

Financial Statements

Troy City Board of Education

September 30, 2007

Troy City Board of Education
Troy, Alabama
September 30, 2007

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Troy City Board of Education, as of and for the year ended September 30, 2007, which collectively comprise the Board's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Troy City Board of Education's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Troy City Board of Education, as of September 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2008, on our consideration of the Troy City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance

and the results of that testing, and not to provide an opinion on the 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 should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 16 and the budgetary comparison information on pages 44 through 46, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Troy City Board of Education's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Troy City Board of Education. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

January 28, 2008


Brunson, Wilkerson, Bowden & Associates, P.C.

**Troy City Board of Education
Troy, Alabama
Management's Discussion and Analysis
September 30, 2007**

Our discussion and analysis of the Troy City Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

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

Financial Highlights: Significant Items to Note

Our financial statements provide these insights into the results of this year's operations:

On the government-wide financial statements:

The assets of the Board exceeded its liabilities at the close of the 2007 fiscal year by \$9.44 million (net assets). Our *government-wide financial statements* reflect \$9.74 million (restricted and unrestricted net assets), which may be used to meet the Board's future costs of operations, and a deficit of \$.30 million (invested in capital assets, net of related debt). The *government-wide financial statements* are a long-term availability approach to analyzing the financial statements.

The total cost of the Board's programs for the year was \$19.20 million. After taking away a portion of these costs paid for with charges or fees and intergovernmental aid, the net cost that required funding from Pike County taxpayers was \$3.90 million.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$9.05 million, or 56 percent of the total General Fund expenditures, before other financing uses and special items.

The Board reduced its outstanding long-term debt by \$421,601.

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Using the Financial Statements - An Overview for the User

As a result of the implementation of the new GASB 34 reporting model, the financial section consists of five parts - *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements*, *required supplemental information*, and *other supplemental information*.

The Board's new basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

Government-Wide Financial Statements

Perhaps the most notable feature of the model is the requirement for *government-wide financial statements*. The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the Board reported in the *government-wide financial statements* are classified as governmental activities. These activities include, but are not limited to the following:

Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional building, professional development, and classroom instructional materials, supplies and equipment.

Instructional Support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.

Operation and Maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.

Student Transportation includes expenses such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops.

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Using the Financial Statements – An Overview for the User (Continued)

Food Service includes expenses such as lunchroom managers, and cooks' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of food service equipment and facilities.

General Administration and Central Support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.

Interest and Fiscal Charges includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, and extended day personnel. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12th grade instructional programs.

Government-wide financial statements report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *statement of net assets* (page 17) is most closely related to a balance sheet. It presents information on all of the Board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net assets. The net assets reported in this statement represent the accumulation of changes in net assets for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net assets reported in this statement may serve as a useful indicator of whether the financial position of the School Board is improving or deteriorating.

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Using the Financial Statements - An Overview for the User (Continued)

The *statement of activities* (page 18) is most closely related to an income statement. It presents information showing how the Board's net assets changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense, function, or activity of the Board. By showing the change in net assets for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net assets may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

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 Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The new reporting model still requires the Board to present financial statements on a fund basis, but with some modifications. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental *fund financial statements* begin on page 19. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. As required under the new reporting model, the new *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major fund* is the General Fund.

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Using the Financial Statements - An Overview for the User (Continued)

The *fund financial statements* are still measured on the modified-accrual basis of accounting as reported in the previous fiscal years, where revenues and expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 20 and 22 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds - Fiduciary funds include the balances of agency funds, such as accounts payable clearing and payroll clearing funds. This also includes funds of booster and parent organizations. The system did not have any fiduciary funds to report as agency funds to the Board.

Notes to the Basic Financial Statements

The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 23 in this section.

After the presentation of the basic financial statements, the new reporting model requires additional required supplemental information to be presented following the *notes to the basic financial statements*. The required supplemental information provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board's Overall Financial Position

As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net assets. The Board's assets exceeded liabilities by \$9.44 million at September 30, 2007.

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Analysis of the School Board's Overall Financial Position (Continued)

Of this figure, (3.20) percent or (\$.30) million reflects the Board's investment in capital assets (e.g., land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net assets does not have a bearing on future spending or funding of operations.

The remaining balance of restricted and unrestricted net assets of \$9.74 million may be used at the Board's discretion to meet ongoing obligations to citizens and creditors and for future operations.

Table 1: Summary of Net Assets

As of September 30, 2007
(in millions)

	Governmental Activities	Percent of Total
Current and Other Assets	\$ 12.45	61.31%
Capital Assets	7.86	38.69%
Total Assets	<u>\$ 20.31</u>	<u>100.00%</u>
Current and Other Liabilities	\$ 2.57	23.63%
Long-Term Liabilities		
Including Current Portion	8.30	76.37%
Total Liabilities	<u>\$ 10.87</u>	<u>100.00%</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ (0.30)	(3.20%)
Restricted	0.73	7.78%
Unrestricted	9.01	95.42%
Total Net Assets	<u>\$ 9.44</u>	<u>100.00%</u>

At the end of the current fiscal year, the Board is able to report positive balances in two categories of net assets: restricted and unrestricted. This means that the Board has enough available resources to cover all outstanding obligations, including non-capital liabilities (such as accrued salaries and benefits) as of September 30, 2007, with resources left over to use for next year's operations.

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Analysis of the School Board's Overall Financial Position (Continued)

The Board's improved financial position is the product of many factors. But most significantly, this is the result of controlling expenditures.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 18. Table 2 below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net assets as of September 30, 2007.

