, net of depreciation		20,441,227
Total assets		26,865,710
Deferred Outflows of Resources		
Deferred loss on refunding		1,969,539
Deferred outflows related to pension		2,296,428
Total deferred outflows of resources		4,265,967
Liabilities		
Accounts payable		286,060
Salaries and benefits payable		1,352,205
Accrued interest payable		422,768
Unearned revenue		18,181
Long-term liabilities		
Net pension liability		16,760,000
Due and payable within one year		231,992
Due and payable after one year		23,838,310
Total liabilities		42,909,516
Deferred Inflows of Resources		
Unearned property taxes		1,384,161
Deferred inflows related to pension		1,101,000
Total deferred inflows of resources		2,485,161
Net Position		
Net investment in capital assets		(526,473)
Restricted for debt service		130,852
Unrestricted (deficit)		(13,867,379)
Total net position	$	(14,263,000)

See accompanying notes to financial statements.

Troy City Board of Education
Statement of Activities
For the Year Ended September 30, 2016

Functions / Programs		Expenses
Instructional services	$	11,519,308
Instructional support services		2,634,531
Operation and maintenance services		1,461,753
Student transportation services		210,521
Food services		1,188,955
General administrative services		1,407,966
Interest and fiscal charges		1,016,749
Other expenses		589,092
Total	$	20,028,875

See accompanying notes to financial statements.

Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes In Net Position Governmental Activities
	Program Revenues		
$ 273,966	$ 8,700,503	$ 454,143	$ (2,090,696)
240,000	1,781,781	-	(612,750)
45,076	558,450	-	(858,227)
31,955	71,051	12,764	(94,751)
930,367	71,080	-	(187,508)
45,587	171,337	-	(1,191,042)
-	-	-	(1,016,749)
250,223	97,596	-	(241,273)
$ 1,817,174	$ 11,451,798	$ 466,907	(6,292,996)

General Revenues	
Taxes:	
Property taxes for general purposes	1,660,080
Local sales tax	3,236,791
Other taxes	66,213
Grants and contributions not restricted for specific programs	80,000
Investment earnings	27,164
Gain on disposition of capital assets	161,455
Miscellaneous	282,439
Total general revenues	5,514,142
Change in net position	(778,854)
Net position - beginning (as originally reported)	(13,714,336)
Prior period adjustment (Note 14)	230,190
Net position - beginning (as restated)	(13,484,146)
Net position - ending	$ (14,263,000)

Troy City Board of Education
Balance Sheet – Governmental Funds
September 30, 2016

	General Fund	Child Nutrition Fund
Assets		
Cash and cash equivalents	$ 2,387,765	$ 260,666
Investments	-	-
Receivables	1,654,673	147,967
Due from other funds	38,907	368
Inventories	-	28,917
Prepaid expenses	78,807	-
Restricted assets:		
Cash and cash equivalents	-	-
Total assets	$ 4,160,152	$ 437,918
Liabilities		
Accounts payable	$ 225,743	$ 56,449
Due to other funds	321	3,104
Salaries and benefits payable	1,197,543	44,560
Unearned revenue	2,800	-
Total liabilities	1,426,407	104,113
Deferred Inflows of Resources		
Unavailable revenue - property taxes	1,384,161	-
Fund Balances		
Non-spendable	78,807	28,917
Restricted	-	-
Assigned	-	304,888
Unassigned	1,270,777	-
Total fund balances	1,349,584	333,805
Total liabilities, deferred inflows of resources, and fund balances	$ 4,160,152	$ 437,918

See accompanying notes to financial statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ 98,977	$ 2,747,408
-	18,000	18,000
35,451	26,577	1,864,668
-	-	39,275
-	-	28,917
-	-	78,807
553,620	-	553,620
$ 589,071	$ 143,554	$ 5,330,695
$ -	$ 3,868	$ 286,060
-	35,850	39,275
-	110,102	1,352,205
-	15,381	18,181
-	165,201	1,695,721
-	-	1,384,161
-	-	107,724
553,620	-	553,620
35,451	-	340,339
-	(21,647)	1,249,130
589,071	(21,647)	2,250,813
$ 589,071	$ 143,554	$ 5,330,695

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Position
For the Year Ended September 30, 2016

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

Total fund balance - governmental funds		$ 2,250,813
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of capital assets	31,675,335	
Accumulated depreciation	(10,341,407)	21,333,928
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred on the statement of net position.		240,362
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	1,969,539	
Deferred outflows related to pension	2,296,428	
Deferred inflows related to pension	(1,101,000)	3,164,967
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	(422,768)	
Net pension liabilitiy	(16,760,000)	
Current portion of long-term debt	(231,992)	
Non-current portion of long-term debt	(23,838,310)	(41,253,070)
Total net position - governmental activities		$ (14,263,000)

See accompanying notes to financial statements.

