

CITY OF TUSKEGEE
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
September 30, 2017

CITY OF TUSKEGEE, ALABAMA
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Manager and City Council
City of 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 governmental fund information of the City of Tuskegee, Alabama (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 of 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 governmental fund information of the City as of and for the year ended September 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Head Start fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4-10, schedule of changes in net pension liability, and schedule of employer contributions on pages 44-45 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 State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.



The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued a report dated June 25, 2018 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the City's internal control over financial reporting and compliance.

Birmingham, Alabama
June 25, 2018

Bank, Finley White Co.

CITY OF TUSKEGEE, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Tuskegee, Alabama's (the "City") management discussion and analysis presents an overview of the City's financial activities for the two fiscal years ended September 30, 2017 and September 30, 2016. It is designed to (a) assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. Please read it in conjunction with the City's financial statements beginning on page 11.

Financial Highlights

The assets and deferred outflows of resources for the City exceeded its liabilities at September 30, 2017 by \$310,648 (net position) and its liabilities and deferred outflows exceeded its assets by \$692,641 (net position-deficit) in 2016. The net investment in capital assets reported a **surplus** of \$1,766,744 in 2017 compared to \$1,289,973 in 2016. The City had an unrestricted **deficit** of \$1,456,096 in 2017, compared to \$1,982,614 in 2016.

The City's total net position **increased** by \$1,003,289 during the year ended September 30, 2017.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide financial statements, which consist of the Statement of Net Position and the Statement of Activities, are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City's assets, and deferred outflows of resources, less liabilities, and deferred inflows of resources with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. It focuses on the gross and net costs of various activities, which are provided by general taxes and other revenues. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (such as uncollected taxes or earned but not used vacation leave).

CITY OF TUSKEGEE, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS

The governmental activities of the City include general government, public safety, public works, health and welfare, culture and recreation, and education.

The government-wide financial statements can be found beginning on page 11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are classified as governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is similar to the manner in which the budget is developed. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Head Start, and Occupational Tax Fund which are considered to be major funds. Data from the other 14 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the supplementary information section of this report.

The City adopts an annual appropriated budget for its General Fund. The Head Start budget is prepared by the City and approved by the federal grantor agency. A budgetary comparison statement has been provided for the General Fund and Head Start fund to demonstrate budgetary compliance.

The basic governmental funds financial statements and the budgetary comparison statements can be found beginning on page 13 of this report.

**CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 20 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$310,648 at September 30, 2017, and liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$692,641 at September 30, 2016. This is calculated as follows:

NET POSITION GOVERNMENTAL ACTIVITIES September 30, 2017 and 2016		
	<u>2017</u>	<u>2016</u>
ASSETS		
Current and other assets	\$ 4,660,887	\$ 4,997,114
Capital assets	<u>6,248,207</u>	<u>6,705,477</u>
Total assets	<u>10,909,094</u>	<u>11,702,591</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension liability	<u>1,812,193</u>	<u>806,288</u>
LIABILITIES		
Long-term liabilities outstanding	10,672,681	10,866,717
Other liabilities	<u>1,328,046</u>	<u>2,007,668</u>
Total liabilities	<u>12,000,727</u>	<u>12,874,385</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	<u>409,912</u>	<u>327,135</u>
Total deferred inflows	<u>409,912</u>	<u>327,135</u>
NET POSITION		
Net investment in capital assets	1,766,744	1,289,973
Unrestricted	<u>(1,456,096)</u>	<u>(1,982,614)</u>
Total net position	<u>\$ 310,648</u>	<u>\$ (692,641)</u>

**CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental Activities

Governmental activities **increased** net position by \$1,003,289 and \$1,114,494, in 2017 and 2016, respectively. The following schedule compares the revenue to expenses for the current year to the prior year.

**CHANGES IN NET POSITION
GOVERNMENTAL ACTIVITIES
September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
REVENUES		
Program revenues:		
Charges for services	\$ 1,830,150	\$ 1,337,686
Operating grants and contributions	4,363,494	2,985,338
General revenues:		
Sales taxes	2,324,384	2,406,519
Property taxes	294,667	296,409
Other taxes	3,909,516	3,686,357
Other	<u>649,179</u>	<u>2,384,185</u>
Total revenues	<u>13,371,390</u>	<u>13,096,494</u>
EXPENSES		
General government	2,605,918	3,305,841
Public works	2,021,753	1,461,623
Public safety	3,781,571	3,413,107
Culture and recreation	172,432	218,548
Education	3,342,693	3,130,299
Interest on long-term debt	<u>443,734</u>	<u>452,582</u>
Total expenses	<u>12,368,101</u>	<u>11,982,000</u>
Change in net position	<u>1,003,289</u>	<u>1,114,494</u>
Net position (deficit) - Beginning	<u>(692,641)</u>	<u>(1,807,135)</u>
Net position (deficit) - Ending	<u>\$ 310,648</u>	<u>\$ (692,641)</u>

Financial Analysis of the City's Funds

This section provides an analysis of the balances and transactions of individual funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, spendable fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2017, the City's governmental funds reported combined ending fund balances of \$998,028. Of this amount, \$343,483 was reported as a surplus in the General Fund, \$55,328 was reported as a deficit in Head Start, \$80,096 as a surplus in the Occupational Tax Fund, and a surplus of \$629,777 in the combined nonmajor governmental funds.

General Fund Budgetary Highlights

Actual General Fund revenues exceeded budgeted revenues by \$134,246 and General Fund expenditures were below budgeted expenditures by \$206,479.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental activities as of September 30, 2017 amounted to \$6,248,207 and at September 30, 2016 amounted to \$6,705,477 (net of accumulated depreciation).

This investment in capital assets includes land, buildings, improvement, vehicles and equipment, furniture and office equipment, heavy equipment and infrastructure. Capital asset additions for the year ended September 30, 2017 included \$- for vehicles and equipment, \$- for furniture and small equipment, \$- for buildings and improvements.

Capital Assets (Net of Depreciation)

	<u>2017</u>	<u>2016</u>
Land	\$ 702,625	\$ 702,625
Buildings	4,039,357	4,205,115
Improvements	834,888	959,695
Vehicles and equipment	229,204	332,596
Furniture and office equipment	66,519	66,519
Heavy equipment	62,233	115,503
Infrastructure	<u>313,381</u>	<u>323,424</u>
Total	<u><u>\$ 6,248,207</u></u>	<u><u>\$ 6,705,477</u></u>

Additional information on the City's capital assets can be found in Note 8 on page 31.

**CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Long-Term Debt

At September 30, long-term debt consisted of the following:

	<u>2017</u>	<u>2016</u>
General Obligation Bonds, net	\$10,238,325	\$10,562,312
Capital Lease Obligations	90,300	113,851
Notes Payable	<u>143,184</u>	<u>255,778</u>
Total	<u>\$10,471,809</u>	<u>\$10,931,941</u>

Additional information on the City's long-term debt can be found in Note 10 beginning on page 32.

Economic Factors and Next Year's Budget and Rates

- The general ad valorem tax rate for fiscal year 2017 was 10 mills and remains unchanged for fiscal year 2018.
- The Tuskegee Airmen Museum brought a moderate increase in revenue to the City's economy and continues to attract visitors.
- Exit 38 development is in process and initial ground-breaking has begun with the main infrastructure of the water and sewer lines in development. Current plans include an 80 room major hotel, 24/7 convenient store, gas station, bus terminal as well as a Huddle House and Burger King Restaurant as tenants. According to the Macon County Economic Development Authority Director, as many as fifteen retailers have expressed serious interest in locating at this location.
- The City's Commerce Park is another site generating interest. A number of Auto Industry suppliers are looking into the site for manufacturing or distribution operations as well as a number of Robotic related enterprises. It is expected that suppliers to the Potential Leonardo Fighter Plane Opportunity will also locate in this Park.
- Downtown Development activity is expected to start soon. This will include repairs and rehab of dilapidated buildings, and beautification efforts. The city continues to work towards becoming an Alabama Main Street Certified City.
- Economic Development plans include specific initiatives to increase Tourism Traffic and revenue, as well as efforts to grow the current population base.

**CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

- There are a number of recent developments that positively affect the Downtown area and City Revenue. American Deli Sandwich Shop replaced the KFC/Taco Bell operation and should replace job and revenue losses created by KFC/Taco Bell departure.
- There are a number of significant opportunities being addressed at the City's Municipal Airport (Moton Field). Leonardo, RSA a large Italian Aircraft manufacturing plant selected Moton Field as the operating site if awarded the U.S. Air Force Contract to build Trainer Planes. This project has City, County, Tuskegee University and the State of Alabama's strong support. If Leonardo receives the award, over 700 jobs with average pay of \$24 per hour will be created over the first 2 to 4 years. The Air Force is expected to award in 2018.
- A new Terminal building Grant was received. Design direction was finalized April, 2017. Construction has begun and opening is expected June, 2018.
- As a result of major cost cutting initiatives employed in the last two years, the City is able to stay current on payables and this has significantly improved financial status.

Request for Information

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the City's Finance Director at 101 Fonville Street, Tuskegee, Alabama 36083. Additional information can be found on the City's web site at <http://www.tuskegeealabama.org>.

CITY OF TUSKEGEE
STATEMENT OF NET POSITION
September 30, 2017

ASSETS

Cash and cash equivalents	\$ 649,362
Receivables	181,580
Due from other governments	555,901
Money market accounts - restricted	588,960
Net pension asset	2,566,972
Other assets	118,112
Land and other nondepreciable assets	702,625
Capital assets, net of depreciation	<u>5,545,582</u>
 Total assets	 <u>\$10,909,094</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pension	<u>\$ 1,812,193</u>
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LIABILITIES

Accounts payable	\$ 433,778
Accrued payroll and payroll liabilities	332,341
Accrued interest payable	122,135
Due to other governments	2,631
Noncurrent liabilities	
Due within one year:	
Notes payable	72,095
Bonds payable outstanding	340,000
Capital lease obligations	25,066
Compensated absences	-
Due in more than one year:	
Notes payable	71,089
Bonds payable	9,898,324
Capital lease obligations	112,594
Compensated absences	<u>590,674</u>
 Total liabilities	 <u>12,000,727</u>

DEFERRED INFLOWS OF RESOURCES

Unearned revenue - property taxes	<u>409,912</u>
 Total deferred inflows of resources	 <u>409,912</u>

NET POSITION (DEFICIT)

Net investment in capital assets	1,766,744
Unrestricted	<u>(1,456,096)</u>
 Total net position (deficit)	 <u>\$ 310,648</u>

CITY OF TUSKEGEE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
General government	\$ 2,605,918	\$ 666,489	\$ 616,470
Public works	2,021,753	1,154,365	-
Public safety	3,781,571	9,296	827,125
Health and welfare	-	-	54,000
Culture and recreation	172,432	-	3,000
Education	3,342,693	-	2,862,899
Interest	<u>443,734</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 12,368,101</u>	<u>\$ 1,830,150</u>	<u>\$ 4,363,494</u>

General Revenues

Taxes:

Sales taxes

Property taxes

Gasoline taxes

Other taxes

Miscellaneous

Investment earnings

Total general revenues

Change in net position

Net position - beginning

Net position (deficit) - ending

<u>Revenues</u>	
<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Expenses in Net Position</u>
\$ -	\$ (1,322,959)
-	(867,388)
-	(2,945,150)
-	54,000
-	(169,432)
-	(479,794)
-	(443,734)
<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>(6,174,457)</u>

2,324,384
 294,667
 104,152
 3,805,364
 648,146
1,033
7,177,746
1,003,289
(692,641)
\$ 310,648

CITY OF TUSKEGEE
BALANCE SHEET
September 30, 2017

	General Fund	Head Start
ASSETS		
Cash and cash equivalents	\$ 390,161	\$ 64,026
Receivables	180,416	-
Due from other governments	576,084	(20,183)
Due from other funds	430,662	-
Other assets	118,112	-
Money market accounts - restricted	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 1,695,435</u></u>	<u><u>\$ 43,843</u></u>
LIABILITIES		
Accounts payable	\$ 336,993	\$ 76,853
Accrued payroll and payroll liabilities	310,024	22,318
Due to other funds	377,800	-
Due to other governments	<u>-</u>	<u>-</u>
Total liabilities	1,024,817	99,171
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue - property taxes	<u>327,135</u>	<u>-</u>
Total deferred inflows of resources	<u>327,135</u>	<u>-</u>
FUND BALANCES (DEFICIT)		
Restricted	-	-
Assigned	-	-
Unassigned (deficit)	<u>343,483</u>	<u>(55,328)</u>
Total fund balances (deficit)	<u>343,483</u>	<u>(55,328)</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u><u>\$ 1,695,435</u></u>	<u><u>\$ 43,843</u></u>

Occupational Tax	Other Governmental Funds	Total Governmental Funds
\$ 78,932	\$ 116,242	\$ 649,361
1,164	-	181,580
-	-	555,901
-	-	430,662
-	-	118,112
-	588,961	588,961
<u>\$ 80,096</u>	<u>\$ 705,203</u>	<u>\$ 2,524,577</u>
\$ -	\$ -	\$ 413,846
-	-	332,342
-	75,426	453,226
-	-	-
-	75,426	1,199,414
-	-	327,135
-	-	327,135
-	569,625	569,625
-	61,004	61,004
<u>80,096</u>	<u>(852)</u>	<u>367,399</u>
<u>80,096</u>	<u>629,777</u>	<u>998,028</u>
<u>\$ 80,096</u>	<u>\$ 705,203</u>	<u>\$ 2,524,577</u>

CITY OF TUSKEGEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
September 30, 2017

Differences in amounts reported for governmental activities in the Statement of Net Position.

Total fund balances (deficit) - governmental funds	\$ 998,028
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.	6,248,207
Employer contributions to defined benefit pension plan are recorded as expenditures in governmental funds when paid. Net employer contributions in excess of the actuarially determined total pension liability are reported as an asset in the Statement of Net Pension.	2,566,972
Deferred inflows and outflows related to pension represent an acquisition or consumption of net position, respectively, that applies to a future period and, therefore, are not reported as liabilities or assets in the governmental funds	1,812,193
Certain liabilities will not require current financial resources, and therefore, are not reported as expenditures in the governmental funds: Accrued interest payable	 (244,270)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the governmental funds.	<u>(11,192,617)</u>
Change in net position of governmental activities	<u>\$ 188,513</u>

CITY OF TUSKEGEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended September 30, 2017

	General Fund	Head Start
REVENUES		
Taxes	\$ 3,780,056	\$ -
Licenses and permits	550,388	-
Intergovernmental	791,882	2,862,899
Charges for services	1,132,107	-
Fines and forfeitures	147,655	-
Interest	237	179
Donated services and space	-	441,802
Miscellaneous	<u>188,661</u>	<u>2,061</u>
Total revenues	<u>6,590,986</u>	<u>3,306,941</u>
EXPENDITURES		
General government	2,480,111	-
Public works	1,459,992	-
Public safety	3,694,702	-
Culture and recreation	172,432	-
Education	-	3,342,693
Debt service:		
Principal	-	-
Interest	<u>-</u>	<u>-</u>
Total expenditures	7,807,237	3,342,693
Excess (Deficiency) of Revenues over (under) Expenditures	(1,216,251)	(35,752)
OTHER FINANCING SOURCES (USES)		
Transfers in (out)	<u>1,861,414</u>	<u>-</u>
Total other financing sources (uses)	<u>1,861,414</u>	<u>-</u>
Net change in fund balances	645,163	(35,752)
Fund Balances (Deficit) - beginning	<u>(301,680)</u>	<u>(19,576)</u>
Fund Balances (Deficit) - ending	<u>\$ 343,483</u>	<u>\$ (55,328)</u>

