

Report on the

Macon County Board of Education

Macon County, Alabama

October 1, 2016 through September 30, 2017

Filed: September 7, 2018



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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Rachel Laurie Riddle
Chief Examiner

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, I submit this report on the results of the audit of the Macon County Board of Education, Macon County, Alabama, for the period October 1, 2016 through September 30, 2017.

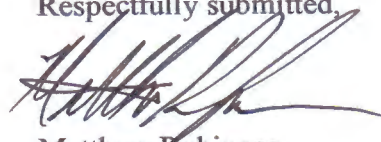
Sworn to and subscribed before me this
the 25 day of July, 2018.


Notary Public

2-11-2020

rb

Respectfully submitted,



Matthew Robinson
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Macon County Board of Education
October 1, 2016 through September 30, 2017**

The Macon County Board of Education (the “Board”) is governed by a five-member body elected by the citizens of Macon County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 12. The Board is the governmental agency that provides general administration and supervision for Macon County Public Schools, preschool through high school.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted 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 as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12, as added by Act Number 2018-129.

An unmodified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2017.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

The officials/administrative personnel, as reflected on Exhibit 12, were invited to an exit conference to discuss the contents of this report. The following individuals attended the exit conference, held at the Board’s offices: Dr. Jacqueline Brooks; Superintendent; Natalie Young, Chief School Financial Officer; and Board Members: Elnora Smith-Love, Karey Thompson, Mary Hooks, Katy Campbell, Helen Samuel; and a representative from the Department of Examiners of Public Accounts: Matthew Robinson, Examiner.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Macon County Board of Education,
Superintendent and Chief School Financial Officer
Tuskegee, 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 the Macon County Board of Education, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Macon County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Net Pension Liability, the Schedule of the Employer's Contributions, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 7 through 10) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

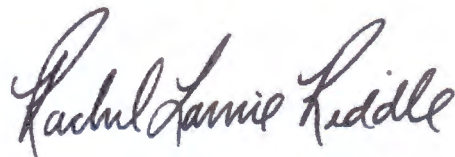
Supplementary Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Macon County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 11), as required by Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2018, on our consideration of the Macon County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Macon County Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Macon County Board of Education's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

July 23, 2018

*Management's Discussion and Analysis
(Required Supplementary Information)*

MACON COUNTY BOARD OF EDUCATION

Management Discussion and Analysis (MD&A)

Introduction

The Macon County Board of Education's management discussion and analysis of the Board's financial performance provides an overall view of the Board's financial activities for the fiscal year ending September 30, 2017. The intent of this discussion and analysis is to look at the Board performance as a whole. Reader should also review the notes to the financial statement to enhance their understating of the Macon County Board of Education's financial performance.

The Governmental Accounting Standards Board (GASB) adopted Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments* in June 1999. Certain comparative information between the current year and prior year is required to be presented in the MD&A and it is included in the report.

Financial Highlights

Our financial statements provide an insight into the results of this year's operations:

- The Board's total net position decreased \$3,315,201.66 over this fiscal year.
- The liabilities of the Board exceeded its assets at the close of the 2017 year by (\$16,929,561.26) (net position).
- The total cost of the Board's programs for the year was \$27,589,722.99. The State Foundation Program provided \$13,302,334.69 and of that amount \$2,882,617.67 was local money required by the 10-mill match. The 10-mill match is local revenue required to be coded as state revenue.
- Expenditures exceeded revenues for total Governmental funds during the year by \$3,315,201.66.
- At the end of the current fiscal year, unrestricted net position for Governmental activity was \$(18,578,578.94).

Overview of the Financial Statement

The following discussion and analysis serve as an introduction to the school system's basic financial statements, which are (1) the government-wide financial statements, (2) fund financial statements, and (3) the notes to the financial statements. This report includes supplementary information in addition to the basic financial statements.

The first two statements are government-wide financial statements: the **Statement of Net Position** and the **Statement of Activities**. These provide both long-term and short-term information about the System's overall financial status. Although other governments may report governmental activities and business-type activities, our system has no business-type activities.

The **Statement of Net Position** (exhibit #1) is most closely related to a balance sheet. It presents information on all of the System's assets, less liabilities, which result in net position. The statement is designed to display the financial position of the district. Over time, increase and decrease in net position help determine whether the district's financial position is improving or deteriorating.

The **Statement of Activities** (exhibit #2) is most closely related to an income statement. It provides information which shows how the System'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 accounting used by private-sector businesses. All 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 revenue of the System (mostly local taxes), or is financed through charges for services (lunchroom) and intergovernmental aids (generally federal programs and state appropriations).

Fund Financial Statements give more detailed information about the System’s most significant funds. 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 System uses fund accounting to ensure and demonstrate fiscal accountability.

Governmental Funds Most of the System’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’s end that are available for spending. The governmental funds statements (the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund balance) are reported using an accounting method called modified accrual accounting. This accounting method 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 to determine whether there are more or fewer financial resources that can be spent in the future to finance the district’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.

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

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

Financial Analysis of the Board as a Whole

As noted earlier, the Macon County Board of Education has no business-type activities. Consequently, the Board’s net position is reported as Governmental Activities.

MACON COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2016

| | FY 2017 | FY 2016 | Variance |
|-------------------------------------|---------------------------------|---------------------------------|--------------------------------|
| Current and Other Assets | \$ 8,149,589.70 | \$ 10,023,092.93 | \$(1,873,503.23) |
| Capital Assets, Net of Depreciation | 32,327,110.62 | 33,552,423.27 | (1,225,312.65) |
| Total Assets | <u>40,476,700.32</u> | <u>43,575,516.20</u> | <u>(3,098,815.88)</u> |
| Deferred Outflows of Resources | <u>3,248,633.60</u> | <u>3,121,917.42</u> | <u>126,716.18</u> |
| Current and Other Liabilities | 2,211,386.91 | 2,037,363.60 | 174,023.31 |
| Long-term Liabilities | <u>53,300,137.16</u> | <u>54,928,693.39</u> | <u>(1,628,556.23)</u> |
| Deferred inflows of Resources | <u>5,143,371.11</u> | <u>3,345,736.23</u> | <u>1,797,634.88</u> |
| Net investment in Capital Assets | (49,877.43) | (202,451.48) | 152,574.05 |
| Restricted | 1,698,895.11 | 4,285,640.20 | (2,586,745.09) |
| Unrestricted | <u>(18,578,578.94)</u> | <u>(17,697,548.32)</u> | <u>(881,030.62)</u> |
| Total Net Position | <u><u>\$(16,929,561.26)</u></u> | <u><u>\$(13,614,359.60)</u></u> | <u><u>\$(3,315,201.66)</u></u> |

The Board’s total net position was (\$16,929,561.26) at the close of the fiscal year 2017. The Board’s total net position was negative due to a change in the way Pension Liability is reported. This change impacted every county in the state. 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, totaled (\$18,578,578.94) or 110% of net position. The Board’s total revenues and expenditures are reflected in the following Table that depicts a comparison to fiscal year 2017.

Macon County Board Of Education
Changes in Net Position

Governmental Activities

| <u>Revenues</u> | <u>2017</u> | <u>2016</u> |
|------------------------------------|---------------------------|---------------------------|
| Program Revenues: | | |
| Charge for services | \$ 2,017,765.83 | \$ 2,159,958.20 |
| Operating grants and contributions | \$16,838,548.66 | \$ 16,112,665.32 |
| Capital grants and contributions | \$ 713,420.00 | \$ 717,120.00 |
| General Revenues: | | |
| Property taxes | \$ 4,036,680.57 | \$ 3,981,866.88 |
| Local Sales | \$ 0.00 | \$ 0.14 |
| Other Taxes | \$ 56,829.71 | \$ 56,829.71 |
| | | |
| Grants and contributions not | | |
| Restricted for specific programs | \$ 31,484.60 | \$ 23,977.00 |
| Investment earnings | \$ 65,590.34 | \$ 23,768.49 |
| Gain on Disposition of | | |
| Capital Assets | \$ 0.00 | \$ 0.00 |
| Miscellaneous | <u>\$ 512,430.43</u> | <u>\$ 436,658.26</u> |
| Total Revenues | <u>\$ 24,274,521.33</u> | <u>\$ 23,512,844.21</u> |
| | | |
| <u>Expenditures</u> | | |
| Instruction | \$ 12,227,457.06 | \$ 11,917,674.06 |
| Instructional Support Services | \$ 4,055,806.73 | \$ 4,340,034.42 |
| Operation & Maintenance Services | \$ 2,739,267.79 | \$ 2,903,425.63 |
| Student Transportation | \$ 1,915,101.20 | \$ 1,920,711.14 |
| Food Services | \$ 1,989,990.46 | \$ 2,094,516.92 |
| General Administration Services | \$ 2,395,082.40 | \$ 2,513,640.39 |
| Other | \$ 595,496.57 | \$ 633,375.07 |
| Interest and Fiscal Charges | <u>\$ 1,671,520.78</u> | <u>\$ 1,538,946.99</u> |
| Total Expense | <u>\$ 27,589,722.99</u> | <u>\$ 27,862,324.62</u> |
| | | |
| Change in Net Position | \$ (3,315,201.66) | \$ (4,349,480.41) |
| Net Position Beginning | <u>\$ (13,614,359.60)</u> | <u>\$ (9,264,879.19)</u> |
| Net Position Ending | <u>\$ (16,929,561.26)</u> | <u>\$ (13,614,359.60)</u> |

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

- Operating grants and contributions contributed 86% of program revenues and 69% 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.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and other taxes are used to provide \$8,019,988.50 for expenses not covered by program revenues.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the System.