Troy City Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2016

	General Fund	Child Nutrition Fund
Revenues		
State revenues	$ 9,937,585	$ -
Federal revenues	55,752	748,943
Local revenues	4,694,148	251,606
Other revenues	16,856	40,872
Total revenues	14,704,341	1,041,421
Expenditures		
Instructional services	9,778,360	-
Instructional support services	2,282,546	-
Operation and maintenance services	1,481,093	-
Student transportation services	143,479	-
Food services	5,395	1,273,331
General administrative services	1,116,029	-
Debt service:		
Principal	60,944	-
Interest	7,048	-
Other debt service	-	-
Other expenses	363,418	45,219
Total expenditures	15,238,312	1,318,550
Excess (deficiency) of revenues over (under) expenditures	(533,971)	(277,129)
Other Financing Sources (Uses)		
Indirect cost	130,988	-
Acquisition under capital lease	2,100	-
Refunding bonds		
Premiums on long-term debt issued	-	-
Payment to refunded bond escrow agent	-	-
Sale of capital assets	1,861,392	-
Transfers in	217,295	331,462
Transfers out	(323,547)	-
Total other financing sources (uses)	1,888,228	331,462
Net change in fund balances	1,354,257	54,333
Fund Balances - beginning (as originally reported)	(4,673)	306,746
Prior Period Adjustment (Note 14)	-	(27,274)
Fund Balances - beginning (as restated)	(4,673)	279,472
Fund Balances - ending	$ 1,349,584	$ 333,805

See accompanying notes to financial statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ 465,497	$ 10,403,082
-	1,385,077	2,189,772
515,843	976,385	6,437,982
-	-	57,728
515,843	2,826,959	19,088,564
-	1,315,617	11,093,977
-	320,558	2,603,104
-	10,680	1,491,773
-	12,198	155,677
-	127	1,278,853
-	130,711	1,246,740
70,000	94,767	225,711
339,828	547,016	893,892
207,946	-	207,946
-	186,366	595,003
617,774	2,618,040	19,792,676
(101,931)	208,919	(704,112)
-	-	130,988
-	-	2,100
9,330,000		9,330,000
535,038	-	535,038
(9,657,092)	-	(9,657,092)
-	-	1,861,392
37,264	23,209	609,230
-	(285,683)	(609,230)
245,210	(262,474)	2,202,426
143,279	(53,555)	1,498,314
65,111	31,908	399,092
380,681	-	353,407
445,792	31,908	752,499
$ 589,071	$ (21,647)	$ 2,250,813

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, 2016

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

Total net change in fund balances - governmental funds		$ 1,498,314
Governmental funds report capital outlays 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	41,188	
Depreciation expense	(664,078)	(622,890)
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		225,711
Payments to refunded bond escrow agent are recorded as other financing uses in the governmental funds, but reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		9,657,092
Acquisition of assets under capital leases in the current year is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.		(2,100)
Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities.		(9,330,000)
Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities.		(535,038)
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 increase in accrued interest expense	(52,300)	
Current year decrease in pension expense	162,694	
Amortization of discounts/premiums and deferred loss on refunding	(80,400)	29,994
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.		(1,699,937)
Change in net position of governmental activities		$ (778,854)

See accompanying notes to financial statements.

Troy City Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues				
State revenues	$ 9,670,910	$ 9,766,860	$ 9,937,585	$ 170,725
Federal revenues	67,541	67,541	55,752	(11,789)
Local revenues	6,148,951	4,305,217	4,694,148	388,931
Other revenues	41,739	41,739	16,856	(24,883)
Total revenues	15,929,141	14,181,357	14,704,341	522,984
Expenditures				
Instructional services	9,583,167	9,686,690	9,728,767	(42,077)
Instructional support services	2,273,218	2,273,218	2,291,998	(18,780)
Operation and maintenance services	1,338,477	1,338,477	1,486,193	(147,716)
Student transportation services	123,611	123,611	143,777	(20,166)
General administrative services	929,845	929,845	1,116,029	(186,184)
Food services	-	-	5,395	(5,395)
Capital outlay	5,000	5,000	-	5,000
Debt service:				
Principal	60,726	60,726	60,944	(218)
Interest	6,738	6,738	7,048	(310)
Other expenses	343,941	343,941	374,653	(30,712)
Total expenditures	14,664,723	14,768,246	15,214,804	(446,558)
Excess (deficiency) of revenues over (under) expenditures	1,264,418	(586,889)	(510,463)	76,426
Other Financing Sources (Uses)				
Indirect cost	134,366	127,505	130,988	3,483
Acquisition under capital lease	-	-	2,100	2,100
Sale of capital assets	-	1,861,307	1,861,392	85
Transfers in	112,400	227,400	217,295	(10,105)
Transfers out	(342,859)	(294,136)	(323,547)	(29,411)
Total other financing sources (uses)	(96,093)	1,922,076	1,888,228	(33,848)
Net change in fund balance	1,168,325	1,335,187	1,377,765	42,578
Fund Balance (Deficit) - beginning	(4,673)	(4,673)	(4,673)	-
Fund Balance - ending	$ 1,163,652	$ 1,330,514	$ 1,373,092	$ 42,578

See accompanying notes to financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Child Nutrition Fund
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues				
Federal revenues	$ 717,000	$ 717,000	$ 748,943	$ 31,943
Local revenues	290,400	290,400	251,606	(38,794)
Other revenues	25,000	25,000	40,872	15,872
Total revenues	1,032,400	1,032,400	1,041,421	9,021
Expenditures				
Food services	1,319,745	1,310,597	1,292,535	18,062
Other expenses	37,909	37,722	45,219	(7,497)
Total expenditures	1,357,654	1,348,319	1,337,754	10,565
Deficiency of revenues under expenditures	(325,254)	(315,919)	(296,333)	19,586
Other Financing Sources				
Transfers in	370,159	321,436	331,462	10,026
Net change in fund balance	44,905	5,517	35,129	29,612
Fund Balance - beginning (as originally reported)	306,746	306,746	306,746	-
Prior period adjustment (Note 14)	(27,274)	(27,274)	(27,274)	-
Fund Balance - beginning (as restated)	279,472	279,472	279,472	-
Fund Balance - ending	$ 324,377	$ 284,989	$ 314,601	$ 29,612

See accompanying notes to financial statements.