Occupational Tax	Other Governmental Funds	Total Governmental Funds
\$ 2,600,797	\$ 147,715	\$ 6,528,568
-	-	550,388
-	708,712	4,363,493
-	-	1,132,107
-	-	147,655
-	618	1,034
-	-	441,802
<u>790</u>	<u>14,832</u>	<u>206,344</u>
<u>2,601,587</u>	<u>871,877</u>	<u>13,371,391</u>
-	208,320	2,688,431
-	552,490	2,012,482
-	-	3,694,702
-	-	172,432
-	-	3,342,693
-	330,000	330,000
<u>-</u>	<u>443,734</u>	<u>443,734</u>
-	1,534,544	12,684,474
2,601,587	(662,667)	686,917
<u>(2,540,100)</u>	<u>678,686</u>	<u>-</u>
<u>(2,540,100)</u>	<u>678,686</u>	<u>-</u>
61,487	16,019	686,917
<u>18,609</u>	<u>613,758</u>	<u>311,111</u>
<u>\$ 80,096</u>	<u>\$ 629,777</u>	<u>\$ 998,028</u>

CITY OF TUSKEGEE
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

Differences in amounts reported for governmental activities in the Statement of Activities.

Net change in fund balances - total governmental funds	\$ 686,917
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Activities.	(457,269)
Amortization expense on bond discount costs are included in the Statement of Activities; however, these charges are not included in the governmental funds.	(6,012)
Certain items reported as expenditures in governmental funds are allocable to future accounting periods and therefore are not reported as expenses in the Statement of Activities. These items include:	
Current year decrease in pension expense	433,643
Repayment of short-term debt and long-term debt is reported as an expenditure in governmental funds, but as a reduction in short-term liabilities and long-term liabilities in the Statement of Net Position.	330,000
Compensated absences reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.	<u>16,010</u>
Net position (deficit) of governmental activities	<u>\$ 1,003,289</u>

CITY OF TUSKEGEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the year ended September 30, 2017

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
REVENUES				
Taxes	\$ 3,699,000	\$ 3,699,000	\$ 3,780,056	\$ 81,056
Licenses and permits	673,500	673,500	550,388	(123,112)
Intergovernmental	268,000	268,000	791,882	523,882
Charges for services	1,323,700	1,323,700	1,132,107	(191,593)
Fines and forfeitures	250,000	250,000	147,655	(102,345)
Interest	-	-	237	237
Miscellaneous	<u>242,540</u>	<u>242,540</u>	<u>188,661</u>	<u>(53,879)</u>
Total revenues	<u>6,456,740</u>	<u>6,456,740</u>	<u>6,590,986</u>	<u>134,246</u>
EXPENDITURES				
General government	2,754,135	2,754,135	2,480,111	274,024
Public works	1,613,856	1,613,856	1,459,992	153,864
Public safety	3,409,031	3,409,031	3,694,702	(285,671)
Culture and recreation	236,694	236,694	172,432	64,262
Debt service:				
Principle	-	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	8,013,716	8,013,716	7,807,237	206,479
Excess revenues under expenditures	(1,556,976)	(1,556,976)	(1,216,251)	778,496
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>1,476,637</u>	<u>1,476,637</u>	<u>1,861,414</u>	<u>384,777</u>
Total other financing sources (uses)	<u>1,476,637</u>	<u>1,476,637</u>	<u>1,861,414</u>	<u>384,777</u>
Net change in fund balance	(80,339)	(80,339)	645,163	1,163,273
Fund Balance (Deficit) - beginning	<u>-</u>	<u>-</u>	<u>(301,680)</u>	<u>(301,680)</u>
Fund Balance (Deficit) - ending	<u>\$ (80,339)</u>	<u>\$ (80,339)</u>	<u>\$ 343,483</u>	<u>\$ 861,593</u>

CITY OF TUSKEGEE
HEAD START
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
(Contract Period November 1, 2016 - October 31, 2017
For the year ended September 30, 2017

	Original Budget	Final Budget	Budgetary Basis PY Actual	Budgetary Basis Actual Amounts	Variance With Final Budget- Positive (Negative)
REVENUES					
Intergovernmental	\$ 2,340,560	\$ 2,363,663	\$ 2,716,974	\$ 2,862,899	\$ 499,236
Donated services and space	-	-	435,287	438,568	438,568
Total revenues	2,340,560	2,363,663	3,152,261	3,301,467	937,804
EXPENDITURES					
Education					
Personnel	1,411,512	1,377,122	1,506,286	1,485,927	108,805
Fringe	316,969	326,611	378,665	326,582	(29)
Travel	3,040	-	21,962	-	-
Supplies	45,600	53,701	77,468	210,084	156,383
Contractual	36,000	94,372	39,561	91,177	(3,195)
Other	527,439	511,857	693,032	749,129	237,272
Grantee's share	-	-	435,287	438,568	438,568
Total expenditures	2,340,560	2,363,663	3,152,261	3,301,467	-
Net change in fund balance	-	-	-	-	-
Fund Balance - beginning	-	-	-	-	-
Fund Balance - ending	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF TUSKEGEE
HEAD START
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
(Contract Period November 1, 2015 - October 31, 2016
For the year ended September 30, 2016

	Original Budget	Final Budget	Budgetary Basis PV Actual	Budgetary Basis Actual Amounts	Variance With Final Budget- Positive (Negative)
REVENUES					
Intergovernmental	\$ 2,299,707	\$ 2,716,975	\$ 2,053,009	\$ 2,716,974	\$ (1)
Donated services and space	<u>574,927</u>	<u>574,927</u>	<u>415,846</u>	<u>435,287</u>	<u>(139,640)</u>
Total revenues	<u>2,874,634</u>	<u>3,291,902</u>	<u>2,468,855</u>	<u>3,152,261</u>	<u>(139,641)</u>
EXPENDITURES					
Education					
Personnel	1,528,454	1,528,454	1,203,439	1,506,286	(22,168)
Fringe	315,662	315,662	288,184	378,665	63,003
Travel	14,850	14,850	18,402	21,962	7,112
Supplies	39,475	39,475	43,622	77,468	37,993
Contractual	34,800	34,800	35,203	39,561	4,761
Other	366,466	783,734	464,159	693,032	(90,702)
Grantee's share	<u>574,927</u>	<u>574,927</u>	<u>415,846</u>	<u>435,287</u>	<u>(139,640)</u>
Total expenditures	<u>2,874,634</u>	<u>3,291,902</u>	<u>2,468,855</u>	<u>3,152,261</u>	<u>(139,641)</u>
Net change in fund balance	-	-	-	-	-
Fund Balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tuskegee, Alabama (the "City"), was incorporated in 1843. The City operates under a Council-Manager form of government lead by a four-member Council, a Mayor and an appointed City Manager. The council-manager form is the system of local government that combines the political leadership of elected officials in the form of a council and mayor, with the managerial experience of an appointed local government manager. The form establishes a representative system where all power is concentrated in the elected council and where the council hires a professionally trained manager to oversee the delivery of public services.

The City's major operations include police and fire protection, parks, library and recreation, public works and general administrative services. In addition, the City owns and operates a water and sewer system.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. Because one of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of those elected officials, the definition of the financial reporting entity should be based on accountability.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) 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. The nucleus of a financial reporting entity usually is a primary government.