- 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, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicles maintenance, repair expenses, vehicle fuel, depreciation of buses and bus shop, and fleet insurance.
- Food services include salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, 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, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest and principle payments on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefit for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment related depreciation, and other expenses for operating programs outside of those for educating students in the Pre-K through 12 instructional programs.

Financial Analysis of the Board’s Funds

The governmental funds are analyzed for the purpose of determining what resources entered into the funds, how they were spent, and the availability of funds for futures expenditures. At the end of fiscal year, the System’s governmental funds reported combined ending fund balances of \$3,277,976.01.

General Fund General Fund is the primary operating fund of the System. The System had a fund balance of \$71,831.27; a decrease in fund balance of \$817,323.07.

Special Revenue Fund Special Revenue Fund is used to fund the following programs: Child Nutrition, Special Education, Federal, and Local School. At year end this fund had a balance of \$667,748.64, a decrease of \$270,688.18 from the previous year.

Capital Project Fund Capital Project Fund is used to fund construction and major projects within the system. At year end this fund had a balance of \$1,932,839.82.

General Fund Budgetary Highlights

The original 2017 fiscal year budget was adopted on September 1, 2016 which was based on a conservative approach that reflected only guaranteed revenue and necessary expenditures since some of the state-funded programs had not been authorized at this point.

Capital Assets and Debt Administration

The Board had approximately \$32.3 million invested in capital assets including land, buildings, equipment costing \$5,000 or more including buildings and equipment under capital lease as of September 30, 2017. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year. Capital Assets used in governmental activities are not financial resources and therefore not reported as assets in governmental funds. These assets consist of:

Capital Assets (Net of Depreciation)

| | <u>2017</u> | <u>2016</u> |
|----------------------------------------|------------------------|------------------------|
| Land and Improvements | \$ 601,683.08 | \$ 619,273.76 |
| Construction in Progress | \$ 955,394.59 | \$ 609,994.59 |
| Building and Improvements | \$28,992,198.32 | \$30,155,737.85 |
| Equipment & Furniture | \$ 567,356.55 | \$ 700,511.42 |
| Vehicles | \$ 914,916.08 | \$ 1,136,571.65 |
| Capital Leases | <u>\$ 295,562.00</u> | <u>\$ 330,334.00</u> |
| Capital Assets, Net of Depreciation | <u>\$32,327,110.62</u> | <u>\$33,552,423.27</u> |

Long-Term Debt

At the end of fiscal year 2017 the System had \$53,300,137.16 in warrants payable, notes payable, capital leases, pension liabilities and other long-term debt outstanding. (Additional information on the System’s long-term debt is presented in the notes to the basic financial statement)

Outstanding Long-Term Debt
Governmental Activities
For Year End September 30, 2017

| | <u>Beginning Balance</u> | <u>Net Change</u> | <u>Ending Balance</u> |
|-------------------------------------------|------------------------------|--------------------------|---------------------------|
| Notes Payable | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Warrant | \$ 34,139,387.85 | \$ (797,435.13) | \$ 33,341,952.72 |
| Capital Leases | \$ 347,720.00 | \$ (30,373.72) | \$ 317,346.28 |
| Pension Liability | \$ 20,784,000.00 | \$ (1,039,000.00) | \$ 19,745,000.00 |
| Deferred Amounts- Unamortized Discount | \$ (442,097.68) | \$ 250,713.03 | \$ (191,384.65) |
| Unamortized Premium | <u>\$ 99,683.22</u> | <u>\$ (12,460.41)</u> | <u>\$ 87,222.81</u> |
| Total | <u>\$ 54,928,693.39</u> | <u>\$ (1,628,556.23)</u> | <u>\$ 53,300,137.16</u> |

Economic Factors and Next Year Budget

Student Enrollment:

The student enrollment in Macon County schools continues to decline for the last seven years.

The latest forty-day count Fiscal Year 2018 (1957.55) was taken as of October 2017, and reports that we have lost approximately 72 students.

| Fiscal Year | 40 Day ADM |
|-------------|------------|
| 2017 | 2,029.65 |
| 2016 | 2,162.75 |
| 2015 | 2,249.50 |
| 2014 | 2,381.15 |
| 2013 | 2,587.15 |
| 2012 | 2,668.80 |
| 2011 | 2,766.65 |

Medical and Retirement Cost – Health insurance and retirement costs have increased slightly from FY2016 to FY2017:

| | Retirement % | Health Insurance |
|----------------|--------------|------------------|
| FY2017 (Tier1) | 12.24 | 800.00 |
| FY2017 (Tier2) | 11.01 | 800.00 |
| FY2016 (Tier1) | 11.94 | 780.00 |
| FY2016 (Tier2) | 10.84 | 780.00 |
| FY2015 (Tier1) | 11.94 | 780.00 |
| FY2015 (Tier2) | 10.84 | 780.00 |
| FY2014 (Tier1) | 11.71 | 719.00 |
| FY2014 (Tier2) | 11.08 | 719.00 |
| FY2013 | 10.00 | 714.00 |
| FY2012 | 10.00 | 714.00 |
| FY2011 | 12.51 | 752.00 |

Contacting the School Board

The MD&A is designed to provide its reader with insight into the Board’s financial performance. If you have any questions about this report or need additional information, Contact Natalie Young, Chief School Financial Officer, 501 South School Street, Tuskegee, Alabama 36083 or by calling (334) 727-1600 ext 11010 during business hours, Monday- Friday 8:00 a.m. to 4:30 p.m., central standard time.

Basic Financial Statements

Statement of Net Position
September 30, 2017

| | Governmental Activities |
|--------------------------------------------------------------------------------------|------------------------------------|
| <u>Assets</u> | |
| Cash and Cash Equivalents | \$ 4,874,393.65 |
| Investments | 100,125.11 |
| Ad Valorem Property Taxes Receivable | 2,695,479.26 |
| Receivables (Note 4) | 426,240.01 |
| Inventories | 53,351.67 |
| Capital Assets (Note 5): | |
| Nondepreciable | 1,323,561.47 |
| Depreciable, Net | 31,003,549.15 |
| Total Assets | <u>40,476,700.32</u> |
| <u>Deferred Outflows of Resources</u> | |
| Loss on Refunding of Debt | 126,765.27 |
| Employer Pension Contribution | 1,442,868.33 |
| Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability | 1,679,000.00 |
| Total Deferred Outflows of Resources | <u>3,248,633.60</u> |
| <u>Liabilities</u> | |
| Accounts Payable | 352,790.44 |
| Unearned Revenue | 156,580.06 |
| Salaries and Benefits Payable | 1,390,872.08 |
| Accrued Interest Payable | 311,144.33 |
| Long-Term Liabilities: | |
| Portion Due or Payable Within One Year | 869,792.92 |
| Portion Due or Payable After One Year | 52,430,344.24 |
| Total Liabilities | <u>55,511,524.07</u> |
| <u>Deferred Inflows of Resources</u> | |
| Unavailable Revenue - Property Taxes | 2,695,479.26 |
| Revenue Received in Advance - Motor Vehicle Taxes | 275,891.85 |
| Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability | 2,172,000.00 |
| Total Deferred Inflows of Resources | <u>\$ 5,143,371.11</u> |

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

| | Governmental Activities |
|----------------------------------|------------------------------------|
| <u>Net Position</u> | |
| Net Investment in Capital Assets | \$ (49,877.43) |
| Restricted for: | |
| Debt Service | 294,412.33 |
| Capital Projects | 881,455.60 |
| Child Nutrition | 340,449.16 |
| Other Purposes | 182,578.02 |
| Unrestricted | (18,578,578.94) |
| Total Net Position | \$ (16,929,561.26) |

Statement of Activities
For the Year Ended September 30, 2017

| Functions/Programs | Expenses | Program Revenues | |
|---------------------------------------|-------------------------|------------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| <u>Governmental Activities</u> | | | |
| Instruction | \$ 12,227,457.06 | \$ 126,561.89 | \$ 9,314,133.66 |
| Instructional Support | 4,055,806.73 | 115,260.63 | 3,456,625.75 |
| Operation and Maintenance | 2,739,267.79 | 30,074.13 | 884,339.68 |
| Auxiliary Services: | | | |
| Student Transportation | 1,915,101.20 | 48,405.61 | 1,448,959.40 |
| Food Service | 1,989,990.46 | 1,654,583.36 | 177,552.05 |
| General Administrative | 2,395,082.40 | | 1,022,060.16 |
| Interest and Fiscal Charges | 1,671,520.78 | | |
| Other Expenses | 595,496.57 | 42,880.21 | 534,877.96 |
| Total Governmental Activities | <u>\$ 27,589,722.99</u> | <u>\$ 2,017,765.83</u> | <u>\$ 16,838,548.66</u> |

General Revenues:

Taxes:

Property Taxes for General Purposes

Property Taxes for Specific Purposes

Other Taxes

Grants and Contributions Not Restricted
for Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year

Net Position - End of Year

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

| | | Net (Expenses) Revenues and Changes in Net Position | |
|---------------------------------------------|-------------------|----------------------------------------------------------------|-----------------------|
| <u>Capital Grants and Contributions</u> | | <u>Total Governmental Activities</u> | |
| \$ | 506,728.05 | \$ | (2,280,033.46) |
| | 236.91 | | (483,683.44) |
| | 40,411.62 | | (1,784,442.36) |
| | 165,932.00 | | (251,804.19) |
| | | | (157,855.05) |
| | 111.42 | | (1,372,910.82) |
| | | | (1,671,520.78) |
| | | | (17,738.40) |
| <u>\$</u> | <u>713,420.00</u> | | <u>(8,019,988.50)</u> |

| |
|---------------------------|
| 2,291,484.27 |
| 1,745,196.30 |
| 58,600.90 |
| 31,484.60 |
| 65,590.34 |
| 512,430.43 |
| <u>4,704,786.84</u> |
| (3,315,201.66) |
| <u>(13,614,359.60)</u> |
| <u>\$ (16,929,561.26)</u> |