NOTE

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, 2016 as a special revenue fund.

Basis of Presentation, Basis of Accounting

Basis of Presentation

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Board reports the following major governmental funds:

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

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting

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

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

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

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

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

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

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

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, 2016 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 $553,620.

Capital Assets - Purchased or constructed capital assets are reported at cost or estimated historical cost in the statement of net position. Donated assets are recorded at their estimated fair value at the date of donation. The cost of maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The 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 Statement No. 16 requires the accrual of a liability (as the benefits are earned by the employees), if both of these conditions are met:

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

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

Professional and support employees earn nonvesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the Teachers' Retirement System of Alabama, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

Professional and support personnel are provided two days of personal leave per year with pay. The State provides funding, at the substitute rate, for up to two days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to two days of unused personal leave. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

As of September 30, 2016, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund balances at September 30, 2016 are as follows:

	General Fund	Child Nutrition	Debt Service	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventories	$ -	$ 28,917	$ -	$ -	$ 28,917
Prepaid expenses	78,807	-	-	-	78,807
Restricted:					
Debt service	-	-	553,620	-	553,620
Assigned:					
Child Nutrition	-	304,888	-	-	304,888
Debt service	-	-	35,451	-	35,451
Local school activity funds	-	-	-	88,456	88,456
Unassigned	1,270,777	-	-	(110,103)	1,160,674
	$ 1,349,584	$ 333,805	$ 589,071	$ (21,647)	$ 2,250,813

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

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

Management Estimates and Assumptions

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

Impact of Recently Issued Accounting Pronouncements

Recently Issued and Adopted

The accounting policies of the Board are based upon GAAP as prescribed by the GASB. Effective October 1, 2015 the Board adopted four (4) new statements issued by GASB as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), addresses accounting and financial reporting issues related to fair value measurements. GASB 72 was effective for the Board beginning with its year ended September 30, 2016. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and the related disclosures. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"), extends the approach to accounting and financial reporting established in Statement 68 to all pensions. It establishes requirements for defined contribution pensions that are not within the scope of Statement 68. Requirements of this Statement for pension plans that are within the scopes of Statement No. 67 or Statement 68, are effective for fiscal years beginning after June 15, 2015. Thus, these requirements of GASB 73 were effective for the Board beginning with its year ended September 30, 2016. GASB 73 clarifies the application of certain provisions of Statements 67 and 68 with regard to: (1) Information that is required to be presented as notes, (2) Accounting and financial reporting for separately financed specific liabilities, and (3) Timing of employer recognition of revenue.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"), supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* GASB 76 was effective for the Board beginning with its year ended September 30, 2016.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* ("GASB 79"), addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized costs for financial reporting purposes and for governments that participate in those pools. GASB 79 was effective for the Board beginning with its year ended September 30, 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued

Other accounting standards that the Board is currently reviewing for applicability and potential impact on the financial statements include:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. GASB 75 will be effective for fiscal years beginning after June 15, 2017. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 77, *Tax Abatement Disclosures* ("GASB 77"), requires governments that enter into tax abatement agreements to disclose: (1) Brief descriptive information concerning the agreement; (2) The gross dollar amount of taxes abated during the period; and 3) Commitments made by government, other than to abate taxes, that are part of the tax abatement agreement. GASB 77 will be effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* ("GASB 78"), amends the scope and applicability of Statement 68. It excludes pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local government employers, and (3) has no predominate state or local government employer. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosure; and required supplementary information for pensions that have the characteristics described above. GASB 78 will be effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14 ("GASB 80"), amends the blending requirements for the financial statement presentation of component units of all state and local governments. GASB 80 will be effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* ("GASB 81"), requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 will be effective for the fiscal years beginning after December 15, 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73* ("GASB 82"), addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (Plan member) contribution requirements. GASB 82 will be effective for fiscal years beginning after June 15, 2016.

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 2016 fiscal year was September 15, 2015. The Board approved and submitted its original 2016 annual budget on September 14, 2015.

The 2016 budget was amended in April 2016 primarily to budget carryover federal funds, adjust federal allocations, and budget additional state and other grant funds that became available after submission of the original budget.

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

	Total Expenditures	
	General Fund	Child Nutrition Fund
Budget basis	$ 15,214,804	$ 1,337,754
Non-budgeted accrued salaries and fringe benefits		
Instructional services	49,593	-
Instructional support services	(9,452)	-
Operations and maintenance	(5,100)	-
Student transportation services	(298)	-
Food services	-	(19,204)
Other expenditures	(11,235)	-
GAAP basis	$ 15,238,312	$ 1,318,550

Excess Expenditures Over Appropriations

The general fund actual expenditures exceeded budgeted expenditures by $446,558. The excess was funded with unanticipated revenues.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal deposit insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14.

Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits with original maturities of greater than three months. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

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

NOTE 4 - RECEIVABLES

Receivables at September 30, 2016 consist of the following:

	General	Child Nutrition	Debt Service	Other Non-major	Total
State Department of Education					
IDEA-Part B	$ -	$ -	$ -	$ 17,476	$ 17,476
Basic Grant	-	-	-	8,043	8,043
Title II, Part A	-	-	-	1,058	1,058
Pike County Rev Commissioner	1,384,163	-	-	-	1,384,163
Pike County Board of Education	236,791	-	35,451	-	272,242
School Lunch Program	-	147,967	-	-	147,967
Pike County Probate Judge	28,525	-	-	-	28,525
Phenix City Board of Education	4,760	-	-	-	4,760
Other	434	-	-	-	434
Total receivables	$ 1,654,673	$ 147,967	$ 35,451	$ 26,577	$ 1,864,668

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, 2016 consisted of the following amounts:

	Due to			
Due from	General Fund	Child Nutrition	Nonmajor Governmental	Total
General	$ -	$ 3,104	$ 35,803	$ 38,907
Child Nutrition	321	-	47	368
	$ 321	$ 3,104	$ 35,850	$ 39,275

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

Interfund transfers consisted of the following for the year ended September 30, 2016:

	Transfers In				
Transfers Out	General	Child Nutrition	Debt Service	Nonmajor Governmental	Total
General	$ -	$ 300,338	$ -	$ 20,600	$ 320,938
Child Nutrition	-	-	-	2,609	2,609
Nonmajor governmental	217,295	31,124	37,264	-	285,683
	$ 217,295	$ 331,462	$ 37,264	$ 23,209	$ 609,230

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Beginning Balance (As Restated)	Additions	Deductions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	$ 1,409,261	$ -	$ 516,560	$ 892,701
Construction in progress	11,000	-	11,000	-
Total capital assets, not being depreciated	1,420,261	-	527,560	892,701
Other capital assets:				
Buildings	25,679,517	-	1,344,747	24,334,770
Building improvements	3,716,589	11,000	-	3,727,589
Land improvements	570,605	-	-	570,605
Equipment	1,061,579	41,188	22,073	1,080,694
Vehicles	1,068,976	-	-	1,068,976
Total other capital assets at historical cost	32,097,266	52,188	1,366,820	30,782,634
Less accumulated depreciation for:				
Buildings	7,025,130	465,825	161,370	7,329,585
Building improvements	770,808	83,874	-	854,682
Land improvements	536,892	5,540	-	542,432
Equipment	695,101	46,596	22,073	719,624
Vehicles	832,841	62,243	-	895,084
Total accumulated depreciation	9,860,772	664,078	183,443	10,341,407
Capital assets, net of depreciation	22,236,494	(611,890)	1,183,377	20,441,227
Total governmental activities capital assets, net	$ 23,656,755	$ (611,890)	$ 1,710,937	$ 21,333,928

Depreciation expense was charged to governmental functions as follows:

Instructional services	$ 534,261
Instructional support services	45,855
Operation and maintenance services	16,481
Student transportation services	55,070
Food services	12,411
Total governmental activities depreciation expense	$ 664,078

NOTE 7 - UNEARNED REVENUE AND DEFERRED INFLOWS OF RESOURCES

	General Fund	Other Governmental
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	$ 1,384,161	$ -
Unearned Grant Revenue – Grant funds received but not yet expended represent revenues that will be used for future grant expenses subsequent to year end.	-	15,381
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	-
	$ 1,386,961	$ 15,381

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

NOTE 8 - LONG-TERM DEBT

During the year ended September 30, 2016, the following changes occurred in long-term liabilities reported in the statement of net position:

	Balance October 1, 2015 (As Restated)	Proceeds	Refunding	Retirements	Balance September 30, 2016	Amounts Due Within One Year
Notes Payable						
Regions Equipment						
Finance Corporation	$ 22,562	$ -	$ -	$ 12,222	$ 10,340	$ 9,450

NOTE 8 - LONG-TERM DEBT (Continued)

	Balance October 1, 2015 (As Restated)	Proceeds	Refunding	Retirements	Balance September 30, 2016	Amounts Due Within One Year
Bonds Payable						
Capital Improvement						
Pool Series 2009-B	$ 356,740	$ -	$ -	$ (82,545)	$ 274,195	$ 86,700
Educational Facilities						
Revenue Bonds						
Series 2011	19,965,000	-	(8,120,000)	(70,000)	11,775,000	70,000
School Tax Warrants						
Series 2013	2,400,000	-	-	-	2,400,000	-
School Tax Refunding						
Warrants Series 2016	-	9,330,000	-	-	9,330,000	-
Unamortized						
bond discounts	(558,166)	-	191,100	17,302	(349,764)	(14,117)
Unamortized						
bond premiums	-	535,038	-	(12,610)	522,428	21,618
Total bonds payable	$ 22,163,574	$ 9,865,038	$ (7,928,900)	$ (147,853)	$ 23,951,859	$ 164,201
Other liabilities						
Capital leases						
iPads	$ 69,144	$ -	$ -	$ (22,387)	$ 46,757	$ 23,042
Copiers	48,681	-	-	(25,292)	23,389	23,389
Computer equipment	49,122	-	-	(12,938)	36,184	11,265
Duplicator	-	2,100	-	(327)	1,773	645
Total other liabilities	166,947	2,100	-	(60,944)	108,103	58,341
	$ 22,353,083	$ 9,867,138	$ (7,928,900)	$ (196,575)	$ 24,070,302	$ 231,992

Notes Payable

During the year ended September 30, 2014, the Board entered into a financing agreement with Regions Equipment Finance Corporation for the acquisition of a special needs bus. The total cost of the bus was $92,153, which is held as collateral, of which $45,622 was financed. The note is payable in annual installments of $9,570 at 2.26% interest with remaining principal and interest due at maturity in February 2018. The carrying amount of the collateral at September 30, 2016 was $69,115.