Table 2: Summary of Changes in Net Assets From Operating Results
As of September 30, 2007
(in millions)

	<u>Governmental Activities</u>	<u>Percent of Total</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 1.59	7.76%
Operating Grants and Contributions	13.27	64.72%
Capital Grants and Contributions	.44	2.15%
General Revenues:		
Local Property Taxes	1.18	5.76%
Local Sales Taxes	3.26	15.90%
Other Taxes	.07	.34%
Other - Miscellaneous Revenues	.35	1.71%
Investment Earnings	<u>.34</u>	<u>1.66%</u>
Total Revenues	<u>\$ 20.50</u>	<u>100.00%</u>
Expenses		
Instructional Services	\$ 11.76	61.24%
Instructional Support Services	2.96	15.41%
Operation and Maintenance Services	1.47	7.66%
Student Transportation Services	.17	.89%
Food Services	1.19	6.20%
General Administrative Services	.84	4.38%
Interest and Fiscal Charges	.40	2.08%
Other Expenses	<u>.41</u>	<u>2.14%</u>
Total Expenses	<u>\$ 19.20</u>	<u>100.00%</u>
Changes in Net Assets	\$ 1.30	
Net Assets - Beginning	8.02	
Prior Period Adjustment	<u>.12</u>	
Net Assets - Ending	<u>\$ 9.44</u>	

**Troy City Board of Education
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Analysis of the School Board's Overall Financial Position (Continued)

The Board's net assets increased by \$1.30 million during the current fiscal year. This is mainly attributable to:

A net increase in capital assets as a result of new construction, and an increase in local tax revenues.

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2007 was \$19.20 million. It is important to note that not all of these costs were paid by the taxpayers of Pike County:

Some of the cost, \$1.59 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, and extended day.

State and federal governments subsidized certain programs with grants and contributions totaling \$13.71 million.

Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$.69 million in revenues.

\$5.20 million of the Board's total costs of \$19.20 million was financed by district and state taxpayers, as follows: \$1.18 million in property taxes, \$3.26 million in county sales tax, \$.07 million in other taxes (such as helping-school vehicle tags, and manufactured home registration fees), \$.35 million in miscellaneous revenue and \$.34 million in investment earnings.

Table 3 is a condensed statement taken from the Statement of Activities on page 18 showing the total cost for providing identified services for seven major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

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Analysis of the School Board's Overall Financial Position (Continued)

Table 3: Net Cost of Governmental Activities

As of September 30, 2007
(in millions)

	Total Cost of Services	Net Cost of Services
Instructional Services	\$ 11.76	\$ 1.29
Instructional Support Services	2.96	.41
Operation and Maintenance Services	1.47	.92
Student Transportation Services	.17	.09
Food Services	1.19	.16
General Administrative Services	.84	.55
Interest and Fiscal Charges	.40	.39
Other Expenses	<u>.41</u>	<u>.09</u>
Total	\$ <u>19.20</u>	\$ <u>3.90</u>

Performance of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the *fund financial statements*, which begin on page 19.

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 20 and 22. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$9.62 million.

Approximately \$9.05 million of this amount constitutes unreserved fund balance of the General Fund, which is available as of the end of the fiscal year for spending on future operations.

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Analysis of the School Board's Overall Financial Position (Continued)

Other Governmental Funds have an unreserved fund balance of \$.56 million, and a reserved fund balance of \$.04 million for inventories, totaling \$.60 million.

General Fund - The General Fund is the primary operating fund of the Board.

Also, management is conservatively planning for increases in recurring costs to be realized in future periods, such as funding needed for capital needs and the increasing employer share of salary-related benefits.

Overall, the Board's governmental funds had more revenues than expenditures at the end of the fiscal year. This was a result of an increase in sales tax. It is important to note the General Fund did not have a deficit budget.

Budgetary Highlights of Major Funds

On or before August 15 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. Every fourth year the state allows the Board until September 15, to submit the annual budget, the fiscal year ending September 30, 2007, was the fourth year for the Board. The original 2007 fiscal year budget, adopted on August 21, 2006, was based on a "bare bones" approach that reflected only guaranteed revenues and necessary expenditures since many of the state-funded programs had not been authorized at this point. The original budget figures were amended when revenues or expenditures exceeded 10%. Over the course of the year, the Board revised the annual operating budget one time on February 19, 2007. For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the new reporting model.

General Fund - The comparison of the original General Fund budget to the final amended budget is comprised of one amendment. The differences between the original budget and the final amended budget of the Board were relatively minor.

Amendment #1 was necessary to adjust line items for 10% in all programs: an additional allocation was added for Rural Home, Jag, Community Education, High Hopes, Title II, Competitive Grant and Children's First. Carryover budgets were also included in this amendment.

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Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2007, amounted to \$8.00 million, net of accumulated depreciation and debt related to the acquisition of the assets. The Board's investment in capital assets includes land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, buildings under capital lease, equipment under capital lease, and construction in progress, as shown in *Table 4*. (Comparative year data is presented in *Table 4*.)

Table 4: Capital Assets (Net of Accumulated Depreciation)

As of September 30, 2007
(in millions)

	Governmental Activities	
	2007	2006
Land and Land Improvements	\$.42	\$.43
Buildings & Improvements	7.02	7.27
Vehicles	.32	.37
Equipment	<u>.24</u>	<u>.21</u>
Total	<u>\$ 8.00</u>	<u>\$ 8.28</u>

Net capital assets decreased by \$.28 million for the 2007 fiscal year. This was contributed to depreciation costs during the fiscal year.

The Board purchased one used bus for \$5,000, fixed asset equipment for \$21,975, and two new ovens were purchased for \$40,059 with Child Nutrition funds.