A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency, component unit, if its officials appoint a voting majority of that agency's governing body and it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

The City has no component units that are required to be reported in these financial statements.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Related Organization

The Utility Board of the City of Tuskegee (UBT) is a related organizations to which the City appoints a voting majority of board members but for which the City has no significant financial accountability. For the year 2017, three (3) of the five (5) board members are elected governing officials of the City (Mayor and 2 Councilors) and the remaining members are elected at large. All transactions with UBT are conducted in the ordinary course of business. Further financial information is available from UBT at P.O. Box 831050, 101 Fonville Street, Tuskegee, AL 36083

Basic Financial Statements - Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks, library and recreation, public works, and general administrative services are classified as governmental activities.

In the government-wide Statement of Net Position, governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (police, fire, parks, library and recreation, public works, and general administrative services). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police and fire protection, parks and recreation, public works, and general administrative services). Operating grants include operating-specific and discretionary grants while the capital grants column reports capital-specific grants.

The net costs (by function) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc).

The City does not allocate indirect costs. An administrative service fee is not charged by the General Fund to the other operating funds to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City electively added funds, as major funds, which either had debt outstanding or specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports these major governmental funds and fund types:

General Fund – This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Head Start – This fund accounts for the activities of the City's Head Start Program.

Occupational Tax – This fund accounts for tax revenue generated by a locally imposed tax used to fund debt service and general government operations.

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

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 when a liability is incurred, regardless of the timing of related cash flows. 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, considered to be sixty days.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Financial Statement Amounts

Cash and Cash Equivalents

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

Investments

The City's investments are limited to money market funds. These investments are reported at amortized cost, which approximates fair value.

Receivables and Due from Other Governments

The City considers all governmental fund receivables at year end to be collectible and as such, no allowance for doubtful accounts is recorded.

Inventories

Purchases of inventories for governmental funds are reported as expenditures in the period purchased. Inventories for governmental funds are not deemed material and are not reported on the balance sheet.

Interfund Loans and Transfers

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Restricted Cash and Cash Equivalents

The assets restricted by bond agreement as shown in the Statement of Net Position are to be used strictly to retire the long-term debt. The assets were accumulated according to the bond indenture of the various issues. It is the City's policy to use restricted assets before unrestricted assets when both are available to fund specific expenditures.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and capital assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The City does not report infrastructure acquired prior to October 1, 1999.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	30-50 years
Improvements	15-30 years
Furniture and office equipment	5-15 years
Vehicles and equipment	5-10 years
Heavy equipment	5-10 years
Infrastructure	30-50 years

Compensated Absences

The City allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods. Upon termination of employment, an employee receives payment of accumulated vacation hours up to certain limits at current wage rates. The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual leave balances.

Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums, discounts and bond insurance are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized 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 debt service expenditures.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item reported in this category, deferred outflows related to pension. A deferred outflow related to pension results from pension contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date, in accordance with the implementation of GASB Statement No. 71.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category deferred inflows related to pension, unearned property taxes, and unearned grant revenue. A deferred inflow related to pension results from the net difference between projected and actual earnings on plan investments, in accordance with the implementation of GASB Statement No. 71, and is amortized over five years beginning with the year in which the difference occurred.

Net Position/Fund Equity

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

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

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

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

Fund equity is reported in the fund financial statements in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

In addition to the nonspendable fund balance, spendable fund balances, are reported based on a hierarchy of spending constraints:

Restricted – Fund balances that are constrained by external parties, constitutional provisions or enabling legislation. The City's restricted fund balance primarily includes money market funds restricted for debt service.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City has no fund balances classified as committed.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

Unassigned – Fund balances of the General Fund that are not constrained for any particular purpose.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed to fund specific expenditures.

Donated Services and Space

Significant services, materials and facilities are donated to the City's Head Start program by various individuals and organizations. Donated materials, professional services and facilities were recorded at fair market value at the date of donation, and have been included in revenue and expenditures for the year.

Property Tax Calendar

In Alabama, City property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31st. In accordance with the non-exchange transaction provision of GASB Statement No. 33, taxes levied in fiscal year 2017 for the 2017 budget year have been recorded as a receivable and deferred inflows of resources. Accounts receivable are carried at their estimated collectible amounts. They are periodically evaluated for collectability based on past credit history.

Management Estimates and Assumptions

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

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impact of Recently Issued Accounting Pronouncements

Recently Issued and Adopted

In fiscal year 2017, the City adopted three new statements of financial accounting standards issued by the GASB:

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires disclosures of tax abatements resulting from both (a) agreements that are entered into by the City and (b) agreements that are entered into by other governments and that reduce the City's tax revenues.

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

Future Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employees. This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information are also addressed by the statement. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 75 is effective for fiscal years beginning after June 15, 2017. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement will enhance the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

CITY OF TUSKEGEE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement will enhance consistency in the application of accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement provides guidance for transactions in which cash and other monetary assets acquired with only existing resources--resources other than the proceeds of refunding debt--are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Each year formal budgets are legally adopted and amended as required by the City Council for the General Fund and Head Start Fund. Management can approve transfers within government function categories only. Transfers of appropriations or revisions between government function categories require the approval of the City Council. The level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the government function category level. Budgets for the governmental funds are adopted on a basis consistent with GAAP. The actual results of operations in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Head Start are presented on a budgetary basis for budgetary accounting purposes. Adjustments to convert the results of operation of Head Start at the end of the year from the budgetary basis of accounting to the GAAP basis of accounting are as follows:

	<u>Expenditures</u>	<u>Total Revenue</u>
Budget basis	\$ -	\$ -
Non-budgeted revenues, expenditures, and other sources:		
Operating expenditures	-	-
Intergovernmental - grants	-	-
GAAP basis	<u>\$ -</u>	<u>\$ -</u>

Deficit Fund Equity

The Head Start Fund receives funding from federal and state grant sources as well as local donations. Management believes the fund deficit is temporary and will be resolved in the next fiscal year.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance sheet and the Statement of Net Position

Deferred inflows of resources, long-term liabilities, and deferred outflows of resources applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities or deferred inflows of resources or deferred outflows of resources. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net position. Recognition of pension expense on the accrual basis also includes recognition of deferred inflows of resources, deferred outflows of resources, and the net pension liability in the government-wide statements, but the governmental funds recognize these amounts on the modified accrual basis.

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

Repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due rather than as it accrues. This adjustment is a combination of five items.

NOTE 4 - DEPOSITS AND INVESTMENTS

The City has elected to place its cash and cash equivalents in demand deposits, savings and certificates of deposit accounts. Demand and time deposits are fully insured and collateralized by the Federal Deposit Insurance Corporation (FDIC) and the Security for Alabama Funds Enhancement ("SAFE") Program operated by the office of the Treasurer of the State of Alabama as authorized by Section 41-14A of the Code of Alabama 1975, as amended. The City maintains deposits only with "Qualified Public Depositories" as defined by Section 41-14A2 Code of Alabama 1975. In the event of default by a "Qualified Public Depository", public deposits in excess of FDIC insurance limits will be repaid by liquidating collateral pledged to the SAFE Program by the bank in default. The liability for any remaining public deposits will be shared by all other "Qualified Public Depositories" participating in the SAFE Program.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS (CONT'D)

Money Market Accounts - Restricted

In accordance with provisions of bond issues, the City maintains money market accounts which are restricted for debt service. Total funds invested in money market accounts at September 30, 2017 are \$588,961.

Custodial Risk

The custodial risk for deposits with financial institutions is the risk that in the event of a bank's failure, the City's deposits may not be returned to it. By making deposits with Qualified Public Depository mitigates the City's risk.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the City will not be able to recover the value of its investments that are in possession of an outside party.

NOTE 5 - RECEIVABLES

At September 30, 2017, receivables of \$181,580 were comprised primarily funds due from the settlement of franchise fee litigation.