Annual debt service requirements to maturity for the Regions Equipment Finance Corporation note payable are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2017	$ 9,450	$ 120
2018	890	20
	$ 10,340	$ 140

NOTE 8 - 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
2017	$ 86,700	$ 13,710
2018	91,066	9,374
2019	96,429	4,822
	$ 274,195	$ 27,906

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 11.

NOTE 8 - LONG-TERM DEBT (Continued)

As a result, the Series 2001, 2002, and 2004 bonds are considered to be defeased and the liabilities for those bonds have been removed from the financial statements. The outstanding principal of the defeased bonds is $3,775,000 at September 30, 2016.

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, 2016 was $115,397. The total amount amortized for the year ended September 30, 2016 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
2017	$ 70,000	$ 541,155
2018	75,000	538,980
2019	75,000	536,730
2020	535,000	526,911
2021	555,000	508,228
2022-2026	3,130,000	2,182,888
2027-2031	3,180,000	1,415,131
2032-2036	740,000	997,331
2037-2041	3,415,000	634,856
	$ 11,775,000	$ 7,882,210

Bond discount expense on the Series 2011 bonds for the year ended September 30, 2016 was $14,397. In addition, $191,100 of the deposit was allocated as part of the 2016 refunding of a portion of 2011 issuance. This amount is being amortized over the life of 2011 issuance and recorded as part of the deferred loss on refunding in the Board's Statement of Net Position.

School Tax Warrants Series 2013

On December 1, 2013, the Board issued $2,400,000 of School Tax Warrants Series 2013 to refund $2,095,000 of the Board's Educational Facilities Revenue Bonds Series 2011 dated March 1, 2011 and pay issuance costs and discounts incurred. The Series 2013 warrants are payable in bi-annual interest payments at 4.75% beginning June 1, 2014 with principal due beginning December 1, 2041. The warrants series matures December 1, 2042. In conjunction with the Series 2013 warrants, the Board continued its pledge of certain sales and use taxes as well as certain ad valorem taxes levied by Pike County and remitted to the Board. See Note 11.

NOTE 8 - LONG-TERM DEBT (Continued)

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 $1,295,000 at September 30, 2016.

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, 2016 was $166,682. The total amount amortized for the year ended September 30, 2016 was $6,897 and was reported as part of interest expense.

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

Fiscal Year Ending September 30,	Principal	Interest
2017	$ -	$ 114,000
2018	-	114,000
2019	-	114,000
2020	-	114,000
2021	-	114,000
2022-2026	-	570,000
2027-2031	-	570,000
2032-2036	-	570,000
2037-2041	-	570,000
2042-2043	2,400,000	98,800
	$ 2,400,000	$ 2,948,800

Bond discount expense on the Series 2013 bonds for the year ended September 30, 2016 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 11.

NOTE 8 - LONG-TERM DEBT (Continued)

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, 2016.

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, 2016 was $1,687,460. The total amount amortized for the year ended September 30, 2016 was $40,732 and was reported as part of interest expense. Although the advance refunding resulted in the recognition of an accounting loss of $1,728,192, the Board reduced its aggregate debt service payments by approximately $900,000 over the next 25 years resulting in an economic gain (difference between the present values of the old and new debt service payments) of approximately $680,000.

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
2017	$ -	$ 417,030
2018	60,000	333,249
2019	65,000	332,468
2020	65,000	331,655
2021	65,000	330,721
2022-2026	340,000	1,635,009
2027-2031	1,110,000	1,583,171
2032-2036	4,500,000	1,036,250
2037-2041	3,125,000	320,425
	$ 9,330,000	$ 6,319,978

Bond premium amortization on the Series 2016 bonds for the year ended September 30, 2016 was $12,610.

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%.

NOTE 8 - LONG-TERM DEBT (Continued)

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

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

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

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
2017	$ 63,607
2018	39,080
2019	14,142
Total minimum lease payments	116,829
Less: Amount respresenting interest	8,726
Present value of future minimum lease payments	108,103
Less: Current portion	58,341
Capital lease obligation, net of current portion	$ 49,762

NOTE 9 - EMPLOYEE RETIREMENT PLAN

Summary of Significant Accounting Policies for the Pension Plan

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

General Information about the Pension Plan

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

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

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

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

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, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% 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 $1,199,428 for the year ended September 30, 2016.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At September 30, 2016, the Board reported a liability of $16,760,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. 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, 2015, the System's proportion was 0.160140%, which was a decrease of 0.009064% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the Board recognized pension expense of $1,036,735. At September 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 91,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,097,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,010,000
Employer contributions subsequent to the measurement date	1,199,428	-
Total	$ 2,296,428	$ 1,101,000

$1,199,428 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, 2016. 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,	
2017	$ (74,000)
2018	(74,000)
2019	(74,000)
2020	258,000
2021	(40,000)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5% - 8.25%

* Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2014 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, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

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

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	25.00%	5.00%
U.S. large stocks	34.00%	9.00%
U.S. mid stocks	8.00%	12.00%
U.S. small stocks	3.00%	15.00%
International developed market stocks	15.00%	11.00%
International emerging market stocks	3.00%	16.00%
Real estate	10.00%	7.50%
Cash	2.00%	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 8%. 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 8%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Board's proportionate share of collective net pension liability	$ 22,172,000	$ 16,670,000	$ 12,169,000

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, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor's report dated October 17, 2016 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, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available www.rsa-al.gov.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Board contributes to the Alabama Retired Education Employee's Health Care Trust (the "Plan"), a cost sharing multiple employer defined benefit OPEB plan established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. The Plan is administered by members of the Public Education Employees' Health Insurance Board (the PEEHIB). The Plan provides health care benefits to state and local school system retirees. *Code of Alabama 1975, Section 16-25A-4* provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the Plan. The Plan issues a stand-alone financial report that may be obtained on the PEEHIP website at http://www.rsa-al.gov under the Employer's Financial Reports section. The Plan's financial report for FY 2016 will be available at the end of January 2017.