Long-Term Debt - At year-end, the Board had \$8.30 million in general obligation bonds, capital lease contracts payable, and other long-term debt outstanding. This is a .42 percent decrease in debt from last year, as shown in *Table 5* below. (Comparative year data is presented in *Table 5*, as all necessary criteria was readily available to management to restate the prior year's balance of long-term debt.)

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Capital Assets and Debt Administration (Continued)

Table 5: Outstanding Long-Term Debt

As of September 30, 2007
(in millions)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Governmental Activities			
Bonds and Warrants Payable	\$ 8.15	\$ (.29)	\$ 7.86
Other Liabilities			
Capital Leases	-	-	-
Compensated Absences	-	-	-
Other Long-Term Liabilities	<u>.57</u>	<u>(.13)</u>	<u>.44</u>
Total Governmental Activities Long-Term Debt	<u>\$ 8.72</u>	<u>\$ (.42)</u>	<u>\$ 8.30</u>

Long-term debt activity for the year consisted of the following:

The Board continued to pay down its general obligation bonded debt issued in 2000, 2001 and 2002, retiring \$.42 million in outstanding bonds during the fiscal year 2007.

(More detailed information about the Board's long-term liabilities is presented in the *notes to the basic financial statements*.)

Economic Factors and Next Year's Budget

The following are currently known Troy City economic factors considered going into the 2007-2008 fiscal year.

The unemployment rate in Pike County for October 2007 is .10 percent, which is an increase from the rate of .07 percent in October 2006.

The property tax base in Pike County, based on the 2008 tax levy, shows an increase in assessed value of property in the county by approximately 3 percent from the 2007 tax levy.

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Economic Factors and Next Year's Budget (Continued)

Another positive sign for Troy City Schools has been economic growth. We continue to see new businesses open, which have assisted in our sales tax growth.

The Troy City Board of Education has weathered the economic recession well with conservative spending and allocation of resources. However, uncertainty always exists in the area of state funding due to decreasing revenues flowing into the Education Trust Fund caused by economic recession, and increasing expenditures, primarily in the areas of retirement and health insurance. This uncertainty has caused the Board to budget for continued cautious spending for the 2008 fiscal year.

At the time these financial statements were prepared and audited, the Board was aware of the following circumstances that could significantly affect the Board's financial health in the future:

Proration of State Appropriations - Applicable provisions of the Constitution of Alabama effectively prohibit the State from engaging in deficit financing--that is to say, State expenditures during any fiscal year may not exceed available revenues. State law provides procedures for delaying or, if necessary, reducing (or "prorating") appropriations of State revenues in order to maintain and enforce the constitutional ban on deficit financing. The Board received the largest share of its annual revenue from the State. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. The postponement or reduction of State appropriations to the Board as a consequence of proration may therefore result in reductions of expenditures by the Board for certain budget items other than salaries (e.g. instructional materials, supplies and maintenance). The following table sets forth the years in which proration has been enforced since 1985 and the amounts of such proration:

<u>Fiscal Year</u>	<u>Percentage Proration</u>
1985-86	4.2133%
1990-91	6.5000%
1991-92	3.0000%
2000-01	6.2000%

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Economic Factors and Next Year's Budget (Continued)

Estimated Capital Needs - As of September 30, 2007, the Board's Five-Year Capital Plan, based upon critical needs and a State facility assessment, included \$6 million in estimated capital needs throughout the system, \$400,000 of which is scheduled for the 2008 fiscal school year. This will be funded with local funds.

Student Enrollment - The latest student enrollment figure of 2,298, as of the forty-day report in the 2007-2008 school year, indicates there will be an actual decrease in enrollment of approximately fifty-three students for the 2008 fiscal year.

<u>Enrollment</u> <u>Increase (Decrease)</u>	<u>Fiscal Year</u>
(53)	2008
09	2007
(25)	2006
(35)	2005
50	2004
56	2003
52	2002

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP health insurance employer costs have risen for the fiscal year 2008. PEEHIP employer costs increased from \$717 to \$775 per employee per month in fiscal year 2008. Also, employer contributions to the Teachers Retirement System (TRS) increased from 9.36 percent for fiscal year 2007 to 11.75 percent for fiscal year 2008.

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Joyce Deveridge, Chief Financial Officer, at the Troy City Board of Education, 500 Elm Street, Troy, AL 36081, or by calling (334) 566-3741 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:30 p.m., central standard time.

**Troy City Board of Education
Troy, Alabama
Statement of Net Assets
September 30, 2007**

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Cash	\$ 8,098,608	\$ 8,098,608
Investments	2,018,000	2,018,000
Ad Valorem Property Taxes Receivable	1,177,339	1,177,339
Receivables	740,194	740,194
Inventories	40,501	40,501
Deferred Charges	224,365	224,365
Prepaid Items	10,968	10,968
Capital Assets		
Nondepreciable	141,556	141,556
Depreciable, Net	7,858,305	7,858,305
TOTAL ASSETS	<u>\$ 20,309,836</u>	<u>\$ 20,309,836</u>
LIABILITIES		
Deferred Revenue	\$ 1,198,604	\$ 1,198,604
Salaries and Benefits Payable	1,267,453	1,267,453
Accrued Interest Payable	102,251	102,251
Long-Term Obligations		
Due in One Year	440,611	440,611
Due in More Than One Year	7,861,636	7,861,636
TOTAL LIABILITIES	<u>\$ 10,870,555</u>	<u>\$ 10,870,555</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ (302,392)	\$ (302,392)
Restricted for:		
Capital Projects	-	-
Other Purposes	734,786	734,786
Unrestricted	9,006,887	9,006,887
Total Net Assets	<u>\$ 9,439,281</u>	<u>\$ 9,439,281</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,309,836</u>	<u>\$ 20,309,836</u>