Balance Sheet
Governmental Funds
September 30, 2017

| | General Fund | Special Revenue Fund |
|----------------------------------------------------------------------------|-------------------------|-------------------------------------|
| <u>Assets</u> | | |
| Cash and Cash Equivalents | \$ 1,254,139.43 | \$ 1,045,879.07 |
| Investments | 100,125.11 | |
| Ad Valorem Property Taxes Receivable | 2,695,479.26 | |
| Receivables (Note 4) | 13,862.02 | 410,866.00 |
| Interfund Receivables | 493,376.62 | 50,461.98 |
| Inventories | | 53,351.67 |
| Total Assets | <u>4,556,982.44</u> | <u>1,560,558.72</u> |
| <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u> | | |
| <u>Liabilities</u> | | |
| Accounts Payable | 143,602.06 | 171,697.34 |
| Interfund Payables | 50,461.98 | 493,376.62 |
| Unearned Revenues | | 156,580.06 |
| Salaries and Benefits Payable | 1,319,716.02 | 71,156.06 |
| Total Liabilities | <u>1,513,780.06</u> | <u>892,810.08</u> |
| <u>Deferred Inflows of Resources</u> | | |
| Unavailable Revenue - Property Taxes | 2,695,479.26 | |
| Revenue Received in Advance - Motor Vehicle Taxes | 275,891.85 | |
| Total Deferred Inflows of Resources | <u>2,971,371.11</u> | |
| <u>Fund Balances</u> | | |
| Nonspendable: | | |
| Inventories | | 53,351.67 |
| Restricted for: | | |
| Debt Service | | |
| Capital Projects | | |
| Child Nutrition | | 287,097.49 |
| Other Purposes | 180,864.19 | 1,713.83 |
| Assigned to: | | |
| Local Schools | | 325,585.65 |
| Unassigned | (109,032.92) | |
| Total Fund Balances | <u>71,831.27</u> | <u>667,748.64</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 4,556,982.44</u> | <u>\$ 1,560,558.72</u> |

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

| Capital Projects Fund | Other Governmental Fund | Total Governmental Funds |
|-----------------------------|-------------------------------|--------------------------------|
| \$ 1,968,818.87 | \$ 605,556.28 | \$ 4,874,393.65 |
| | | 100,125.11 |
| | | 2,695,479.26 |
| 1,511.99 | | 426,240.01 |
| | | 543,838.60 |
| | | 53,351.67 |
| <u>1,970,330.86</u> | <u>605,556.28</u> | <u>8,693,428.30</u> |
| | | |
| 37,491.04 | | 352,790.44 |
| | | 543,838.60 |
| | | 156,580.06 |
| | | 1,390,872.08 |
| <u>37,491.04</u> | | <u>2,444,081.18</u> |
| | | |
| | | 2,695,479.26 |
| | | 275,891.85 |
| | | <u>2,971,371.11</u> |
| | | |
| | | 53,351.67 |
| | 605,556.28 | 605,556.28 |
| 1,932,839.82 | | 1,932,839.82 |
| | | 287,097.49 |
| | | 182,578.02 |
| | | 325,585.65 |
| | | (109,032.92) |
| <u>1,932,839.82</u> | <u>605,556.28</u> | <u>3,277,976.01</u> |
| <u>\$ 1,970,330.86</u> | <u>\$ 605,556.28</u> | <u>\$ 8,693,428.30</u> |

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2017***

Total Fund Balances - Governmental Funds \$ 3,277,976.01

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

Capital assets used in governmental activities are not financial resources and, therefore, are
not reported as assets in governmental funds.

| | | |
|-------------------------------|------------------------|---------------|
| The Cost of Capital Assets is | \$ 56,286,824.41 | |
| Accumulated Depreciation is | <u>(23,959,713.79)</u> | 32,327,110.62 |

Losses on refunding of debt are reported as deferred outflows of resources and are not
available to pay for current-period expenditures and, therefore, are
deferred on the Statement of Net Position. 126,765.27

Deferred outflows and inflows of resources related to pensions are applicable to future
periods and, therefore, are not reported in the governmental funds. 949,868.33

Long-term liabilities, including bonds/warrants payable, are not due and payable in the current
period and, therefore, are not reported as liabilities in the funds.

| | | |
|--------------------------------------|----------------------|-----------------|
| Current Portion of Long-Term Debt | \$ 869,792.92 | |
| Noncurrent Portion of Long-Term Debt | <u>52,430,344.24</u> | (53,300,137.16) |

Interest on long-term debt is not accrued in the funds but rather is recognized as an
expenditure when due.

| | | |
|--------------------------|--|---------------------|
| Accrued Interest Payable | | <u>(311,144.33)</u> |
|--------------------------|--|---------------------|

| | | |
|----------------------------------------------|--|----------------------------------|
| Total Net Position - Governmental Activities | | <u><u>\$ (16,929,561.26)</u></u> |
|----------------------------------------------|--|----------------------------------|

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

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

| | General Fund | Special Revenue Fund |
|---------------------------------------------------|-------------------------|-------------------------------------|
| <u>Revenues</u> | | |
| State | \$ 14,045,074.24 | \$ |
| Federal | 231,879.00 | 4,109,264.00 |
| Local | 2,541,554.39 | 677,941.20 |
| Other | 169,584.24 | 22,054.44 |
| Total Revenues | 16,988,091.87 | 4,809,259.64 |
| <u>Expenditures</u> | | |
| Current: | | |
| Instruction | 9,680,893.83 | 1,111,959.87 |
| Instructional Support | 3,077,038.98 | 945,672.83 |
| Operation and Maintenance | 1,847,755.91 | 37,423.46 |
| Auxiliary Services: | | |
| Student Transportation | 1,593,042.61 | 35,233.11 |
| Food Service | | 2,151,188.93 |
| General Administrative | 1,914,220.14 | 409,206.53 |
| Other | 287,156.20 | 310,155.31 |
| Capital Outlay | 9,225.00 | 76,092.55 |
| Debt Service: | | |
| Principal Retirement | | |
| Interest and Fiscal Charges | | |
| Other Debt Service | | |
| Total Expenditures | 18,409,332.67 | 5,076,932.59 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,421,240.80) | (267,672.95) |
| <u>Other Financing Sources (Uses)</u> | | |
| Indirect Cost | 370,244.04 | |
| Transfers In | 313,578.11 | |
| Transfers Out | (79,904.42) | (3,015.23) |
| Total Other Financing Sources (Uses) | 603,917.73 | (3,015.23) |
| Net Changes in Fund Balances | (817,323.07) | (270,688.18) |
| Fund Balances - Beginning of Year | 889,154.34 | 938,436.82 |
| Fund Balances - End of Year | \$ 71,831.27 | \$ 667,748.64 |

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

| Capital Projects Fund | Other Governmental Fund | Total Governmental Funds |
|--------------------------------------|----------------------------------------|-----------------------------------------|
| \$ 207,298.94 | \$ 506,121.06 | \$ 14,758,494.24 |
| 1.73 | 1,763,748.09 | 4,341,143.00 |
| | | 4,983,245.41 |
| | | 191,638.68 |
| <u>207,300.67</u> | <u>2,269,869.15</u> | <u>24,274,521.33</u> |
| 295,406.22 | | 11,088,259.92 |
| 3,223.86 | | 4,025,935.67 |
| 815,035.15 | | 2,700,214.52 |
| 56.46 | | 1,628,332.18 |
| | | 2,151,188.93 |
| 1,516.20 | | 2,324,942.87 |
| | | 597,311.51 |
| 345,400.00 | | 430,717.55 |
| 30,373.72 | 797,435.13 | 827,808.85 |
| 241,596.05 | 926,008.19 | 1,167,604.24 |
| 3,762.50 | 6,725.00 | 10,487.50 |
| <u>1,736,370.16</u> | <u>1,730,168.32</u> | <u>26,952,803.74</u> |
| (1,529,069.49) | 539,700.83 | (2,678,282.41) |
| | | 370,244.04 |
| 235,031.26 | 79,905.04 | 628,514.41 |
| (3,217.50) | (542,377.26) | (628,514.41) |
| <u>231,813.76</u> | <u>(462,472.22)</u> | <u>370,244.04</u> |
| (1,297,255.73) | 77,228.61 | (2,308,038.37) |
| 3,230,095.55 | 528,327.67 | 5,586,014.38 |
| <u>\$ 1,932,839.82</u> | <u>\$ 605,556.28</u> | <u>\$ 3,277,976.01</u> |

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

Net Changes in Fund Balances - Total Governmental Funds \$ (2,308,038.37)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differs from capital outlays in the period.

| | | |
|----------------------|-----------------------|----------------|
| Capital Outlays | \$ 430,717.55 | |
| Depreciation Expense | <u>(1,528,838.41)</u> | (1,098,120.86) |

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. 827,808.85

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported whereas, in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount.

Loss on Disposition of Capital Assets (127,191.79)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | |
|------------------------------------------------------------|-------------------|---------------------|
| Accrued Interest Payable, Current Year Increase/(Decrease) | \$ (7,876.95) | |
| Amortization of Discounts/Premiums/Loss on Refunding | 501,305.99 | |
| Pension Expense, Current Year Increase/(Decrease) | <u>116,230.45</u> | <u>(609,659.49)</u> |

Change in Net Position of Governmental Activities \$ (3,315,201.66)

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Macon County Board of Education (the “Board”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 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 government’s accounting policies are described below.