Code of Alabama 1975, Section 16-25A-8 provides the PEEHIB explicit authority to set the contribution requirements for plan members and employers. The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you-go basis. The annual required contribution for the Board as determined by the Alabama legislature and the percentage of the required contribution paid by the Board for the last three years was as follows:

Year ended September 30,	Annual Required Contribution (ARC)	Percentage of ARC contributed by the Board
2016	$ 605,893	100%
2015	$ 511,025	100%
2014	$ 653,108	100%

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

The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

Required monthly contribution rates for plan members for the year ended September 30, 2016 are as follows:

Retired Member Rates

Individual coverage/non-Medicare eligible	$	151
Family coverage/non-Medicare eligible retired member and non-Medicare eligible dependent(s)	$	391
Family coverage/non-Medicare eligible retired member and non-Medicare eligible dependent(s) with non-Medicare eligible spouse	$	416
Family coverage/non-Medicare eligible retired member and dependent Medicare eligible	$	250
Family coverage/non-Medicare eligible retired member and spouse dependent Medicare eligible	$	260
Individual coverage/Medicare eligible retired member	$	10
Family coverage/Medicare eligible retired member and non-Medicare eligible dependent(s) – no spouse	$	250
Family coverage/Medicare eligible retired member and non-Medicare eligible dependent(s) – with non-Medicare eligible spouse	$	275
Family coverage/Medicare eligible retired member and non-spousal dependent Medicare eligible	$	109
Family coverage/Medicare eligible retired member and spousal dependent Medicare eligible	$	119
Tobacco surcharge	$	50
PEEHIP Supplemental Plan	$	0

Optional plans (hospital indemnity, cancer, dental, vision) – up to two optional plans can be taken at no cost if the retiree is also not enrolled in one of the hospital medical plans. Otherwise, retirees can purchase the optional plans at the normal monthly rate of $38 or $50 for family dental.

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

For members who retired on or after October 1, 2005, and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.

Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five year period.

Surviving Spouse Rates

Surviving spouse non-Medicare eligible	$	740
Surviving spouse non-Medicare eligible and dependent non-Medicare eligible	$	987
Surviving spouse non-Medicare eligible and dependent Medicare eligible	$	1,033
Surviving spouse Medicare eligible	$	425
Surviving spouse Medicare eligible and dependent non-Medicare eligible	$	679
Surviving spouse Medicare eligible and dependent Medicare eligible	$	725

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Board expects such amount, if any, to be immaterial.

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

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

As discussed in Note 8, certain bonds payable of the Board are collateralized by certain sales and use tax revenues. Pledged revenues recognized for the year ended September 30, 2016 were $4,963,084 while total debt service collateralized was $938,465.

NOTE 12 - 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 13 - ON-BEHALF PAYMENTS

The U.S. Government makes certain retiree drug subsidy payments on-behalf of the Board for its employees to the Retirement Systems of Alabama. The Board records these payments as both a revenue and expenditure in the general fund. The total of on-behalf payments for the fiscal year ended September 30, 2016 was $163,274.

NOTE 14 - PRIOR PERIOD ADJUSTMENTS

During the current year, the Board changed the reporting of the long-term liability associated with the Educational Facilities Revenue Bonds Series 2011 from a capital lease to bonds payable. The Public Building Authority of the City of Troy, Alabama’s role in issuance of the 2011 debt was that of a conduit issuer; therefore, the responsibility for repayment of the bonds rests with the Board. It is

NOTE 14 - PRIOR PERIOD ADJUSTMENTS (Continued)

also the intent of the Board to repay the Series 2011 bonds in full. This adjustment to the Statement of Net Position resulted in an increase in restricted cash of $380,681 related to the cash held by the fiscal agent for the bond; an increase in accrued interest payable of $322,281 related the timing of the recording of interest expense; an increase in long-term liabilities of $58,021 related to the timing of principal payments of the capital lease versus the bond; an increase in long-term liabilities of $50,126 related to the portion of the issuance discount capitalized as part of the subsequent refunding of the bonds; an increase of in deferred loss on refunding of $307,212 to record the losses on the subsequent refunding of the bonds; and an increase in net position of $257,465. This adjustment to the Balance Sheet – Governmental Funds resulted in an increase in restricted cash and debt service fund balance of $380,681.

Also during the current year, the Board made a correction in the reporting of inventory to agree with counts performed at year-end. This correction of an error resulted in a decrease to inventory and net position in the Statement of Net Position and a decrease to inventory and child nutrition fund balance in the Balance Sheet – Governmental Funds of $27,274.

The cumulative effect of the prior period adjustments is an increase in net position of $230,191 reported on the Statement of Activities, and a decrease in child nutrition fund balance of $27,274 and an increase in debt service fund balance of $380,681 reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.