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Statement of Activities
For the Year Ended September 30, 2007

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental					
Instructional Services	\$ 11,757,256	\$ 200,447	\$ 9,926,547	\$ 336,995	\$ (1,293,267)
Instructional Support Services	2,956,983	107,116	2,358,045	84,249	(407,573)
Operation and Maintenance Services	1,470,034	53,833	495,966	1,684	(918,551)
Student Transportation Services	169,483	12,907	50,403	17,592	(88,581)
Food Services	1,190,219	970,851	59,035	-	(160,333)
General Administrative Services	846,913	32,996	264,083	-	(549,834)
Interest and Fiscal Charges	397,546	-	-	-	(397,546)
Other Expenses	415,749	213,032	115,256	-	(87,461)
Total Governmental Activities	\$ 19,204,183	\$ 1,591,182	\$ 13,269,335	\$ 440,520	\$ (3,903,146)
General Revenues					
Taxes					
Property Taxes for General Purposes					\$ 1,177,034
Local Sales Tax					3,258,334
Other Tax					70,452
City Council Appropriations					-
Investment Earnings					349,245
Miscellaneous Revenues					341,411
Total General Revenues					\$ 5,196,476
Changes in Net Assets					\$ 1,293,330
Net Assets Beginning of Year - As Previously Stated					8,022,174
Prior Period Adjustment					123,777
Net Assets Ending					\$ 9,439,281

Troy City Board of Education
Troy, Alabama
Balance Sheet
Governmental Funds
September 30, 2007 (With comparative totals for September 30, 2006)

	General	Title I Grants to Local Educational Agencies	Other Governmental Funds	Totals	
				September 30, 2007	September 30, 2006
ASSETS					
Cash	\$ 7,604,214	\$ 12,168	\$ 482,226	\$ 8,098,608	\$ 7,109,861
Investments	2,000,000	-	18,000	2,018,000	2,018,000
Receivables	1,641,434	82,040	194,059	1,917,533	1,382,811
Due from other funds	93,015	-	-	93,015	-
Prepaid Expenses	10,968	-	-	10,968	10,969
Inventories	-	-	40,501	40,501	28,661
TOTAL ASSETS	\$ 11,349,631	\$ 94,208	\$ 734,786	\$ 12,178,625	\$ 10,550,302
LIABILITIES AND FUND EQUITY					
Liabilities					
Accrued Liabilities	\$ 1,126,879	\$ 29,737	\$ 110,837	\$ 1,267,453	\$ 1,261,456
Due to other funds	-	82,040	10,975	93,015	-
Deferred Revenue	1,177,339	12,168	9,097	1,198,604	958,562
Total Liabilities	\$ 2,304,218	\$ 123,945	\$ 130,909	\$ 2,559,072	\$ 2,220,018
Fund Equity					
Fund Balances					
Reserve for Inventories	\$ -	\$ -	\$ 40,501	\$ 40,501	\$ 28,661
Reserve for Capital Projects	-	-	-	-	9,327
Unreserved	9,045,413	(29,737)	-	9,015,676	7,737,243
Unreserved, Reported in Other Governmental Funds	-	-	563,376	563,376	555,053
Total Fund Equity	\$ 9,045,413	\$ (29,737)	\$ 603,877	\$ 9,619,553	\$ 8,330,284
TOTAL LIABILITIES AND FUND EQUITY	\$ 11,349,631	\$ 94,208	\$ 734,786	\$ 12,178,625	\$ 10,550,302

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2007

Total <i>fund balances</i> for governmental funds	\$ 9,619,553
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Total *net assets* reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	141,556	
Land Improvements, net of \$483,102 accumulated depreciation		280,017	
Buildings and improvements, net of \$5,265,117 accumulated depreciation		7,017,055	
Equipment, net of \$509,276 accumulated depreciation		240,563	
Vehicles, net of \$534,989 accumulated depreciation		<u>320,670</u>	
Total Capital Assets (See Note 6).			7,999,861

Issue costs on bonds and warrants are recognized as expenditures in the governmental funds when paid. For reporting in the Net Assets the costs are capitalized and amortized over the life of the bonds and warrants.	224,365
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Long-term obligations, including Bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.

Balances at September 30, 2006 are:

Accrued interest payable	\$ (102,251)	
Bonds and Warrants Payable (See Note 8).		(7,820,474)	
Other long-term obligations (See Note 8).		<u>(481,773)</u>	
Total long-term obligations.			<u>(8,404,498)</u>

Total net assets of governmental activities	\$ <u>9,439,281</u>
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Troy City Board of Education
Troy, Alabama
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2007 (With comparative totals for September 30, 2006)