A. Reporting Entity

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County.

Generally accepted accounting principles (GAAP) require that the financial reporting entity consist of the primary government and its component units. Accordingly, the accompanying financial statements present the Board (a primary government).

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Based on the application of these criteria, there are no component units which should be included as part of the financial reporting entity of the Board.

B. Government-Wide and Fund Financial Statements

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. 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.

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) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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. The remaining governmental fund is reported as a nonmajor fund in the Other Governmental Fund column.

The Board reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.

- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for the Special Education Cluster, Title I grants, and the Child Nutrition Cluster in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.

- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets and capital-related debt.

The Board reports the following fund type in the Other Governmental Fund column:

Governmental Fund Type

- ◆ **Debt Service Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.

Notes to the Financial Statements
For the Year Ended September 30, 2017

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. 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 grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both 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 to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

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

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

1. Deposits

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Receivables

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property is assessed for taxation as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

3. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, Bonds and Warrants, and Qualified Zone Academy Bonds funds are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

Notes to the Financial Statements
For the Year Ended September 30, 2017

5. Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

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

| | Capitalization Threshold | Estimated Useful Life |
|-------------------------|-----------------------------|--------------------------|
| Land Improvements | \$50,000 | 20 years |
| Buildings | \$50,000 | 5 – 50 years |
| Equipment and Furniture | \$ 5,000 | 5 – 20 years |
| Vehicles | \$ 5,000 | 8 – 10 years |

6. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bonds/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Notes to the Financial Statements

For the Year Ended September 30, 2017

8. Deferred Inflows of Resources

Deferred inflows of resources are reported in the government-wide and fund financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund balances by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

9. Pensions

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

10. Net Position/Fund Balances

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

- ◆ **Net Investment in Capital Assets** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.
- ◆ **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** – Is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Fund balance is reported in governmental funds on the fund financial statements under the following five categories:

- ◆ **Nonspendable** – Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- ◆ **Restricted** – Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- ◆ **Committed** – Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action of the Board before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- ◆ **Assigned** – Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- ◆ **Unassigned** – Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

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

11. Minimum Fund Balance Policy

The Macon County Board of Education recognizes that the establishment and maintenance of adequate fund reserves is necessary to avoid disruption in the educational programs in the schools. The Superintendent or the Chief School Financial Officer will inform the Board, before the Board votes on a budget or budget amendment, if the approval of the budget or budget amendment will prevent the establishment or maintenance of a one-month's operating balance. A one-month's operating balance shall be determined by dividing the General Fund expenditures and fund transfers out by 12. In determining the General Fund expenditures and transfers out, the proposed budget or budget amendment shall be used.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. The Special Revenue Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting, with the exception of the Capital Projects Fund, which adopts project-length budgets. All appropriations lapse at fiscal year-end.

On or before October 1 of each year, each county board of education shall prepare and submit to the State Superintendent of Education the annual budget to be adopted by the County Board of Education. The Superintendent or County Board of Education shall not approve any budget for operations of the school for any fiscal year which shall show expenditures in excess of income estimated to be available plus any balances on hand.

Note 3 – Deposits and Investments

Deposits

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

All of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 4 – Receivables

On September 30, 2017, receivables for the Board’s individual major funds are as follows:

| | General Fund | Special Revenue Fund | Capital Projects Fund | Total |
|--------------------------|--------------------|----------------------------|-----------------------------|---------------------|
| Receivables: | | | | |
| Intergovernmental | \$13,862.02 | \$405,610.06 | \$ | \$419,472.08 |
| Other | | 5,255.94 | 1,511.99 | 6,767.93 |
| Total Receivables | \$13,862.02 | \$410,866.00 | \$1,511.99 | \$426,240.01 |

Note 5 – Capital Assets

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

| | Balance 10/01/2016 | Additions | Retirements | Balance 09/30/2017 |
|----------------------------------------------------------|-------------------------|-------------------------|----------------------|-------------------------|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 368,166.88 | \$ | \$ | \$ 368,166.88 |
| Construction in Progress | 609,994.59 | 345,400.00 | | 955,394.59 |
| Total Capital Assets, Not Being Depreciated | 978,161.47 | 345,400.00 | | 1,323,561.47 |
| Capital Assets Being Depreciated: | | | | |
| Land Improvements - Exhaustible | 1,768,229.25 | | | 1,768,229.25 |
| Buildings | 37,126,894.00 | | | 37,126,894.00 |
| Building Improvements | 11,598,742.95 | | | 11,598,742.95 |
| Equipment and Furniture | 2,110,941.71 | 76,092.55 | 484,624.41 | 1,702,409.85 |
| Vehicles | 4,140,711.71 | 9,225.00 | 1,730,669.82 | 2,419,266.89 |
| Capital Leases | 347,720.00 | | | 347,720.00 |
| Total Capital Assets Being Depreciated | 57,093,239.62 | 85,317.55 | 2,215,294.23 | 54,963,262.94 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements - Exhaustible | (1,517,122.37) | (17,590.68) | | (1,534,713.05) |
| Buildings | (15,882,002.07) | (633,090.52) | | (16,515,092.59) |
| Building Improvements | (2,687,897.03) | (530,449.01) | | (3,218,346.04) |
| Equipment and Furniture | (1,410,430.29) | (82,055.63) | 357,432.62 | (1,135,053.30) |
| Vehicles | (3,004,140.06) | (230,880.57) | 1,730,669.82 | (1,504,350.81) |
| Capital Leases | (17,386.00) | (34,772.00) | | (52,158.00) |
| Total Accumulated Depreciation | (24,518,977.82) | (1,528,838.41) | 2,088,102.44 | (23,959,713.79) |
| Total Capital Assets Being Depreciated, Net | 32,574,261.80 | (1,443,520.86) | 127,191.79 | 31,003,549.15 |
| Total Governmental Activities Capital Assets, Net | \$ 33,552,423.27 | \$(1,098,120.86) | \$ 127,191.79 | \$ 32,327,110.62 |

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

| | |
|------------------------------------------------------|-----------------------|
| Instruction | \$1,086,446.69 |
| Instructional Support | 727.95 |
| Operation and Maintenance | 34,624.68 |
| Auxiliary Services: | |
| Student Transportation | 277,043.01 |
| Food Service | 97,430.25 |
| General Administrative | 32,344.79 |
| Other Expenditures | 221.04 |
| Total Depreciation Expense - Governmental Activities | <u>\$1,528,838.41</u> |

Note 6 – Defined Benefit Pension Plan

A. 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 Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

B. Benefits Provided

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, 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.

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% 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 \$1,442,868.33 for the year ended September 30, 2017.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

At September 30, 2017, the Board reported a liability of \$19,745,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016, the Board's proportion was 0.182381%, which was a decrease of 0.016211% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2017, the Board recognized pension expense of \$1,559,000. At September 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ | \$ 508,000 |
| Changes of assumptions | 1,394,000 | |
| Net difference between projected and actual earnings on pension plan investments | 285,000 | |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | | 1,664,000 |
| Employer contributions subsequent to the measurement date | 1,442,000 | |
| Total | <u>\$3,121,000</u> | <u>\$2,172,000</u> |

Notes to the Financial Statements

For the Year Ended September 30, 2017

The \$1,442,868.33 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending | |
|--------------------|-------------|
| September 30, 2018 | \$(194,000) |
| 2019 | \$(194,000) |
| 2020 | \$ 191,000 |
| 2021 | \$(272,000) |
| 2022 | \$ (24,000) |
| Thereafter | \$ 0 |

E. Actuarial Assumptions

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

| | |
|--------------------------------------------|---------------|
| Inflation | 2.75% |
| Investment rate of return (*) | 7.75% |
| Projected salary increases | 3.25% - 5.00% |
| (*) Net of pension plan investment expense | |

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

Mortality rates were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

| | Target Allocation | Long-Term Expected Rate of Return (*) |
|---------------------------------------|----------------------|---------------------------------------------|
| Fixed Income | 17.00% | 4.40% |
| U. S. Large Stocks | 32.00% | 8.00% |
| U. S. Mid Stocks | 9.00% | 10.00% |
| U. S. Small Stocks | 4.00% | 11.00% |
| International Developed Market Stocks | 12.00% | 9.50% |
| International Emerging Market Stocks | 3.00% | 11.00% |
| Alternatives | 10.00% | 10.10% |
| Real Estate | 10.00% | 7.50% |
| Cash | 3.00% | 1.50% |
| Total | <u>100.00%</u> | |

(*) Includes assumed rate of inflation of 2.50%.

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was 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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

G. Sensitivity of the Board’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Board’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

| | 1% Decrease (6.75%) | Current Rate (7.75%) | 1% Increase (8.75%) |
|---------------------------------------------------------------------|------------------------|-------------------------|------------------------|
| The Board’s proportionate share of collective net pension liability | \$26,304,000 | \$19,745,000 | \$14,191,000 |

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2016. The auditor’s report dated September 22, 2017, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Board contributes to the Alabama Retired Education Employees’ Health Care Trust (the “Trust”), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees’ Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees’ Health Insurance Plan website, <http://www.rsa-al.gov> under the Employers’ Financial Reports section.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Funding Policy

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

| | Fiscal Year 2017 |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Individual Coverage – Non-Medicare Eligible | \$ 166.00 |
| Individual Coverage – Medicare Eligible Retired Member | \$ 25.00 |
| Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s) | \$ 421.00 |
| Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse | \$ 521.00 |
| Family Coverage – Non-Medicare Eligible Retired Member and Non-Spousal Dependent(s) Medicare Eligible | \$ 280.00 |
| Family Coverage – Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible | \$ 310.00 |
| Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse | \$ 280.00 |
| Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – With Non-Medicare Eligible Spouse | \$ 380.00 |
| Family Coverage – Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible | \$ 139.00 |
| Family Coverage – Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible | \$ 169.00 |
| Surviving Spouse – Non-Medicare Eligible | \$ 816.00 |
| Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible | \$1,028.00 |
| Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible | \$1,067.00 |
| Surviving Spouse – Medicare Eligible | \$ 430.00 |
| Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible | \$ 720.00 |
| Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible | \$ 759.00 |

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium 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. In addition, non-Medicare eligible employees 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, but 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 5 year period. The tobacco premium is \$50.00 per month for retired members that use tobacco.