NOTE 6 - DUE FROM OTHER GOVERNMENTS

Balances due from other governments as of year-end are as follows:

	<u>General</u>	<u>Head Start</u>	<u>Total</u>
Due from:			
Utility Board of Tuskegee	\$ 63,263	\$ -	\$ 63,263
Macon County	374,467	-	374,467
Grantors	<u>138,354</u>	<u>(20,183)</u>	<u>118,171</u>
	<u>\$ 576,084</u>	<u>\$ (20,183)</u>	<u>\$ 555,901</u>

NOTE 7 - INTERFUND ACTIVITY

The composition of interfund balances as of September 30, 2017 is as follows:

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	
General	Total Other Governmental Funds	<u>\$52,862</u>
Total		<u>\$52,862</u>

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – INTERFUND ACTIVITY (CONT'D)

The outstanding balance between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers are generally used to meet cash demands necessary to pay operating expenses. The composition of interfund transfers at September 30, 2017 is as follows:

Interfund Transfers	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
General Fund	\$ 2,540,100	\$ (678,686)	\$ 1,861,414
Occupational Tax Fund	-	(2,540,100)	(2,540,100)
Other Governmental Funds	<u>678,686</u>	<u>-</u>	<u>678,686</u>
	<u>\$ 3,218,786</u>	<u>\$ (3,218,786)</u>	<u>\$ -</u>

NOTE 8 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	<u>\$ 702,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 702,625</u>
Capital assets, being depreciated:				
Buildings	\$ 5,461,006	\$ -	\$ -	\$ 5,461,006
Improvements	2,294,044	-	-	2,294,044
Vehicles and equipment	2,116,069	-	-	2,116,069
Furniture and office equipment	201,072	-	-	201,072
Heavy equipment	1,388,971	-	-	1,388,971
Infrastructure	<u>2,643,123</u>	<u>-</u>	<u>-</u>	<u>2,643,123</u>
Total capital assets, being depreciated	<u>4,104,285</u>	<u>-</u>	<u>-</u>	<u>4,104,285</u>
Less accumulated depreciation for:				
Buildings	1,255,891	165,758	-	1,421,649
Improvements	1,334,349	124,807	-	1,459,156
Vehicles and equipment	1,783,473	103,392	-	1,886,865
Furniture and office equipment	134,553	-	-	134,553
Heavy equipment	1,273,468	53,270	-	1,326,738
Infrastructure	<u>2,319,699</u>	<u>10,043</u>	<u>-</u>	<u>2,329,742</u>
Total accumulated depreciation	<u>8,101,433</u>	<u>457,270</u>	<u>-</u>	<u>8,558,703</u>
Total capital assets, being depreciated, net	<u>\$ 6,002,852</u>	<u>\$ (457,270)</u>	<u>\$ -</u>	<u>\$ 5,545,582</u>

Depreciation expense was charged to functions of governmental activities as follows:

General government	\$ 361,130
Public safety	86,869
Public works	<u>9,271</u>
Total depreciation expense - governmental activities	<u>\$ 457,270</u>

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - ACCRUED PAYROLL AND PAYROLL LIABILITIES

At September 30, 2017, accrued payroll is comprised of the following:

Salaries payable	\$ 80,722
Federal withholding taxes payable	45,908
Occupational tax payable - City	115,049
Miscellaneous payable	<u>90,662</u>
Total accrued payroll and payroll liabilities	<u>\$ 332,341</u>

NOTE 10 - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General obligation warrants	\$ 10,685,000	\$ -	\$ (330,000)	\$ 10,355,000	\$ 340,000
Bond discounts	(122,687)	6,012	-	(116,675)	-
Notes payable	255,778	-	(112,594)	143,184	72,095
Capital leases	113,851	-	(23,551)	90,300	25,066
Compensated absences	<u>590,674</u>	<u>189,753</u>	<u>(265,503)</u>	<u>514,924</u>	<u>-</u>
	<u>\$ 11,522,616</u>	<u>\$ 195,765</u>	<u>\$ (731,648)</u>	<u>\$ 10,986,733</u>	<u>\$ 437,161</u>

Debt service requirements on long-term debt at September 30, 2017, is as follows:

Fiscal Year Ending September 30,	Governmental Activities	
	General Obligation Warrants	
	Principal	Interest
2018	\$ 340,000	\$ 433,124
2019	350,000	421,724
2020	365,000	409,631
2021	380,000	397,011
2022	385,000	383,816
2023-2027	2,740,000	1,613,661
2028-2032	2,850,000	1,000,553
2033-2037	<u>2,945,000</u>	<u>328,778</u>
	<u>\$ 10,355,000</u>	<u>\$ 4,988,298</u>

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT (CONT'D)

2007 General Obligation Warrants

On or about February 1, 2007, the City issued \$8,220,000 of General Obligation Warrants Series 2007 bonds. The proceeds were used to retire all outstanding long-term debt of the City and fund certain capital improvements. The warrants mature at various times throughout the life of the bonds and pay interest at rates ranging from 4.00% to 4.70%.

The City has pledged a portion of future occupational tax revenues to repay \$8,220,000 of General Obligation Warrant Series 2007 bonds. The bonds are payable solely from the occupational tax revenues. Occupational tax revenues were projected to produce in excess of 100% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$10,927,783 payable through January 2037. For the current year, principal and interest paid and total occupational tax revenues were \$471,844 and \$2,600,796, respectively.

2013 Limited Obligation Gas Tax Warrants

On or about January 24, 2013, the City issued \$1,185,000 of Limited Obligation Gas Tax Warrants Series 2013 bonds. The proceeds were used to retire the Limited Obligation Gas Tax Warrants Series 2007 bonds and fund certain street improvements. The warrants mature at various times throughout the life of the bonds and pay interest at rates ranging from 1.00% to 2.65%.

The City has pledged a portion of future gas tax revenues to repay \$1,185,000 of Limited Obligation Gas Tax Warrants Series 2013 bonds. The bonds are payable solely from gas tax revenues. Gas tax revenues were projected to produce in excess of 100% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$984,488 payable through September 2027. For the current year, principal and interest paid and total gas tax revenues were \$99,870 and \$152,152, respectively.

2013 Tuskegee - UBT Cooperative District Revenue Bonds

On or about November 27, 2013, the City issued \$2,790,000 of 2013 Tuskegee - UBT Cooperative District Revenue bonds. The proceeds were used to retire a debt owed to the IRS and make certain capital improvements. The warrants mature at various times throughout the life of the bonds and pay interest at rates ranging from 3.00% to 4.40%.

The City has pledged a portion of future special gas tax revenues, special lodging tax revenues and special sales tax revenues to repay \$2,790,000 of bonds. The bonds are payable solely from special gas tax revenues, special lodging tax revenues and special sales tax revenues. These revenues were projected to produce in excess of 100% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$3,431,028 payable through September 2027. For the current year, principal and interest paid and total special tax revenues were \$202,020 and \$164,649, respectively.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT (CONT'D)

Fiscal Year Ending September 30,	Governmental Activities	
	Notes Payable	
	Principal	Interest
2018	\$ 72,095	\$ 3,085
2019	71,089	4,092
	<u>\$ 143,184</u>	<u>\$ 7,177</u>

Note Payable – Kansas State Bank

In September 2015, the City entered into an agreement to purchase a garbage truck in the amount of \$168,489. Payments are made in monthly installments of \$3,064 with an annual interest rate of 3.610%, maturing August 2019. Note is secured by equipment.

Note Payable – BB&T Governmental Finance

In September 2015, the City entered into an agreement to purchase police vehicles in the amount of \$182,300. Payments are made in monthly installments of \$3,201 with an annual interest rate of 2.07%, maturing August 2019. Note is secured by vehicles.