		Title I Grants to Local Educational Agencies	Other Governmental Funds	Totals	
	General			September 30, 2007	September 30, 2006
REVENUES					
State Sources	\$ 11,663,525	\$ -	\$ 438,836	\$ 12,102,361	\$ 11,291,151
Federal Sources	49,772	549,612	1,617,987	2,217,371	2,161,361
Local Sources	4,731,034	-	1,385,908	6,116,942	5,963,547
Other Revenues	32,665	-	28,174	60,839	35,192
Total Revenues	<u>\$ 16,476,996</u>	<u>\$ 549,612</u>	<u>\$ 3,470,905</u>	<u>\$ 20,497,513</u>	<u>\$ 19,451,251</u>
EXPENDITURES					
Instructional Services	\$ 10,084,354	\$ 356,186	\$ 1,112,674	\$ 11,553,214	\$ 10,445,295
Instructional Support Services	2,635,467	95,567	190,279	2,921,313	2,835,499
Operation and Maintenance	1,440,146	-	8,876	1,449,022	1,419,169
Student Transportation Services	107,585	-	21,833	129,418	199,133
Food Services	-	-	1,364,874	1,364,874	1,267,290
General Administrative Services	753,540	82,183	7,548	843,271	811,159
Capital Outlay	-	-	-	-	193,110
Debt Service	-	-	824,004	824,004	819,719
Other Expenditures	156,926	-	262,313	419,239	390,964
Total Expenditures	<u>\$ 15,178,018</u>	<u>\$ 533,936</u>	<u>\$ 3,792,401</u>	<u>\$ 19,504,355</u>	<u>\$ 18,381,338</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 1,298,978</u>	<u>\$ 15,676</u>	<u>\$ (321,496)</u>	<u>\$ 993,158</u>	<u>\$ 1,069,913</u>
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	\$ 36,238	\$ -	\$ 369,354	\$ 405,592	\$ 433,166
Indirect Cost	172,334	-	-	172,334	165,199
Proceeds from Sale of Assets	-	-	-	-	-
Other Financing Sources	-	-	-	-	5,852
Bonds Issued	-	-	-	-	-
Other Fund Uses	-	-	-	-	(156,499)
Operating Transfers Out	(368,570)	-	(37,022)	(405,592)	(433,166)
Total Other Financing Sources (Uses)	<u>\$ (159,998)</u>	<u>\$ -</u>	<u>\$ 332,332</u>	<u>\$ 172,334</u>	<u>\$ 14,552</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 1,138,980</u>	<u>\$ 15,676</u>	<u>\$ 10,836</u>	<u>\$ 1,165,492</u>	<u>\$ 1,084,465</u>
FUND BALANCE - BEGINNING OF YEAR - AS PREVIOUSLY STATED	<u>7,782,656</u>	<u>(45,413)</u>	<u>593,041</u>	<u>8,330,284</u>	<u>7,245,819</u>
PRIOR PERIOD ADJUSTMENT	<u>123,777</u>	<u>-</u>	<u>-</u>	<u>123,777</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 9,045,413</u>	<u>\$ (29,737)</u>	<u>\$ 603,877</u>	<u>\$ 9,619,553</u>	<u>\$ 8,330,284</u>

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
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, 2007

Net change in <i>fund balances</i> -- total governmental funds	\$ 1,289,269
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The change in *net assets* reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$350,998) exceeded capital outlay (\$67,034) in the current period. (See Note 6).	(283,964)
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In governmental funds, debt proceeds are considered a source of financing, but in the statement of net assets, the debt is reported as a liability and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental fund but reduces the liability in the statement of net assets. This is the amount of debt repayment in the current period (\$421,601). (See Note 8).	421,601
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In governmental funds, bond issue costs are considered an expense, but in the statement of net assets, the costs are reported as an asset net of related amortization. The annual amortization is expensed in the statement of activities. This is the amount of amortization in the current period (\$14,656).	(14,656)
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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.

Interest Expense	<u>4,857</u>
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Change in <i>net assets</i> of governmental activities	<u>\$ 1,417,107</u>
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See accompanying notes to financial statements.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Troy City Board of Education (the Board), a component unit of the City of Troy, Alabama, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

A. Reporting Entity

The Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units which should be included as part of the financial reporting entity of the Troy City Board of Education.

The Board is a legally separate agency of the State of Alabama (the State). However, for financial reporting the Board is considered a component unit of the City of Troy, Alabama (the City) due to the following reasons:

- (1) The City appoints all members of the governing body of the Board.
- (2) The City makes annual appropriations to the Board.
- (3) The City levied a percentage of its sales tax specifically for the operations of the Board.

The financial statements of the Board include local school activity funds and other funds under the control of school principals. These funds are reported on a reporting period ending September 30, 2007, as *other governmental funds*. Inclusion of these funds in the financial statements increased the account balances by the amounts listed below:

Cash	\$ 264,337
Investments	\$ 18,000
Fund Equity	\$ 282,337

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 1 - Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

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

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

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

The Board reports the following major governmental funds:

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

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 1 - Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

Title I Grants to Local Education Agencies - These funds are used to account for federal program revenues and expenses which the Board qualifies for.

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

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

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

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

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the Board's programs. The Board reports no fiduciary funds.

Measurement Focus, Basis of Accounting

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

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 1 - Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

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

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

C. Assets, Liabilities and Net Assets

Deposits and Investments

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

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

Receivables

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

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Property Tax Calendar

The Pike County Commission levies property taxes for all jurisdictions including the School Boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than capitalized as an asset. GAAP require only material balances of inventories accounted for using the purchases method to be reported as an asset in the appropriate governmental fund.

In the government-wide financial statements, inventories and prepaid items are recorded on an accrual basis using the consumption method. Expenses reflect the amount of materials and supplies consumed and the amount of prepaid items applicable to the current period. Prepaid items on the statement of net assets are included in prepaid items.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net assets. Donated assets are recorded at their estimated fair value at the date of donation. A professional property appraisal firm provided estimated values on certain assets acquired prior to October 1, 2002. The cost of maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The Board has no general infrastructure assets.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Capital Assets (Continued)

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

<u>Asset Class</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land Improvements - Exhaustible	\$ 50,000	20 years
Buildings	\$ 50,000	50 years
Building Improvements	\$ 50,000	7 - 30 years
Equipment	\$ 5,000	5 - 20 years
Equipment Under Capital Lease	\$ 5,000	5 - 20 years
Vehicles	\$ 5,000	8 - 10 years

(The capitalization threshold for Land, Construction in Progress, and Inexhaustible Land Improvements is \$1 or more. However, these capital assets are not depreciated.)