Notes to the Financial Statements
For the Year Ended September 30, 2017

The Board is required to contribute at a rate specified by the State for each active employee. The Board's share of premiums for retired Board employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for Board retirees:

| Fiscal Year Ended September 30, | Active Health Insurance Premiums Paid by Board | Amount of Premium Attributable to Retirees | Percentage of Active Employee Premiums Attributable to Retirees | Total Amount Paid Attributable to Retirees | Percentage of Required Amount Contributed |
|---------------------------------|------------------------------------------------|--------------------------------------------|-----------------------------------------------------------------|--------------------------------------------|-------------------------------------------|
| 2017 | \$800.00 | \$152.57 | 19.07% | \$510,253.57 | 100% |
| 2016 | \$780.00 | \$211.21 | 27.08% | \$881,373.20 | 100% |
| 2015 | \$780.00 | \$180.76 | 23.17% | \$731,266.43 | 100% |

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

Note 8 – Lease Obligations

Capital Leases

On December 10, 2015, the Board acquired 4 buses through a master installment purchase agreement with Mercedes-Benz Financial Services USA. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board in 2025. Assets under capital lease totaled \$347,720.00.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2017.

| Fiscal Year Ending | Governmental Activities |
|---------------------------------------------|-------------------------|
| September 30, 2018 | \$ 40,701.01 |
| 2019 | 40,701.01 |
| 2020 | 40,701.01 |
| 2021 | 40,701.01 |
| 2022 | 40,701.01 |
| 2023-2026 | 162,804.02 |
| Total Minimum Lease Payments | 366,309.07 |
| Less: Amount Representing Interest | (48,962.79) |
| Present Value of Net Minimum Lease Payments | \$317,346.28 |

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 9 – Long-Term Debt

Capital Outlay School Warrants

On February 23, 2016, the Board issued \$18,015,000 of its Capital Outlay School Warrants dated February 1, 2016. The Capital Outlay School Warrants were issued to (i) provide current refunding and defeasance of the outstanding Limited Obligation School Warrants Series 2006 issued on behalf of the Board by the County, currently outstanding in the aggregate principal amount of \$14,780,000; (ii) paying a portion of the costs of improvements to the Board's public school infrastructure; and (iii) paying the costs of issuing the Warrants. The net proceeds from the issuance were \$17,834,146.44 (after payment of original issue discount of \$215,617.30, issuance costs of \$342,210.00, and accrued interest of \$34,763.74). Additionally from the net proceeds, \$14,872,612.90 was deposited in an irrevocable trust to provide for the current refunding of a portion of the Series 2006 Warrants issued pursuant to the 2006 Funding Agreement; and \$2,584,559.80 was deposited to provide for payments for the capital improvements. The Capital Outlay School Warrants will bear interest at 6% per year. Principal will be paid beginning on February 1, 2017 and interest payments will be made on February 1 and August 1 beginning on August 1, 2016 and each year thereafter until the warrants are redeemed.

On January 14, 2014, the Board issued \$6,140,000 of its Capital Outlay School Warrants dated January 1, 2014. The Capital Outlay School Warrants were issued to: (i) current refund and defease the Limited Obligation School Warrants, Series 2004, issued by the Macon County Commission on behalf of the Board pursuant to the 2004 Funding Agreement; (ii) construct, acquire, improve and equip certain capital improvements used to provide educational instruction; and (iii) pay the costs of issuing the Warrants. The net proceeds from the issuance were \$5,848,087.03 (after payment of original issue discount of \$105,103.65, issuance costs of \$200,300.00 and accrued interest of \$13,490.68). Additionally, from the net proceeds, \$4,380,925.00 was deposited in an irrevocable trust to provide for the refunding of the Series 2004 Warrants issued pursuant to the 2004 Funding Agreement; \$1,453,671.35 was deposited to provide for payments for the capital improvements. The Capital Outlay School Warrants will bear interest rates ranging from 3.125% to 4.625% per year. Principal will be paid beginning on February 1, 2025, and interest payments will be made on August 1 and February 1, beginning on August 1, 2014, and each year thereafter until the warrants are redeemed.

Notes to the Financial Statements
For the Year Ended September 30, 2017

On July 24, 2012, the Board issued \$5,750,000.00 of its Capital Outlay School Warrants dated July 1, 2012. The Capital Outlay School Warrants were issued to: (i) provide for advance refunding a portion of the Limited Obligation School Warrants, Series 2006, issued by the Macon County Commission on behalf of the Board pursuant to the 2006 Funding Agreement; (ii) construct, acquire, improve and equip certain capital improvements used to provide educational instruction; and (iii) pay the costs of issuing the Warrants. The net proceeds from the issuance were \$5,310,470.93 (after payment of original issue discount of \$232,990.00, issuance costs of \$221,233.51, and accrued interest of \$14,694.44). Additionally from the net proceeds, \$1,338,381.36 was deposited in an irrevocable trust to provide for the advance refunding of a portion of the Series 2006 Warrants issued pursuant to the 2006 Funding Agreement; \$3,500,000.00 was deposited to provide for payments for the capital improvements; and \$472,089.57 was deposited to provide for future interest payments on the Capital Outlay School Warrants. The Capital Outlay School Warrants will bear interest at 4% per year. Principal will be paid on April 1 and interest payments will be made on April 1 and October 1 beginning on October 1, 2012 and each year thereafter until the warrants are redeemed.

Qualified Zone Academy Bonds (QZAB's)

During fiscal year 2011, the Board authorized the issuance of its Capital Outlay Pool Warrant, Series 2011-QZAB dated June 2, 2011 in the amount of \$1,500,000 to evidence the Board's obligation to repay the Alabama Public School and College Authority for a Special Pool Loan in the amount of \$1,500,000. Pursuant to the Special Pool Loan Agreement, payments shall be made from a pledge of the Public School Fund Capital Purchase Funds that are allocated to the Board. Beginning on May 1, 2012 and ending May 1, 2026, the Macon County Board of Education is required to make fifteen (15) level installment deposits of \$75,143.42 into a sinking fund to provide for the payment of principal at the maturity date, whereupon the Board's obligation will be satisfied. Any failure to realize the expected return could result in an increase in the required sinking fund deposits. Deposits made into the sinking fund shall remain the property of the Board pledged for repayment of the Special Pool Loan. After paying issuance cost of \$5,600, the Board's net proceeds totaling \$1,494,400 was deposited into a Project Account to be used only for qualified purposes with respect to Qualified Zone Academies including the repair of the HVAC system at the Booker T. Washington High School located in Tuskegee, Alabama.

Capital Improvement Pool Warrants

During fiscal years 2001, 2002 and 2014, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2001A, 2002A and 2005A in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these warrants provided funds for the acquisition, construction and renovation of school facilities.

Notes to the Financial Statements

For the Year Ended September 30, 2017

During fiscal year 2010, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Warrants, Series 2009B, in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The proceeds from these warrants were used to refund a portion of the Series 2001A Warrants.

During fiscal year 2011, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Warrants, Series 2011B, in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The proceeds from these warrants were used to refund and retire the remainder of the outstanding Series 2001A Warrants.

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2017:

| | Debt Outstanding 10/01/2016 | Issued/ Increased | Repaid/ Decreased | Debt Outstanding 09/30/2017 | Amounts Due Within One Year |
|--------------------------------------------------------------------------------|-----------------------------------|----------------------|----------------------|-----------------------------------|-----------------------------------|
| Governmental Activities | | | | | |
| Warrants Payable: | | | | | |
| 2016 Capital Outlay School Warrants | \$18,015,000.00 | \$ | \$ (420,000.00) | \$17,595,000.00 | \$440,000.00 |
| 2014 Capital Outlay School Warrant | 6,140,000.00 | | | 6,140,000.00 | |
| 2014 A Capital Improvement Warrants Refunding | 1,090,462.44 | | (100,923.16) | 989,539.28 | 104,398.28 |
| 2012-A Capital Improvement Warrants Refunding | 557,481.33 | | (74,407.27) | 483,074.06 | 78,263.11 |
| 2009-B Capital Improvement Warrants Refunding | 413,821.08 | | (202,104.70) | 211,716.38 | 211,716.38 |
| 2011-B Capital Improvement Warrants | 672,623.00 | | | 672,623.00 | |
| 2012 Capital Outlay School Warrants | 5,750,000.00 | | | 5,750,000.00 | |
| 2012-A Unamortized Premium | 99,683.22 | | (12,460.41) | 87,222.81 | 12,460.41 |
| Series 2012 Capital Outlay School Warrants Discount | (199,705.72) | | 8,321.07 | (191,384.65) | (8,321.07) |
| Total Warrants | 32,539,365.35 | | (801,574.47) | 31,737,790.88 | 838,517.11 |
| Other Liabilities: | | | | | |
| 2016 Capital Lease | 347,720.00 | | (30,373.72) | 317,346.28 | 31,275.82 |
| 2011-A Capital Improvement Pool QZAB Series 2006 Funding Agreement Discount | 1,500,000.00 (242,391.96) | | 242,391.96 | 1,500,000.00 | |
| Net Pension Liability | 20,784,000.00 | | (1,039,000.00) | 19,745,000.00 | |
| Total Other Liabilities | 22,389,328.04 | | (826,981.76) | 21,562,346.28 | 31,275.82 |
| Total Governmental Activities Long-Term Liabilities | \$54,928,693.39 | \$ | \$(1,628,556.23) | \$53,300,137.16 | \$869,792.93 |