NOTE 15 - UNASSIGNED DEFICIT - NONMAJOR GOVERNMENTAL FUNDS

A deficit unassigned fund balance exists in the following nonmajor special revenue funds at September 30, 2016:

Fund	**Unassigned Fund Balance (Deficit)**
IDEA Part B	$ (33,087)
Title I, Part A	(57,403)
Title II, Part A	(17,372)
Title VI, Part B Low Income	(2,241)
	$ (77,016)

The deficit results from the accrual of wages and fringe benefits due to employees through the close of the Board's fiscal year. This accrual is reversed in October 2016 thereby alleviating the deficit.

NOTE 16 - RELATED PARTY TRANSACTIONS

During the current year, the City of Troy ("City") purchased land and building from the Board. Total proceeds recognized by the Board was $1,861,182 in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds with $161,245 recognized as a gain on disposition of capital assets in the accompanying Statement of Activities. As part of the agreement, the Board has entered into an operating lease with the City to lease the land and building sold for $1 per year expiring March 20, 2115. In accordance with the lease, the Board has the first right of refusal should the City receive a bona fide offer of purchase of the land and building during the term of the lease. The lease is considered immaterial to the operations of both the Board and City.

NOTE 17 - SUBSEQUENT EVENTS

The Board has evaluated subsequent events between September 30, 2016 and June 27, 2017, the date the financials were available to be issued.

On March 1, 2017, the Board issued $8,055,000 of School Tax Refunding Warrants, Series 2017 with an interest rate ranging from 1.25% to 3.5%. These bonds were issued to refund $6,715,000 of the Educational Facilities Revenue Bonds, Series 2011 and pay issuance costs and discounts. These warrants were issued in an effort to lower future debt service costs of the Board.

Schedule of the Employer's Proportionate Share of the Net Pension Liability

As of September 30,	**2015**	2014
Employer's proportion of the net pension liability	**0.160140%**	0.169204%
Employer's proportionate share of the net pension liability	**$ 16,760,000**	$ 15,371,000
Employer's covered-employee payroll*	**$ 10,143,132**	$ 10,738,350
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	**165.23%**	143.14%
Plan fiduciary net position as a percentage of the total pension liability	**67.51%**	71.01%

* Employer's covered-employee payroll during the measurement period is the total payroll of those employees who are participating in the pension plan. For FY 2016, the measurement period is October 1, 2014 through September 30, 2015.

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

Schedule of Employer Contributions

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

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

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

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

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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, 2016, 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 27, 2017.

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.

Our consideration of internal control was for the limited purpose described in the preceding 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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 2016-01 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 2016-02 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 27, 2017.

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.

Certified Public Accountants
Enterprise, Alabama

June 27, 2017

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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, 2016. 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, 2016.

Report on Internal Control Over Compliance

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

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

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

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

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

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

Certified Public Accountants
Enterprise, Alabama

June 27, 2017

Troy City Board of Education
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA No.	Pass Through Grantor's Number	Expenditures
Social Security Administration			
Passed through State Department of Education			
Disability Insurance	96.001	N/A	$ 1,880
U.S. Department of Education			
Direct Program			
Impact Aid	84.041	N/A	5,696
Passed through Phenix City Board of Education			
Title III, English Language Acquisition	84.365	N/A	10,726
Title I, Part D, Subart 2	84.010	N/A	12,107
Passed through State Department of Education			
Title I	84.010	199	625,146
Subtotal - Title I			637,253
Special Education Cluster			
Special Education Grants to States	84.027	199	473,289
Special Education Preschool Grants	84.173	199	15,352
Subtotal Special Education Cluster			488,641
Title II - Teacher Training	84.367	199	161,749
Title VI Rural/Low Income	84.358	199	47,332
Vocational Education – Basic Grant	84.048	199	33,680
Total U.S. Department of Education			1,386,957
U.S. Department of Agriculture			
Passed through State Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	199	526,128
Food Distribution Program*	10.555	199	70,518
Subtotal - National School Lunch Program			596,646
USDA Breakfast Program	10.553	199	149,196
Subtotal Child Nutrition Cluster			745,842
State Administrative Expenses for Child Nutrition	10.560	199	3,101
Total U.S. Department of Agriculture			748,943
U.S. Department of Defense			
Direct Programs			
ROTC Program	12.357	N/A	53,872
Total expenditures of federal awards			$ 2,189,772

*USDA Food Distribution Program - Noncash assistance.

See independent auditors' report and accompanying notes to the schedule of expenditures of federal awards.

NOTE 1 - BASIS OF ACCOUNTING

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

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

NOTE 2 - DONATED FOOD PROGRAM

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. The total assigned value of commodities donated was $70,518 for fiscal year 2016.

NOTE 3 - 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 27, 2017, there were no known material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 4 - INDIRECT COSTS

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

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ____ yes _X_ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ____ yes _X_ no
- Significant deficiencies identified that are not considered to be material weaknesses? ____ yes _X_ 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 _X_ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Child Nutrition Cluster
10.553	USDA Breakfast Program
10.555	National School Lunch Program
	Special Education Cluster
84.027	Special Education Grants to States
84.027	Special Education IDEA- SSIP Discretionary Grant
84.173	Special Education Preschool Grants

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

Auditee qualified as low-risk auditee? ____ yes _X_ no

Section II - Financial Statements Findings

2016-01 Financial Statement Preparation Knowledge (Material Weakness)

Condition - Auditing Standards Board AU-C Section 265 requires auditors to disclose in the management letter reports substantially drafted by external auditors whether or not the entity's institutional experience, background and knowledge of Governmental Accounting and Financial Accounting Standards prohibits the entity from preparing the financial statements internally including full note disclosures as required by those standards.