Long-Term Obligations

In the government-wide financial statements, the unmatured principal of long-term debt, capital leases, and compensated absences are reported in the statement of net assets. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. For warrants (bonds) and other long-term debt issued, the related debt issuance costs, premiums, and discounts are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported as a liability on the statement of net assets.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Long-Term Obligations (Continued)

In the fund financial statements, bond premiums and the face amount of debt issued during the year are reported as an other financing source. Debt issuance costs are not deducted from the amount reported as an other financing source but are reported as debt service expenditures. Any discount resulting from a disparity between the market rate and the stated rate of interest is reported as an other financing use. Expenditures for debt principal, interest, and related costs are reported in the fiscal year payment is made. At the inception of a capital lease, an amount equal to the present value of the net minimum lease payments is reported as an other financing source and as an expenditure. The balance sheet does not reflect a liability for long-term debt.

Compensated Absences

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of a liability as the employees earn the benefits, if both of these conditions are met:

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

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

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

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Compensated Absences (Continued)

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

Certain employees are allowed vacation with pay. Because unused vacation leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Net Assets/Fund Equity

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

Invested in Capital Assets, Net of Related Debt - 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 assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

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

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 2 - Stewardship, Compliance and Accountability

A. Budgets

Annual budgets are adopted for all governmental funds except the permanent funds. All annual appropriations lapse at fiscal year end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the Local Board of Education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2006-2007 fiscal year was September 15, 2006. The Board approved its original 2006-2007 annual budget on August 21, 2006, and submitted the budget on August 21, 2006.

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

B. Deficit Fund Balances in Individual Funds

The Board has a deficit fund balance in its Title I fund. In a written response the Board has planned to liquidate this deficit by subsequent reimbursement from the State Department of Education.

Note 3 - Transfers Between Funds

Transfers between funds for the year ended September 30, 2007, consist of the following:

\$ 368,570	From the General Fund and Foundation Program to the Special Revenue Fund to fund certain portions of salaries and fringe benefits as required by the State Department of Education.
15,836	From the Local Schools Fund to the General Fund for reimbursement of expenses paid through the General Fund.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 3 - Transfers Between Funds (Continued)

3,508	Interfund transfers between Local Schools Funds for activities of the schools.
<u>17,678</u>	Other General Fund interfund transfers.
<u>\$ 405,592</u>	Total Transfers

Note 4 - Deposits and Investments

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

Note 5 - Receivables and Payables

Receivables and payables (Accounts Payable and Accrued Liabilities) balances reported on the statement of net assets and the balance sheet are aggregations of different components. The inter-fund receivables consist of \$82,040 due from Title 1 to the general fund and \$10,975 due from other governmental funds to general fund. Details of these balances are as follows:

Statement of Net Assets

Receivables:	
Property Tax Receivable	\$ 1,177,339
Sales Tax Receivable	282,431

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007

Note 5 - Receivables and Payables (Continued)

Other Taxes Receivable	157,129
Other Receivables	17,019
USDA Reimbursements	146,527
State Department of Education	<u>137,088</u>

Total Receivables \$ 1,917,533

Accounts Payable and Accrued Liabilities:

Salaries and Employee Benefits Payable	\$ 1,267,453
Interest Payable	<u>102,251</u>

Total Accounts Payable and
Accrued Liabilities \$ 1,369,704

Balance Sheet

Receivables:

Property Tax Receivable	\$ 1,177,339
Sales Tax Receivable	282,431
Other Taxes Receivable	157,129
Other Receivables	17,019
Due from Other Funds	93,015
USDA Reimbursements	146,527
State Department of Education	<u>137,088</u>

Total Receivables \$ 2,010,548

Accounts Payable and Accrued Liabilities:

Salaries and Employee Benefits Payable	\$ 1,267,453
Due to Other Funds	93,015
Accounts Payable	<u>-</u>

Total Accounts Payable and
Accrued Liabilities \$ 1,360,468

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007

Note 6 - Capital Assets

Capital asset activity for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 141,556	\$ -	\$ -	\$ 141,556
Total Capital Assets Not Being Depreciated	\$ 141,556	\$ -	\$ -	\$ 141,556
Capital Assets Being Depreciated:				
Buildings	\$ 9,138,725	\$ -	\$ -	\$ 9,138,725
Building Improvements	3,143,447	-	-	3,143,447
Land Improvements - Exhaustible	763,119	-	-	763,119
Vehicles	904,217	5,000	53,558	855,659
Equipment	687,805	62,034	-	749,839
Total Capital Assets Being Depreciated	\$ 14,637,313	\$ 67,034	\$ 53,558	\$ 14,650,789
Less Accumulated Depreciation For:				
Buildings	\$ 4,891,402	\$ 182,769	\$ -	\$ 5,074,171
Building Improvements	128,077	62,869	-	190,946
Land Improvements - Exhaustible	470,427	12,675	-	483,102
Vehicles	530,713	57,834	53,558	534,989
Equipment	474,425	34,851	-	509,276
Total Accumulated Depreciation	\$ 6,495,044	\$ 350,998	\$ 53,558	\$ 6,792,484
Total Capital Assets Being Depreciated, Net	\$ 8,142,269	\$ (283,964)	\$ -	\$ 7,858,305
Total Governmental Activities Capital Assets, Net	\$ 8,283,825	\$ (283,964)	\$ -	\$ 7,999,861

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 6 - Capital Assets (Continued)