Notes to the Financial Statements
For the Year Ended September 30, 2017

The following is a schedule of debt service requirements to maturity:

| Fiscal Year Ending | Capital Outlay School Warrants Series 2016 | | 2016 Capital Lease Buses | | 2014 Capital Outlay School Warrant | |
|--------------------|--------------------------------------------|-----------------------|--------------------------|--------------------|------------------------------------|-----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| September 30, 2018 | \$ 440,000.00 | \$ 549,661.26 | \$ 31,275.82 | \$ 9,425.18 | \$ | \$ 231,268.76 |
| 2019 | 450,000.00 | 536,311.26 | 32,204.71 | 8,496.29 | | 231,268.76 |
| 2020 | 500,000.00 | 522,061.26 | 33,161.19 | 7,539.81 | | 231,268.76 |
| 2021 | 710,000.00 | 503,911.26 | 34,146.08 | 6,554.93 | | 231,268.76 |
| 2022 | 735,000.00 | 482,236.26 | 35,160.22 | 5,540.79 | | 231,268.76 |
| 2023-2027 | 1,755,000.00 | 2,219,021.89 | 151,398.26 | 11,405.79 | 2,620,000.00 | 1,031,931.30 |
| 2028-2032 | 3,735,000.00 | 1,982,132.50 | | | 1,910,000.00 | 444,103.13 |
| 2033-2037 | 5,710,000.00 | 1,064,378.76 | | | | 372,312.50 |
| 2038-2042 | 1,835,000.00 | 483,110.63 | | | 1,045,000.00 | 324,559.39 |
| 2043-2046 | 1,725,000.00 | 128,053.15 | | | 565,000.00 | 13,065.63 |
| Totals | \$17,595,000.00 | \$8,470,878.23 | \$317,346.28 | \$48,962.79 | \$6,140,000.00 | \$3,342,315.75 |

| Fiscal Year Ending | Alabama Public School and College Authority Series 2011 B | | QZAB 2011-A | |
|--------------------|-----------------------------------------------------------|--------------------|-----------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| September 30, 2018 | \$ | \$38,101.70 | \$ | \$ 69,000.00 |
| 2019 | 184,201.50 | 32,059.04 | | 69,000.00 |
| 2020 | 238,182.00 | 19,672.28 | | 69,000.00 |
| 2021 | 250,239.50 | 6,664.09 | | 69,000.00 |
| 2022 | | | | 69,000.00 |
| 2023-2027 | | | 1,500,000.00 | 276,000.00 |
| 2028-2032 | | | | |
| 2033-2037 | | | | |
| 2038-2042 | | | | |
| 2043-2046 | | | | |
| Totals | \$672,623.00 | \$96,497.11 | \$1,500,000.00 | \$621,000.00 |

Notes to the Financial Statements
For the Year Ended September 30, 2017

| Alabama Public School and College Authority Series 2014 A | | 2012A Capital Improvement Pool Bonds | | 2009-B Capital Improvement Refunding Warrants | |
|-----------------------------------------------------------------|---------------------|-----------------------------------------|--------------------|-----------------------------------------------------|--------------------|
| Principal | Interest | Principal | Interest | Principal | Interest |
| \$104,398.28 | \$ 45,257.62 | \$ 78,263.11 | \$21,687.53 | \$211,716.38 | \$10,585.82 |
| 108,742.17 | 40,994.78 | 82,327.37 | 17,672.77 | | |
| 113,810.05 | 35,974.69 | 86,443.73 | 13,453.49 | | |
| 119,601.91 | 30,139.39 | 90,768.53 | 9,023.17 | | |
| 125,828.16 | 24,003.64 | 95,458.06 | 4,367.52 | | |
| 417,158.71 | 31,981.93 | 49,813.26 | 1,754.92 | | |
| \$989,539.28 | \$208,352.05 | \$483,074.06 | \$67,959.40 | \$211,716.38 | \$10,585.82 |

| 2012 Capital Outlay School Warrants | | Total Principal | Total Interest | Total Principal and Interest Requirements to Maturity |
|----------------------------------------|-----------------------|------------------------|------------------------|----------------------------------------------------------------|
| Principal | Interest | | | |
| \$ | \$ 230,000.00 | \$ 865,653.59 | \$ 1,204,987.87 | \$ 2,070,641.46 |
| | 230,000.00 | 857,475.75 | 1,165,802.90 | 2,023,278.65 |
| | 230,000.00 | 971,596.97 | 1,128,970.29 | 2,100,567.26 |
| | 230,000.00 | 1,204,756.02 | 1,086,561.60 | 2,291,317.62 |
| | 230,000.00 | 991,446.44 | 1,046,416.97 | 2,037,863.41 |
| | 1,150,000.00 | 6,493,370.23 | 4,722,095.83 | 11,215,466.06 |
| | 1,150,000.00 | 5,645,000.00 | 3,576,235.63 | 9,221,235.63 |
| 1,605,000.00 | 1,150,000.00 | 7,315,000.00 | 2,586,691.26 | 9,901,691.26 |
| 4,145,000.00 | 294,400.00 | 7,025,000.00 | 1,102,070.02 | 8,127,070.02 |
| | | 2,290,000.00 | 141,118.78 | 2,431,118.78 |
| \$5,750,000.00 | \$4,894,400.00 | \$33,659,299.00 | \$17,760,951.15 | \$51,420,250.15 |

Notes to the Financial Statements

For the Year Ended September 30, 2017

Deferred Inflows/Outflows on Refunding, Discounts and Premiums

The Board has a discount and a loss on refunding in connection with the issuance of the Series 2012 Capital Outlay School Warrants. The discount is being amortized using the straight-line method over a period of twenty-eight years. The loss on refunding is being amortized using the straight-line method over a period of twenty-four years.

The Board has a premium and loss on refunding in connection with the issuance of the Series 2012-A Capital Improvement Refunding Warrants. The premiums and loss on refunding are being amortized using the straight-line method over a period of twelve years.

| | Premium | Discount | Loss on Refunding |
|----------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Total Premium, Discount and Loss on Refunding Amount Amortized Prior Years | \$149,524.86 | \$232,990.00 | \$167,890.02 |
| | 49,841.64 | 33,284.28 | 32,899.80 |
| Total Premium, Discount and Loss on Refunding Current Amount Amortized | 99,683.22 | 199,705.72 | 134,990.22 |
| | 12,460.41 | 8,321.07 | 8,224.95 |
| Total Premium, Discount and Loss on Refunding | <u>\$ 87,222.81</u> | <u>\$191,384.65</u> | <u>\$126,765.27</u> |

Pledged Revenues

The Board issued a Series 2011 QZAB Capital Outlay Pool Warrant which is pledged to be repaid from their allocation of Public School Funds received from the State of Alabama. The proceeds are to be used for the repair of the HVAC system at the Booker T. Washington High School. Future revenues in the amount of \$1,127,151.30 are pledged for the payment of the principal, sinking fund deposits and interest on the Pool Warrant at September 30, 2017. The Series 2011-QZAB warrant will mature in fiscal year 2026.

The Board issued 2014-A Capital Improvement Pool Warrants and Series 2009-B, 2011-B, and 2012-A Capital Improvement Pool Refunding Warrants all of which are pledged to be repaid from their allocation of Public School Funds received from the State of Alabama. The proceeds from the 2014-A Warrants are to be used for the acquisition, construction and renovation of school facilities. The proceeds from the 2009-B and 2011-B Warrants were used for the refunding of the Series 2001-A Capital Improvement Pool Warrants. The proceeds from the 2012-A Warrants were used for the refunding of the Series 2002-A Capital Improvement Pool Warrants. Future revenues in the amount of \$2,740,347.10 are pledged to repay the principal and interest on the bonds at September 30, 2017. Pledged revenues in the amount of \$506,121.06 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2017. This amount represents 100 percent of the pledged revenues received by the Board. The Series 2014-A, 2009-B, 2011-B, and 2012-A Warrants will mature in fiscal years 2025, 2018, 2021, and 2024, respectively. For fiscal year 2017, the pledged amount represented approximately 93% of the Board's capital purchase allocation.

Notes to the Financial Statements
For the Year Ended September 30, 2017

On July 24, 2012, the Board issued \$5,750,000.00 of its Capital Outlay School Warrants dated July 1, 2012 to provide for the advance refunding of a portion of the Limited Obligation School Warrants, Series 2006, issued by the Macon County Commission on-behalf of the Board pursuant to the 2006 Funding Agreement and to construct, acquire, improve and equip certain capital improvements used to provide educational instruction.