Capital Lease Obligation – Police Headquarters Building

In June 2009, the City entered into an agreement to purchase land and building to serve as headquarters for the City's police department in the amount of \$232,000. Payments are made in monthly installments of \$2,500 with an annual interest rate of 6.25%.

Fiscal Year Ending September 30,	Governmental Activities	
	Capital Lease Obligation	
	Principal	Interest
2018	\$ 25,066	\$ 4,935
2019	26,679	3,321
2020	28,395	1,605
2021	10,160	4,092
	<u>\$ 90,300</u>	<u>\$ 13,953</u>

Other Long-Term Debt

Compensated absences are generally liquidated by the City's general fund.

Operating Leases

The City is a party to multiple leases for buildings and equipment used in their Head Start program, all of which are classified as operating leases. Total rent for these leases totaled \$67,680 for the fiscal year ended September 30, 2017.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT (CONT'D)

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows for the fiscal years ending September 30:

2018	\$78,238
2019	\$56,668
2020	\$35,098

NOTE 11 – EMPLOYEE RETIREMENT PLAN

Summary of Significant Accounting Policies for the Pension Plan

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

General Information about the Pension Plan

Plan description. The Employees' Retirement System of Alabama ("ERS"), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operating of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama ("RSA"). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board on Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

1. The Governor, ex officio.
2. The State Treasurer, ex officio.
3. The State Personnel Director, ex officio.
4. The State Director of Finance, ex officio.
5. Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

6. Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county or a public agency each of whom is an active beneficiary of ERS
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to §36-27-6

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) 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. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, 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 ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) 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 ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS services approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

As of September 30, 2017, the City's membership consisted of:

Retirees and beneficiaries currently receiving benefits	91
Vested inactive employees	2
Non-vested inactive employees	15
Post-drop Retired Members Still- Active	1
Active members	<u>154</u>
	<u>263</u>

Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by a statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS 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 ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016, the City's active employee contribution rate was 5% of covered employee payroll for normal Tier 1 employees and 6% of covered employee payroll for normal Tier 2 employees, and the City's average contribution rate to fund the normal and accrued liability costs was 0% of covered employee payroll for Tier 1 employees and 0% for Tier 2 employees.

The City's contractually required contribution rate for the year ended September 30, 2016 was 0.35% of pensionable pay for Tier 1 employees, and 0.35% of pensionable pay for Tier 2 employees.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and 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 City were \$22,262 for the year ended September 30, 2017.

Net Pension Liability

The City's 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 September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual-2015 Valuation Assumptions</u>	<u>Actual-2016 Valuation Assumptions</u>
Total Pension Liability			
As of September 30, 2015 (a)	\$ 19,084,842	\$ 19,545,071	\$ 20,216,856
Discount rate (b)	8.00%	8.00%	7.75%
Entry Age Normal Cost for			
October 1, 2015 - September 30, 2016 (c)	459,591	459,591	453,582
Transfers Among Employers: (d)	-	(86,964)	(86,964)
Actual Benefit Payments and Refunds for			
October 1, 2015 - September 30, 2016 (e)	<u>(1,350,733)</u>	<u>(1,350,733)</u>	<u>(1,350,733)</u>
Total Pension Liability			
As of September 30, 2016			
[(a) x (1 + (b))] + (c) + (d) + [(e) x (+0.5*(b))] (f)	\$ 19,666,458	\$ 20,076,541	\$ 20,747,206
Difference between Expected and Actual (g)		\$ 410,083	
Less Liability Transferred for Immediate Recognition: (h)		<u>\$ (86,964)</u>	
Experience (Gain)/Loss= (g)-(h)		\$ 497,047	
Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions):			
Assumption Change (Gain)/Loss			\$ 670,665

Actuarial assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

* Net of pension plan investment expense

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2017 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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:

	<u>Long-Term Target Allocation</u>	<u>Expected Rate of Return</u>
Fixed income	25.00%	5.00%
U.S. large stocks	34.00%	9.00%
U.S. mid stocks	8.00%	12.00%
U.S. small stocks	3.00%	15.00%
International developed market stocks	15.00%	11.00%
International emerging market stocks	3.00%	16.00%
Real estate	10.00%	7.50%
Cash	2.00%	1.50%

Discount rate. The discount rate used to measure the total pension liability was the long-term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the City's net pension liability calculated using the discount rate of 8%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

	<u>1% Decrease (6.75%)</u>	<u>Current Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's net pension liability (asset)	<u>\$(424,656)</u>	<u>\$(2,566,972)</u>	<u>\$(4,382,975)</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report dated June 3, 2016 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension income of \$270,434. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,048,943	\$ -
Changes of assumptions	558,887	-
Net difference between projected and actual earnings on pension plan investments	204,363	-
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 1,812,193</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 410,966	\$ -
2019	410,965	-
2020	575,563	-
2021	220,082	-
2022	194,617	-

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - RISK MANAGEMENT AND LITIGATION

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained coverage from insurance companies, effectively transferring any risk of loss above the City's deductible of \$25,000. The City is a defendant in several litigations and claims arising in the ordinary course of operations. In the opinion of legal counsel, the range of potential recoveries or liabilities in excess of insurance coverage, if any is not reasonably determinable. No accruals for loss contingency have been made in the financial statements.

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

NOTE 13 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the issuance date of these financial statements, and no events were deemed to warrant disclosure.

CITY OF TUSKEGEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
Last 2 Fiscal Years

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 459,591	\$ 406,304
Interest	1,472,758	1,358,615
Changes of benefit terms	-	-
Differences between expected and actual experience	497,047	977,839
Changes of assumptions	670,665	-
Benefit payments, including refunds of employee contributions	(1,350,733)	(1,281,202)
Transfers among employers	<u>(86,964)</u>	<u>-</u>
Net change in total pension liability	1,662,364	1,461,556
Total pension liability - beginning	<u>19,084,842</u>	<u>17,623,286</u>
Total pension liability - ending (a)	<u>\$20,747,206</u>	<u>\$19,084,842</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 47,837	\$ 11
Contributions - member	283,968	293,762
Net investment income	2,205,995	264,671
Benefit payments, including refunds of employee contributions	(1,350,733)	(1,281,202)
Transfers among employers	<u>(86,964)</u>	<u>267,821</u>
Net change in plan fiduciary net position	1,100,103	(454,937)
Plan net position - beginning	<u>22,214,075</u>	<u>22,669,012</u>
Plan net position - ending (b)	<u>\$23,314,178</u>	<u>\$22,214,075</u>
Net Pension Liability (Asset)		
Net pension liability (asset) - ending (a) - (b)	(2,566,972)	\$ (3,129,233)
Plan fiduciary net position as a percentage of the total pension liability	112.37%	116.40%
Covered-employee payroll*	3,408,651	\$ 5,482,274
Net pension liability (asset) as a percentage of covered -employee payroll	(75.31%)	(84.26%)

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

CITY OF TUSKEGEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 2 Fiscal Years

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution*	\$ -	\$ -
Contributions in relation to the actuarially determined contribution*	<u>11,394</u>	<u>11</u>
Contribution deficiency (excess)	<u>\$ 11,394</u>	<u>\$ 11</u>
Covered-employee payroll**	\$ 3,408,651	\$ 5,471,863
Contributions as a percentage of covered-employee payroll	.33%	-

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY 2017, the fiscal year is the twelve month period beginning 10/1/2016 and ending 9/30/2017.

**Employer's covered-payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For FY 2017, the fiscal year is the twelve month period beginning 10/1/2016 and ending 9/30/2017.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2012 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 – 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds include operating funds which are restricted as to use by federal or state governments and special purpose funds established by authority of the City Council.

Local Law Enforcement Block Grant accounts for activities associated with grant funds from the federal government to assist with the funding of specific needs of local law enforcement.

\$0.04 and \$0.05 State Gas Tax accounts for proceeds from a local gasoline tax. The use of this funding is restricted to expenditures related to construction, improvement and maintenance of highways, bridges, and streets.