Criteria - Management is responsible for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

Cause - During audit fieldwork, several material adjustments were proposed by the auditors and recorded by the Board to include two prior period adjustments to previously issued financial statements. First, the Board was not adjusting inventory to the counts performed as part of year-end procedures. This led to an overstatement of inventory that was material to the financial statements in the fund financial statements. Second, a 2011 debt issuance by The Public Building Authority of the City of Troy, Alabama (the "Authority") was reclassified as bonds payable in lieu of a capital lease. During fieldwork, it was noted that though the Board was not the issuer of the debt, the Board intended to repay the bond issuance in its entirety and had the ability to refund all or a portion of the outstanding bonds at its sole discretion, which it had exercised. Therefore, the bonds are an obligation of the Board and the Authority was only a conduit issuer of the debt. A prior period adjustment was proposed and posted to record the cash held by the fiscal agent and adjust fund balance in the fund financial statements and record the bonds payable, associated cash, reduction of bond discounts, deferred loss on refunding, eliminate the capital lease and adjust net position in the government-wide presentation. Third, the current year refunding of a portion of the 2011 issuance was not recorded by the client. An audit adjustment was proposed and recorded to record the sources and uses of the issuance in the fund financial statements as well as record the new debt in the government-wide presentation. Relying on auditor adjustments for material transactions prohibits the Board from being able to prepare financial statements and note disclosures as required by standards.

Effect - This could adversely affect the Board's ability to prepare financial statements with adequate and proper disclosures that are free of material misstatements.

Recommendation - We encourage the Board's personnel to increase their knowledge of these standards sufficiently to allow them to prepare financial statements including the notes in accordance with generally accepted accounting principles.

Views of Responsible Officials and Planned Corrective Actions - Management agrees with the finding and will strive to obtain knowledge in the area of preparing the financial statements, specifically as it relates to the issuance of debt and refinancing of outstanding debt. At the present, the Board is dependent upon the knowledge and skills of our auditors with supervisory review by the CSFO and Superintendent.

2016-02 Procurement (Significant Deficiency)

Condition - Our audit procedures revealed the following:

- In a test of 60 central office disbursements, we noted 6 instances in which the CSFO signature was missing on the purchase order; 4 instances in which the date of the supporting purchase order was after the date of purchase; and 7 instances in which proper cancellation procedures were not properly followed.

- Result of our tests produced an approximate 28% compliance failure rate of the purchase order element of controls over procurement at the central office level.

- In a test of 60 local school disbursements, we noted 1 instance in which only the principal signed the purchase order; 7 instances in which the date of the supporting purchase order was after the date of purchase; and 3 instances in which there was no date on the purchase order.

- Result of our tests produced an approximate 18% compliance failure rate of the purchase order element of controls over procurement at the local school level.

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

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

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

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

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

Section III - Federal Award Findings and Questioned Costs

No such findings or questioned costs in the current year.

15-01 - Corrected in the current year.

15-02 - Corrected in the current year.

15-03 - Corrected in the current year.

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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, 2016, 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 preceding 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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 2016-01 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 2016-02 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 27, 2017. This letter does not affect our report dated June 27, 2017 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:

2016-03 ITGC - Disaster Recovery Testing & IT Policies and Procedures Manual

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 - Backups of financial data should be tested at least once annually to ensure viability. Testing ensures that the crucial financial data is of the highest integrity when needed. This test was not noted to have been performed. Formal documentation of policies & procedures surrounding IT should be in place to ensure plans are in place for disaster recover, system backups, logical access requirements, and change management policies.

Recommendation - Management should develop a formal set of IT policies and procedures manual to include recovery testing procedures to ensure the integrity of financial data backups.

2016-04 ITGC - External Vulnerability/Penetration Testing

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

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

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

2016-05 Controls over Journal Entries

Journal entries are used to supplement the electronic recording of activity to ensure the proper matching, recording, and reporting of financial activity; however, journal entries can also be used as an avenue to conceal errors or fraud. The absence of formal, documented, timely and consistent reviews and approvals of journal entries increases the Board's risk of material misstatement whether due to error or fraud.

Finding - There is no documentation of manual journal entries prepared by the Chief School Financial Officer ("CSFO") being reviewed by appropriate personnel and no documentation of approval of manual journal entries posted by Board personnel other the CSFO before recording/posting to the general ledger.

Recommendation **-** Procedures should be implemented requiring formal reviews and approvals of all journal entries before being posted to the General Ledger by the appropriate level of management. In addition consideration should be given to spreading the journal entry preparation to alleviate segregation issues and allow for training of additional staff. These changes should facilitate a more reliable, thorough, and accurate preparation of journal entries.

2016-06 Approval of Absentee Forms

Supervisory approval of absentee forms ensures that employees have approval of leave from the appropriate level of management and that employees accurately account for all working hours.

Finding - In a test of 10 employees on two payroll dates, we noted 7 instances in which absentee forms were completed by the employee but there was no supervisory signature approval. The result of our test produced an approximate 35% compliance failure rate of the approval of the absentee form element of controls in the payroll process.

Recommendation - Procedures should be implemented requiring all absentee forms to be properly approved by signature of the appropriate level of management before payroll is processed to ensure accurate accumulation of employee's time.

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

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

Certified Public Accountants
Enterprise, Alabama

June 27, 2017