The 2012 Capital Outlay School Warrants are pledged to be repaid from the proceeds of a 3-mill County-Wide Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 1-mill County-Wide Ad Valorem Tax pursuant to Section 269 of the Constitution of Alabama of 1901 (as amended by Amendment Number 111 to the said Constitution), 5-mill County Ad Valorem Tax pursuant to Amendment Number 202 to the Constitution of Alabama of 1901, 10-mill County Ad Valorem Tax pursuant to Amendment Number 420 to the Constitution of Alabama of 1901, 3-mill District One Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 3-mill District Two Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, Greyhound Racing Pari-Mutuel Revenues provided by Act Number 87-207, Acts of Alabama. Future revenues in the amount of \$10,644,400 are pledged to repay the principal and interest on the 2012 Capital Outlay School Warrants at September 30, 2017. The 2012 Capital Outlay School Warrants will mature in fiscal year 2040.

On July 24, 2014, the Board issued \$6,140,000.00 of its Capital Outlay School Warrants dated July 1, 2014 for the purpose of refunding and defeasance of the outstanding Limited Obligation School Warrant, Series 2004 issued on behalf of the Board by the County, currently outstanding in the aggregate principal amount of \$6,140,000.00.

The 2014 Capital Outlay School Warrants are pledged to be repaid from the proceeds of a 3-mill County-Wide Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 1-mill County-Wide Ad Valorem Tax pursuant to Section 269 of the Constitution of Alabama of 1901 (as amended by Amendment Number 111 to the said Constitution), 5-mill County Ad Valorem Tax pursuant to Amendment Number 202 to the Constitution of Alabama of 1901, 10-mill County Ad Valorem Tax pursuant to Amendment Number 420 to the Constitution of Alabama of 1901, 3-mill District One Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 3-mill District Two Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, Greyhound Racing Pari-Mutuel Revenues provided by Act Number 87-207, Acts of Alabama. Future revenues in the amount of \$9,482,315.75 are pledged to repay the principal and interest on the 2014 Capital Outlay School Warrants at September 30, 2017. The 2014 Capital Outlay School Warrants will mature in fiscal year 2043.

Notes to the Financial Statements
For the Year Ended September 30, 2017

The 2016 Capital Outlay School Warrants are pledged to be repaid from the proceeds of a 3-mill County-Wide Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 1-mill County-Wide Ad Valorem Tax pursuant to Section 269 of the Constitution of Alabama of 1901 (as amended by Amendment Number 111 to the said Constitution), 5-mill County Ad Valorem Tax pursuant to Amendment Number 202 to the Constitution of Alabama of 1901, 10-mill County Ad Valorem Tax pursuant to Amendment Number 420 to the Constitution of Alabama of 1901, 3-mill District One Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 3-mill District Two Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, Greyhound Racing Pari-Mutuel Revenues provided by Act Number 87-207, Acts of Alabama. Future revenues in the amount of \$26,065,878.23 are pledged to repay the principal and interest on the 2016 Capital Outlay School Warrants at September 30, 2017. The 2014 Capital Outlay School Warrants will mature in fiscal year 2046.

Prior Year Defeasance of Debt

In prior years, the Board defeased the Series 2006 Funding Agreement. The Board deposited funds into an irrevocable trust with an escrow agent to provide for the future debt service payments on the warrants when they mature. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Board's financial statements. At September 30, 2017, the total of \$14,395,000 of the Series 2006 Funding Agreement outstanding are considered defeased.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 10 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Automobile liability insurance is purchased from the State Farm Mutual Insurance Company, an independent entity. Errors and omissions insurance is purchased from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The ATBE collects the premiums and purchases excess insurance for any amount of coverage requested by participants in excess of the coverage provided. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the Board's coverage in any of the past three fiscal years.

The Board does not have insurance coverage of job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the *Code of Alabama 1975*, Section 16-1-18.1(d). Any unreimbursed medical expenses and costs which the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustment.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 11 – Interfund Transactions

Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2017, were as follows:

| | Interfund Receivables | | Total |
|---------------------------|-----------------------|----------------------|---------------------|
| | General Fund | Special Revenue Fund | |
| <u>Interfund Payables</u> | | | |
| General Fund | \$ | \$50,461.98 | \$ 50,461.98 |
| Special Revenue Fund | 493,376.62 | | 493,376.62 |
| Total | <u>\$493,376.62</u> | <u>\$50,461.98</u> | <u>\$543,838.60</u> |

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2017, were as follows:

| | Transfers In | | | Total |
|-------------------------|---------------------|-----------------------|-------------------------|---------------------|
| | General Fund | Capital Projects Fund | Other Governmental Fund | |
| <u>Transfers Out</u> | | | | |
| General Fund | \$ | \$ | \$79,904.42 | \$ 79,904.42 |
| Special Revenue Fund | 3,015.23 | | | 3,015.23 |
| Capital Projects Fund | 3,216.88 | | 0.62 | 3,217.50 |
| Other Governmental Fund | 307,346.00 | 235,031.26 | | 542,377.26 |
| Total | <u>\$313,578.11</u> | <u>\$235,031.26</u> | <u>\$79,905.04</u> | <u>\$628,514.41</u> |

The Board typically used transfers to fund ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools.

Required Supplementary Information

***Schedule of the Employer's Proportionate Share of the
Net Pension Liability
For the Year Ended September 30, 2017
(Dollar amounts in thousands)***

| | 2017 | 2016 | 2015 |
|------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| Employer's proportion of the net pension liability | 0.182381% | 0.198592% | 0.200878% |
| Employer's proportionate share of the net pension liability | \$ 19,745 | \$ 20,784 | \$ 18,249 |
| Employer's covered-employee payroll during the measurement period (*) | \$ 11,597 | \$ 12,563 | \$ 12,741 |
| Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll | 170.26% | 165.44% | 143.23% |
| Plan fiduciary net position as a percentage of the total collective pension liability | 67.93% | 67.51% | 71.01% |

(*) Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2017, the measurement period is October 1, 2015 through September 30, 2016.

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

***Schedule of the Employer's Contributions
For the Year Ended September 30, 2017
(Dollar amounts in thousands)***

| | 2017 | 2016 | 2015 |
|----------------------------------------------------------------------|-----------------|-----------------|-----------------|
| Contractually required contribution | \$ 1,442 | \$ 1,371 | \$ 1,465 |
| Contributions in relation to the contractually required contribution | <u>\$ 1,442</u> | <u>\$ 1,371</u> | <u>\$ 1,465</u> |
| Contribution deficiency (excess) | \$ | \$ | \$ |
| Employer's covered-employee payroll | \$ 12,177 | \$ 11,597 | \$ 12,563 |
| Contributions as a percentage of covered-employee payroll | 11.84% | 11.82% | 11.66% |

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

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017***

| | Budgeted Amounts | | Actual Amounts Budgetary Basis |
|------------------------------------------------------|------------------------|------------------------|-----------------------------------|
| | Original | Final | |
| Revenues | | | |
| State | \$ 13,868,537.00 | \$ 14,021,568.66 | \$ 14,045,074.24 |
| Federal | | 82,500.00 | 231,879.00 |
| Local | 2,670,040.00 | 2,975,290.00 | 2,817,446.24 |
| Other | 100,000.00 | 76,500.00 | 169,584.24 |
| Total Revenues | <u>16,638,577.00</u> | <u>17,155,858.66</u> | <u>17,263,983.72</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction | 9,321,698.00 | 9,722,493.00 | 9,728,545.22 |
| Instructional Support | 2,748,286.00 | 2,859,945.43 | 3,094,760.26 |
| Operation and Maintenance | 791,112.00 | 2,190,768.00 | 1,841,387.06 |
| Auxiliary Services: | | | |
| Student Transportation | 1,409,231.00 | 1,613,727.60 | 1,603,940.49 |
| General Administrative | 1,254,620.00 | 1,502,892.00 | 1,915,680.61 |
| Other | 211,312.00 | 257,387.00 | 287,840.31 |
| Capital Outlay | | 713.60 | 9,225.00 |
| Total Expenditures | <u>15,736,259.00</u> | <u>18,147,926.63</u> | <u>18,481,378.95</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>902,318.00</u> | <u>(992,067.97)</u> | <u>(1,217,395.23)</u> |
| Other Financing Sources (Uses) | | | |
| Indirect Cost | 373,812.00 | 384,191.00 | 370,244.04 |
| Transfers In | 306,352.00 | 306,352.00 | 314,178.11 |
| Transfers Out | (769,930.00) | (293,399.76) | (80,504.42) |
| Total Other Financing Sources (Uses) | <u>(89,766.00)</u> | <u>397,143.24</u> | <u>603,917.73</u> |
| Net Change in Fund Balances | 812,552.00 | (594,924.73) | (613,477.50) |
| Fund Balances - Beginning of Year | <u>2,560,000.00</u> | <u>2,260,670.18</u> | <u>2,280,916.64</u> |
| Fund Balances - End of Year | <u>\$ 3,372,552.00</u> | <u>\$ 1,665,745.45</u> | <u>\$ 1,667,439.14</u> |

Explanation of differences:

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

| Budget to GAAP Differences | Actual Amounts GAAP Basis |
|-------------------------------|------------------------------|
| \$ | \$ 14,045,074.24 |
| | 231,879.00 |
| (275,891.85) | 2,541,554.39 |
| | 169,584.24 |
| <u>(275,891.85)</u> | <u>16,988,091.87</u> |
| (47,651.39) | 9,680,893.83 |
| (17,721.28) | 3,077,038.98 |
| 6,368.85 | 1,847,755.91 |
| (10,897.88) | 1,593,042.61 |
| (1,460.47) | 1,914,220.14 |
| (684.11) | 287,156.20 |
| | 9,225.00 |
| <u>(72,046.28)</u> | <u>18,409,332.67</u> |
| <u>(203,845.57)</u> | <u>(1,421,240.80)</u> |
| | 370,244.04 |
| | 313,578.11 |
| | <u>(79,904.42)</u> |
| | <u>603,917.73</u> |
| (203,845.57) | (817,323.07) |
| <u>(1,391,762.30)</u> | <u>889,154.34</u> |
| <u>\$ (1,595,607.87)</u> | <u>\$ 71,831.27</u> |