\$0.07 Gas Tax accounts for proceeds from a state gasoline tax. The use of this funding is restricted to expenditures related to construction, improvement and maintenance of highways, bridges, and streets.

Senior Citizen accounts for programs providing services primarily to senior citizens.

Debt Service Funds are established to account for activity specifically related to the retirement of outstanding long-term debt. The City has the following bond issues accounted for in the following funds:

2013 Tuskegee – UBT Cooperative Clearing Fund and 2013 Tuskegee – UBT Cooperative District Bond Fund

2013 Gas Tax Warrants Debt Service

2007 G.O. Warrants Debt Service

Capital Project Funds account for the acquisition and construction of major capital facilities, equipment and vehicles.

City Airport Project accounts for grant revenue and expenditures related to improvements at Moton Field.

CDBG Project LR-SF-SP 01-008 and CDBG Project LR-CM-CP 11-015 account for grant revenue and expenditures related to community revitalization and infrastructure improvements.

Special Projects accounts for various capital projects undertaken at the discretion of City management.

2007 G.O. Warrants Improvements accounts for revenue and expenditures related to capital improvements funded by the 2007 G.O. Warrants.

2013 Tuskegee – UBT Cooperative Reserve Fund accounts for revenue and expenditures related to capital improvements funded by the 2013 Tuskegee – UBT Cooperative District Bond.

**CITY OF TUSKEGEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2017**

			<u>Special Revenue</u>
	<u>Local Law Enforcement Block Grant</u>	<u>\$0.04 & \$0.05 State Gas Tax</u>	<u>\$0.07 Gas Tax</u>
ASSETS			
Cash and cash equivalents	\$ 1,070	\$ 24,433	\$ 23,776
Money market accounts - restricted	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,070</u>	<u>\$ 24,433</u>	<u>\$ 23,776</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Due to other governments	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:			
Restricted	-	-	-
Assigned	1,070	24,433	23,776
Unassigned (deficit)	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance (deficit)	<u>1,070</u>	<u>24,433</u>	<u>23,776</u>
Total liabilities and fund balance (deficit)	<u>\$ 1,070</u>	<u>\$ 24,433</u>	<u>\$ 23,776</u>

Funds		Debt Service		
Senior Citizen	2013 Tuskegee UBT Cooperative Clearing Fund	2013 Tuskegee UBT Cooperative District Bond Fund	2013 Gas Tax Warrants	2007 G.O. Warrants Debt Service
\$ 1,780	\$ -	\$ -	\$ -	\$ 271
<u>-</u>	<u>-</u>	<u>123,854</u>	<u>66,337</u>	<u>193,734</u>
<u>\$ 1,780</u>	<u>\$ -</u>	<u>\$ 123,854</u>	<u>\$ 66,337</u>	<u>\$ 194,005</u>
 2,632	 -	 -	 -	 -
2,632	-	-	-	-
-	-	123,854	66,337	194,005
-	-	-	-	-
<u>(852)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(852)</u>	<u>-</u>	<u>123,854</u>	<u>66,337</u>	<u>194,005</u>
<u>\$ 1,780</u>	<u>\$ -</u>	<u>\$ 123,854</u>	<u>\$ 66,337</u>	<u>\$ 194,005</u>

CITY OF TUSKEGEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (CONT'D)
September 30, 2017

	Capital Projects		
	City Airport Project	CDBG Project LRSFPP 01008	Special Projects
ASSETS			
Cash and cash equivalents	\$ 10,468	\$ 53,685	\$ 409
Money market accounts - restricted	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 10,468</u>	<u>\$ 53,685</u>	<u>\$ 409</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Due to other funds	-	52,862	-
Due to other governments	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	-	52,862	-
Fund Balance (Deficit):			
Restricted	-	-	-
Assigned	10,468	823	409
Unassigned (deficit)	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance (deficit)	<u>10,468</u>	<u>823</u>	<u>409</u>
Total liabilities and fund balance (deficit)	<u>\$ 10,468</u>	<u>\$ 53,685</u>	<u>\$ 409</u>

Funds				Total Nonmajor Governmental Funds
CDBG Project LRCMCP 11015	2007 G.O. Warrant Improvements	2013 Tuskegee UBT Cooperative Reserve Fund	Exit 38	
\$ -	\$ 25	\$ -	\$ 325	\$ 116,242
-	-	205,036	-	588,961
<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 205,036</u>	<u>\$ 325</u>	<u>\$ 705,203</u>
-	-	-	19,932	75,426
-	-	-	-	-
-	-	-	19,932	75,426
-	-	205,036	(19,607)	569,625
-	25	-	-	61,004
-	-	-	-	(852)
<u>-</u>	<u>25</u>	<u>205,036</u>	<u>(19,607)</u>	<u>629,777</u>
<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 205,036</u>	<u>\$ 325</u>	<u>\$ 705,203</u>

CITY OF TUSKEGEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the year ended September 30, 2017

	Special Revenue		
	Local Law Enforcement Block Grant	\$0.04 & \$0.05 State Gas Tax	\$0.07 Gas Tax
REVENUES			
Taxes	\$ -	\$ 24,405	\$ 23,597
Intergovernmental	-	-	-
Interest	-	-	-
Miscellaneous	-	5	-
Total revenues	-	24,410	23,597
EXPENDITURES			
General government	-	-	-
Public works	-	-	-
Debt service:			
Principle	-	-	-
Interest	-	-	-
Total expenditures	-	-	-
Excess Revenues over (under) Expenditures	-	24,410	23,597
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	-	-
Net change in fund balances	-	24,410	23,597
Fund Balance (Deficit) - beginning	1,070	23	179
Fund Balance (Deficit) - ending	<u>\$ 1,070</u>	<u>\$ 24,433</u>	<u>\$ 23,776</u>

Funds		Special Revenue		
Senior Citizens	2013 Tuskegee UBT Cooperative Clearing Fund	2013 Tuskegee UBT Cooperative District Bond Fund	2013 Gas Tax Warrants	2007 G.O. Warrants Debt Service
\$ -	\$ -	\$ -	\$ 99,713	\$ -
-	-	-	-	-
-	-	220	100	298
-	-	-	-	-
-	-	220	99,813	298
100	-	-	-	-
-	-	-	-	-
-	-	105,000	80,000	145,000
-	-	97,020	19,870	326,844
100	-	202,020	99,870	471,844
(100)	-	(201,800)	(57)	(471,546)
-	-	205,222	-	473,464
(100)	-	3,422	(57)	1,918
(752)	-	120,432	66,394	192,087
<u>\$ (852)</u>	<u>\$ -</u>	<u>\$ 123,854</u>	<u>\$ 66,337</u>	<u>\$ 194,005</u>

CITY OF TUSKEGEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (CONT'D)
For the year ended September 30, 2017

	Capital Projects		
	City Airport Project	CDBG Project LRSFPF 01008	Special Projects
REVENUES			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	195,894	427,302	85,516
Interest	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>195,894</u>	<u>427,302</u>	<u>85,516</u>
EXPENDITURES			
General government	122,220	-	86,000
Public works	65,515	453,098	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>187,735</u>	<u>453,098</u>	<u>86,000</u>
Excess Revenues over (under) Expenditures	8,159	(25,796)	(484)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	8,159	(25,796)	(484)
Fund Balance (Deficit) - beginning	<u>2,309</u>	<u>26,619</u>	<u>893</u>
Fund Balance (Deficit) - ending	<u>\$ 10,468</u>	<u>\$ 823</u>	<u>\$ 409</u>

Funds				Total
CDBG	2007 G.O.	2013 Tuskegee		Nonmajor
Project	Warrant	UBT Cooperative		Governmental
LRCMCP 11015	Improvements	Reserve Fund	Exit 38	Funds
\$ -	\$ -	\$ -	\$ -	\$ 147,715
-	-	-	-	708,712
-	-	-	-	618
-	-	557	14,270	14,832
-	-	557	14,270	871,877
-	-	-	-	208,320
-	-	-	33,877	552,490
-	-	-	-	330,000
-	-	-	-	443,734
-	-	-	33,877	1,534,544
-	-	557	(19,607)	(662,667)
-	-	-	-	678,686
-	-	557	(19,607)	16,019
-	25	204,479	-	613,758
<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 205,036</u>	<u>\$ (19,607)</u>	<u>\$ 629,777</u>

**INDEPENDENT AUDITOR'S 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***

Honorable Mayor, City Manager and City Council
City of Tuskegee, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining governmental fund information of the City of Tuskegee (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. We did identify certain deficiencies in internal control (2017-001 and 2017-002), described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

City of Tuskegee's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Birmingham, Alabama
June 25, 2018

Banks Finley White & Co.