\$ (203,845.57)

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2017***

| | Budgeted Amounts | | Actual Amounts |
|------------------------------------------------------|------------------------|----------------------|----------------------|
| | Original | Final | Budgetary Basis |
| Revenues | | | |
| Federal | \$ 3,973,625.00 | \$ 4,381,172.64 | \$ 4,109,264.00 |
| Local | 584,507.00 | 584,507.00 | 677,941.20 |
| Other | 60,100.00 | 60,100.00 | 22,054.44 |
| Total Revenues | <u>4,618,232.00</u> | <u>5,025,779.64</u> | <u>4,809,259.64</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction | 1,203,046.47 | 1,313,747.54 | 1,111,959.87 |
| Instructional Support | 1,006,571.54 | 1,121,546.58 | 945,672.83 |
| Operation and Maintenance | 30,435.00 | 30,435.00 | 37,423.46 |
| Auxiliary Services: | | | |
| Student Transportation | 14,795.00 | 39,576.00 | 35,233.11 |
| Food Service | 2,186,258.00 | 2,186,258.00 | 2,164,963.71 |
| General Administrative | 409,672.00 | 433,136.00 | 409,206.53 |
| Other | 236,561.49 | 378,359.02 | 310,155.31 |
| Capital Outlay | 122,513.00 | 122,513.00 | 76,092.55 |
| Total Expenditures | <u>5,209,852.50</u> | <u>5,625,571.14</u> | <u>5,090,707.37</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(591,620.50)</u> | <u>(599,791.50)</u> | <u>(281,447.73)</u> |
| Other Financing Sources (Uses) | | | |
| Transfers In | 711,062.00 | 234,531.76 | 163.00 |
| Transfers Out | (22,627.00) | (11,427.00) | (3,178.23) |
| Total Other Financing Sources (Uses) | <u>688,435.00</u> | <u>223,104.76</u> | <u>(3,015.23)</u> |
| Net Change in Fund Balances | 96,814.50 | (376,686.74) | (284,462.96) |
| Fund Balances - Beginning of Year | <u>943,633.00</u> | <u>1,100,673.56</u> | <u>1,023,367.66</u> |
| Fund Balances - End of Year | <u>\$ 1,040,447.50</u> | <u>\$ 723,986.82</u> | <u>\$ 738,904.70</u> |

Explanation of differences:

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

| Budget to GAAP Differences | Actual Amounts GAAP Basis |
|-------------------------------|------------------------------|
| \$ | \$ 4,109,264.00 |
| | 677,941.20 |
| | 22,054.44 |
| | <u>4,809,259.64</u> |
| | 1,111,959.87 |
| | 945,672.83 |
| | 37,423.46 |
| | 35,233.11 |
| (13,774.78) | 2,151,188.93 |
| | 409,206.53 |
| | 310,155.31 |
| | 76,092.55 |
| (13,774.78) | <u>5,076,932.59</u> |
| <u>13,774.78</u> | <u>(267,672.95)</u> |
| | (3,015.23) |
| | <u>(3,015.23)</u> |
| 13,774.78 | (270,688.18) |
| (84,930.84) | <u>938,436.82</u> |
| <u>\$ (71,156.06)</u> | <u>\$ 667,748.64</u> |

\$ 13,774.78

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017***

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number |
|----------------------------------------------------------------------------------|------------------------------------|----------------------------------------------|
| <u>U. S. Department of Agriculture</u> | | |
| <u>Passed Through Alabama Department of Education</u> | | |
| Child Nutrition Cluster: | | |
| School Breakfast Program - Cash Assistance | 10.553 | N/A |
| National School Lunch Program: | | |
| Cash Assistance | 10.555 | N/A |
| Non-Cash Assistance (Commodities) | 10.555 | N/A |
| Sub-Total National School Lunch Program | | |
| Total Child Nutrition Cluster | | |
| | | |
| Fresh Fruit and Vegetable Program | 10.582 | N/A |
| <u>Passed Through Macon County Commission</u> | | |
| Schools and Roads - Grants to States | 10.665 | N/A |
| Total U. S. Department of Agriculture | | |
| <u>U. S. Department of Education</u> | | |
| <u>Direct Program</u> | | |
| Impact Aid | 84.041 | N/A |
| <u>Passed Through Alabama Department of Early Childhood Education</u> | | |
| Preschool Development Grants | 84.419 | N/A |
| <u>Passed Through Alabama Department of Education</u> | | |
| Title I Grants to Local Educational Agencies (M) | 84.010 | N/A |
| Special Education Cluster: | | |
| Special Education - Grants to States | 84.027 | N/A |
| Special Education - Preschool Grants | 84.173 | N/A |
| Sub-Total Special Education Cluster (M) | | |
| Career and Technical Education - Basic Grants to States | 84.048 | N/A |
| Education for Homeless Children and Youth | 84.196 | N/A |
| Twenty First Century Community Learning Centers | 84.287 | N/A |
| Rural Education | 84.358 | N/A |
| Supporting Effective Instruction State Grant | 84.367 | N/A |
| Total U. S. Department of Education | | |
| | | |
| Sub-Total Forward | | |

| Pass-Through to Subrecipient | Total Federal Expenditures |
|---------------------------------------------|-------------------------------------------|
| | \$ 506,566.72 |
| | 1,031,877.70 |
| | <u>125,785.06</u> |
| | <u>1,157,662.76</u> |
| | 1,664,229.48 |
| | 47,512.30 |
| | 11,114.85 |
| | <u>1,722,856.63</u> |
| | 13,619.75 |
| | 5,054.96 |
| | 1,415,336.83 |
| | 478,994.03 |
| | <u>21,060.00</u> |
| | 500,054.03 |
| | 99,713.00 |
| | 10,000.00 |
| | 100,000.00 |
| | 46,069.00 |
| | <u>362,139.70</u> |
| | <u>2,551,987.27</u> |
| | \$ 4,274,843.90 |

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017***

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number |
|-------------------------------------------------------------------------------------------------|------------------------------------|----------------------------------------------|
| Sub-Total Brought Forward | | |
| <u>Social Security Administration Passed Through Alabama Department of Education</u> | | |
| Social Security - Disability Insurance | 96.001 | N/A |
| <u>Other Federal Assistance U. S. Department of Defense Direct Program</u> | | |
| Army ROTC | N/A | N/A |
| Total Expenditures of Federal Awards | | |

(M) = Major Program

N/A = Not Available or Not Applicable

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



| <u>Pass-Through to Subrecipient</u> | <u>Total Federal Expenditures</u> |
|---------------------------------------------|-------------------------------------------|
| | \$ 4,274,843.90 |
| | 800.00 |
| | <u>70,609.81</u> |
| | <u><u>\$ 4,346,253.71</u></u> |

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

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Macon County Board of Education and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the 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)*. Because the Schedule presents only a selected portion of the operations of the Macon County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Macon County Board of Education.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Macon County Board of Education has elected not to use the 10-percent de minimis indirect cost rate allowed in the *Uniform Guidance*.

Additional Information

Board Members and Administrative Personnel
October 1, 2016 through September 30, 2017

| Board Members | | Term Expires |
|----------------------|--|---------------------|
|----------------------|--|---------------------|

| | | |
|------------------------|----------------|------|
| Hon. Elnora Smith Love | President | 2018 |
| Hon. Mary H. Hooks | Vice-President | 2022 |
| Hon. Katy Campbell | Member | 2018 |
| Hon. Helen Samuel | Member | 2020 |
| Hon. Karey Thompson | Member | 2022 |

Administrative Personnel

| | |
|-----------------------------|--------------------------------|
| Jacqueline A. Brooks, Ed.D. | Superintendent |
| Natalie Young | Chief School Financial Officer |

***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***

Independent Auditor's Report

Members of the Macon County Board of Education,
Superintendent and Chief School Financial Officer
Tuskegee, 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 Macon County Board of Education, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Macon County Board of Education's basic financial statements and have issued our report thereon dated July 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Macon County Board of Education'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 Macon County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Macon County Board of Education's internal control.

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

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


***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***

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

July 23, 2018

***Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance***

Independent Auditor's Report

Members of the Macon County Board of Education,
Superintendent and Chief School Financial Officer
Tuskegee, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Macon County Board of Education's (the "Board") compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on the Macon County Board of Education's major federal programs for the year ended September 30, 2017. The Board's major federal program is identified in the Summary of Examiner's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Macon County Board of Education'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 the major federal program. However, our audit does not provide a legal determination of the Board's compliance.

***Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance***

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of the 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.

***Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on 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.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

July 23, 2018

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified
 Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(ies) identified? _____ Yes X None reported
 Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(ies) identified? _____ Yes X None reported
 Type of auditor's report issued on compliance for major programs: Unmodified
 Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance*? _____ Yes X No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|-------------------|----------------------------------------------|
| 84.010 | Title I Grants to Local Educational Agencies |
| 84.027 and 84.173 | Special Education Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.00
 Auditee qualified as low-risk auditee? _____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section II – Financial Statement Findings (GAGAS)

| Ref. No. | Type of Finding | Finding/Noncompliance | Questioned Costs |
|-------------|--------------------|-----------------------------|---------------------|
| | | No matters were reportable. | |

Section III – Federal Awards Findings and Questioned Costs

| Ref. No. | CFDA No. | Program | Finding/Noncompliance | Questioned Costs |
|-------------|-------------|---------|-----------------------------|---------------------|
| | | | No matters were reportable. | |