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

Honorable Mayor, City Manager and City Council
City of Tuskegee, Alabama

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City'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 City'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 City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City 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 City 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 City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 City's internal control over compliance.

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

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

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

Birmingham, Alabama
June 25, 2018

Paula F. White & Co.

CITY OF TUSKEGEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Pass-Through Grantor's No.	Expenditures
U.S. Department of Health and Human Services			
Direct program:			
Head Start	93.600	04CH4681-02-04	\$ 2,095,749
Head Start	93.600	04CH4681-03-03	<u>415,330</u>
Total U.S. Department of Health and Human Services			<u>2,511,079</u>
U.S. Department of Agriculture			
Passed-through Alabama Department of Education			
Child and Adult Care Food Program	10.558	N/A	<u>190,620</u>
U.S. Department of Housing and Urban Development			
Passed-through Alabama Department of Economic and Community Affairs			
Community Development Block Grant	14.218	LR-CM-PF-11-116	323,348
Community Development Block Grant	14.218	LR-CM-PF-11-116	190,620
Community Development Block Grant	14.218	LR-ED-PF-16-011	<u>13,770</u>
Total U.S. Department of Housing and Urban Development			<u>527,738</u>
U.S. Department of Transportation			
Passed-through Alabama Department of Transportation			
Airport Improvement Program	20.106	3-01-0078-016-2013	12,209
Airport Improvement Program	20.106	3-01-0078-018-2016	<u>65,515</u>
Total U.S. Department of Transportation			<u>77,724</u>
Social Security Administration			
Passed-through Alabama Department of Early Childhood Education			
Social Security-Disability Insurance	96.001	N/A	<u>215,100</u>
Total Expenditures of Federal Awards			<u>\$ 3,522,261</u>

CITY OF TUSKEGEE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal award activity of the City under programs of the federal government for the year ended September 30, 2017. The information in the 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 SEFA presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows where applicable, of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Expenditures reported in the SEFA are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The City has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

CITY OF TUSKEGEE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 4 – CONTINGENCIES

Grant monies received and disbursed by the City are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the City does not believe that such disallowance, if any, would have a material effect on the financial position of the City. As of June 25, 2017, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 5 – FEDERAL PASS-THROUGH FUNDS

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

NOTE 6 – NONCASH ASSISTANCE

The City did not receive any federal noncash assistance for the fiscal year ending September 30, 2017.

CITY OF TUSKEGEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2017

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> 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 Uniform Guidance	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

CITY OF TUSKEGEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2017

Section II – Financial Statements Findings

2017-001 - Reconciliation of Interfund Activity

- Condition:** Internal controls were insufficient to ensure that activity between the City's funds were accurately recorded throughout the year.
- Criteria:** Throughout the City's fiscal year, transactions between its funds occur routinely. This activity may be reciprocal or nonreciprocal. With *reciprocal* interfund activity, two or more funds may make an exchange of equal or almost equal value. For instance, one fund may loan cash to another fund with the expectation of being repaid in the near future. *Nonreciprocal* interfund activity does not involve the exchange of equal or almost equal value between funds. These transactions involve the flow of assets from one fund to another without the expectation of repayment. An example of this type of transaction would be the City's transfer of cash from the Occupational Tax Fund to the General Fund. Another example would be the reimbursing of one fund for particular expenditures to the fund that initially paid for them. With interfund activity, the expectation is that at any point in time, amounts "due to other funds" should equal amounts "due from other funds" and "Transfers out" to other funds should equal "transfers in" from other funds.
- Cause:** The City's journal entries relative to interfund activity were made improperly and controls were not sufficient that such errors would have been discovered and corrected in a timely manner.
- Effect:** The inadequate controls in this area could have a potential impact on the City's financial reporting by not accurately presenting the financial position and results of operations of the impacted funds.
- Recommendation:** The City should 1) ensure that staff preparing and reviewing journal entries make them properly, and 2) implement controls that ensure that interfund activity is accurately reported across each impacted fund.
- City's Response:** Procedures will be implemented to ensure that staff prepare and review journal entries before posting to the impacted funds. Reviews and reconciliation will occur on a monthly basis.

2017-002 - Accounts Receivable

- Condition:** Adjustments were not made to reflect transactions affecting the City's accounts receivable balance. The accounts receivable balance is derived from activity related to the municipal court. Also, the City did not adequately establish an allowance for those accounts that are uncollectible.
- Criteria:** Management is responsible designing and implementing controls ensuring that account balances are accurately reflected in its financial statements.
- Control accounts in the general ledger such as accounts receivable should be supported by subsidiary accounts (individual bills or assessments). The amounts in both should be reconciled to each other periodically, preferably monthly.

CITY OF TUSKEGEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2017

Cause: The City has not implemented systems to ensure that accounts receivable and other key subsidiary systems are reconciled to the general ledger on a routine basis. Additionally, the municipal court accounting system is not integrated into the City's financial reporting system.

Effect: Ineffective controls over reconciling key general ledger accounts increase the risks that those accounts could be materially misstated.

Recommendation: We recommend the City review and implement, where necessary, controls to ensure that accounts receivable balances reported are reflected correctly and in accordance with generally accepted accounting principles.

City's Response: Controls will be implemented to account for Municipal Court receivables. Additionally, the Municipal Court accounting system will be replaced by the City financial reporting system.

2017-003 - Preparation of the SEFA

Condition: During our audit, we found that there were no procedures in place to ensure proper preparation of the City's Schedule of Expenditures of Federal Awards (SEFA).

Criteria: Title 2 *U.S. Code of Federal Regulations Part 200-Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* 200.510(b) states, "The auditee must prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements, which must include total federal awards expended as determined in accordance with 200.502, Basis for Determining Federal Awards Expended..."

Cause: While the City's Head Start Fund, prepares a SEFA relative to its federal program expenditures, an individual with responsibility for overseeing the preparation of the City's SEFA in its entirety has not been designated.

Effect: There is a risk that the City could have federal program expenditures that would not be included in the SEFA, in accordance with the Single Audit Act of 1996 and the Uniform Guidance.

Recommendation: We recommend that an individual within the City, preferable from the Finance Department, be assigned the responsibility of gathering all information required for inclusion of the SEFA. This individual should also be tasked with the preparation of the SEFA and its related note disclosures.

City's Response: The Finance Department will have the responsibility of preparing the SEFA.

Section III - Federal Award Findings and Questioned Costs

No findings in the current year.

CITY OF TUSKEGEE
STATUS OF PRIOR YEAR AUDIT FINDINGS
For the year ended September 30, 2017

<u>Finding Control Number</u>	<u>Auditee's Response / Status</u>
<i>2016 - 01</i>	<i>Partially resolved – See Current Year Finding Finding – 2017-001</i>
<i>2016 - 02</i>	<i>Unresolved – Further action not warranted</i>