Depreciation Expense was Charged to Governmental Functions as follows:	
Instruction Services	\$ 209,542
Instructional Support Services	52,145
Operation and Maintenance Services	21,012
Student Transportation Services	45,065
Food Services	19,302
General Administrative Services	<u>3,932</u>
Total Governmental Activities Depreciation Expense	<u>\$ 350,998</u>

Note 7 - Defined Benefit Pension Plan

A. Plan Description

The Board contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after ten years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are: (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419 of the Legislature of 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama* 1975, §§ 16-25-1 through 16-25-170, as amended, and §§ 36-27B-1 through 36-27B-5, as amended.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007

Note 7 - Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

B. Funding Policy

Employees of the Board are required to contribute five percent of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Alabama Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

	Fiscal Year Ended September 30,		
	2007	2006	2005
Total Percentage of Covered Payroll	14.36%	13.17%	12.03%
Percentage Contributed By the Board	9.36%	8.17%	7.03%
Percentage Contributed By Employees	5.00%	5.00%	5.00%
Amount Contributed By the Board	\$ 991,271	\$ 792,281	\$ 637,460
Amount Contributed By Employees	<u>529,526</u>	<u>484,873</u>	<u>453,385</u>
Total Contributions	<u>\$ 1,520,797</u>	<u>\$ 1,277,154</u>	<u>\$ 1,090,845</u>

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 8 – Other Postemployment Benefits

A. Plan Description

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF). PEEHIF was established in 1983 under the provisions of Act 83-455 of the Alabama Legislature to provide a uniform plan of health insurance for current and retired employees of state educational institutions and to provide a method for funding the benefits of the plan. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Public Education Employees' Health Insurance Board (PEEHIB). In accordance with the Governmental Accounting Standards Board (GASB), the PEEHIF is considered a component unit of the State of Alabama and is included in the State's *Comprehensive Annual Financial Report*. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIF.

The Public Education Employees' Health Insurance Plan (PEEHIP) offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of \$1,000,000 for each covered individual. Also available through the PEEHIP is an option to enroll in a health maintenance organization (HMO) in lieu of the basic hospital/medical plan. The HMO generally provides the same coverage as the basic hospital/medical plan. Optional plans which may be selected in addition to or in lieu of the basic plan or HMO include: Hospital Indemnity, Cancer, Dental, and Vision. All full-time and permanent part-time employees are eligible for enrollment in the plan.

B. Funding Policy

Monthly premiums for employee and dependent coverage are established annually by the Legislature in accordance with the recommendation made by the PEEHIP management. This recommendation is based on the determination made by the plan's actuary which takes into consideration all anticipated claims in the upcoming year and any remaining fund balance on hand available for claims. The State contributes the specified employer rate monthly to each respective participating school. The participating school in turn pays the specified employer rate to the PEEHIF each month. This contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium. Based on the monthly employer premium specified by the Legislature for 2007, the Board contributed \$717 monthly to the PEEHIF for each active employee. There were 177 active employees during the 2006-2007 school year.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 9 - Long-Term Obligations

At September 30, 2007, long-term obligations consisted of the following:

General Obligation Warrants

General obligation warrants were issued by the City of Troy on behalf of and for the Troy City Board of Education. Revenues of the Board have been pledged for the repayment of this indebtedness. Interest rates range from 4.25 percent to 5.00 percent depending on the maturity date of each bond. Semi-annual interest payments are made December 1 and June 1 through 2022. Annual principal payments are made each December 1 through 2022.

\$ 4,030,000

General obligation warrants were issued by the City of Troy on behalf of and for the Troy City Board of Education. Revenues of the Board have been pledged for the repayment of this indebtedness. Interest rates range from 3.25 percent to 5.10 percent depending on the maturity date of each bond. Semi-annual interest payments are made June 1 and December 1 through 2021. Annual principal payments are made each December 1 through 2021.

1,320,000

General obligation warrants were issued by the City of Troy on behalf of and for the Troy City Board of Education. The City of Troy will make the principal payments on this debt for the Board. Interest rates range from 4.00 percent to 5.25 percent depending on the maturity date of each bond. Semi-annual interest payments are made June 1 and December 1 through 2024. Annual principal payments are made each December 1 through 2024.

1,535,000

**Alabama Public School and College Authority
Capital Improvement Pool Bonds, Series 1999**

Pool bonds were issued by Alabama Public School and College Authority. Troy City Board of Education's proportionate share is \$1,317,454. \$110,000 of revenue of the Board of Education must be pledged annually for the repayment of this indebtedness.

935,474

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007

Note 9 - Long-Term Obligations (Continued)

Fifth Third Bank

Loan payable dated December 13, 2001, bears interest at 5.02 percent and is payable in quarterly installments of \$28,659 commencing on August 1, 2002. The loan matures on May 1, 2012. This loan is for improvements to school buildings.

481,773

Total Long-Term Obligations

\$ 8,302,247

A. Long-Term Obligations Activity

Long-term liability obligations for the year ended September 30, 2007, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds and					
Warrants Payable	\$ 8,154,404	\$ -	\$ (333,930)	\$ 7,820,474	\$ 348,453
Notes Payable	<u>569,444</u>	<u>-</u>	<u>(87,671)</u>	<u>481,773</u>	<u>92,158</u>
Total Bonds and					
Notes Payable	<u>\$ 8,723,848</u>	<u>\$ -</u>	<u>\$ (421,601)</u>	<u>\$ 8,302,247</u>	<u>\$ 440,611</u>

Interest expense included in functional expenses on the Statement of Activities for the year ended September 30, 2007, is \$402,403.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 9 - Long-Term Obligations (Continued)

B. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2007, are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 440,611	\$ 377,778	\$ 818,389
2009	458,286	358,302	816,588
2010	481,353	337,791	819,144
2011	499,831	316,181	816,012
2012	500,082	293,309	793,391
2013-2017	2,383,967	1,152,513	3,536,480
2018-2022	2,713,117	530,285	3,243,402
2023-2025	<u>825,000</u>	<u>36,120</u>	<u>861,120</u>
	<u>\$ 8,302,247</u>	<u>\$ 3,402,279</u>	<u>\$ 11,704,526</u>

Note 10 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance is purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. The Board purchases commercial insurance for fidelity bonds and vehicle insurance. Settled claims in the past three years have not exceeded the commercial insurance coverages.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board. The PEEHIF was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 10 - Risk Management (Continued)

for claims. The Board contributes the specified amount monthly to the PEEHIF for each employee. The Board contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

The State Board of Adjustments is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

Note 11 - Contingent Liabilities

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

The Board is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Board's attorneys the resolution of these matters will not have a material adverse effect on the financial condition of the Board.

Note 12 - Deferred Revenue

Governmental Funds:

General Fund

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

\$ 1,177,339

Other Government Funds

Federal Funds - Federal Funds received but not yet expended represent revenues that will be recognized subsequent to year end.

21,265

Total Deferred Revenue

\$ 1,198,604

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2007**

Note 13 - Prior Period Adjustment

Net Assets and Fund Balance at the beginning of the year have been adjusted. An increase resulted from tax revenues from Pike County not being remitted to the Troy City Board of Education due to an oversight at Pike County. The net increase is \$123,777, of revenue that was not recognized in prior periods. A receivable has been recorded from Pike County to account for these funds.

The error had no effect on changes in net assets for the year.

Required Supplementary Information

Troy City Board of Education
Troy, Alabama
Budgetary Comparison - General Fund
For the Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
REVENUES				
State Sources	\$ 11,471,084	\$ 11,652,088	\$ 11,663,525	\$ 11,437
Federal Sources	72,596	72,596	49,772	(22,824)
Local Sources	4,725,889	4,725,889	4,731,034	5,145
Other Revenues	-	-	32,665	32,665
Total Revenues	\$ 16,269,569	\$ 16,450,573	\$ 16,476,996	\$ 26,423
EXPENDITURES				
Instructional Services	\$ 9,863,723	\$ 10,184,047	\$ 10,058,368	\$ 125,679
Instructional Support Services	2,616,412	2,643,905	2,641,498	2,407
Operation and Maintenance	1,621,111	1,654,083	1,435,722	218,361
Student Transportation Services	82,590	82,590	110,856	(28,266)
General Administrative Services	820,261	825,261	753,540	71,721
Capital Outlay	986,117	965,617	-	965,617
Other Expenditures	86,441	138,296	156,926	(18,630)
Total Expenditures	\$ 16,076,655	\$ 16,493,799	\$ 15,156,910	\$ 1,336,889
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 192,914	\$ (43,226)	\$ 1,320,086	\$ 1,363,312
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 20,672	\$ 20,672	\$ 36,238	\$ 15,566
Indirect Cost	171,223	175,077	172,334	(2,743)
Long-Term Debt Issued	-	-	-	-
Other Financing Sources	-	-	-	-
Other Fund Uses	-	-	-	-
Operating Transfers Out	(399,428)	(365,836)	(368,570)	(2,734)
Total Other Financing Sources (Uses)	\$ (207,533)	\$ (170,087)	\$ (159,998)	\$ 10,089
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (14,619)	\$ (213,313)	\$ 1,160,088	\$ 1,373,401
FUND BALANCE - BEGINNING	7,000,000	8,877,460	8,983,911	106,451
PRIOR PERIOD ADJUSTMENT	-	-	123,777	-
FUND BALANCE - ENDING	\$ 6,985,381	\$ 8,664,147	\$ 10,267,776	\$ 1,479,852

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Budgetary Comparison - Title I Grants to Local Education Agencies
For the Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
REVENUES				
State Sources	\$ -	\$ -	\$ -	\$ -
Federal Sources	530,513	624,393	549,612	(74,781)
Local Sources	-	-	-	-
Other Revenues	-	-	-	-
Total Revenues	\$ 530,513	\$ 624,393	\$ 549,612	\$ (74,781)
EXPENDITURES				
Instructional Services	\$ 350,075	\$ 417,787	\$ 334,182	\$ 83,605
Instructional Support Services	102,382	112,948	87,834	25,114
Operation and Maintenance	-	-	-	-
Student Transportation Services	-	-	-	-
General Administrative Services	78,056	93,658	82,183	11,475
Capital Outlay	-	-	-	-
Other Expenditures	-	-	-	-
Total Expenditures	\$ 530,513	\$ 624,393	\$ 504,199	\$ 120,194
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 45,413	\$ 45,413
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ -	\$ -	\$ -	\$ -
Indirect Cost	-	-	-	-
Long-Term Debt Issued	-	-	-	-
Other Financing Sources	-	-	-	-
Other Fund Uses	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 45,413	\$ 45,413
FUND BALANCE - BEGINNING	-	-	(45,413)	(45,413)
FUND BALANCE - ENDING	\$ -	\$ -	\$ -	\$ -

**Troy City Board of Education
Troy, Alabama
Note to the Budgetary Comparison Schedule
For the Year Ended September 30, 2007**

**Explanation of Differences Between Budgetary Inflows and Outflows
and GAAP Revenues and Expenditures**

	<u>General Fund</u>	<u>Special Revenue Fund Title I Part A</u>
Uses/Outflows of Resources		
Actual amounts (budgetary basis) available for expenditures are shown as Total Expenditures on the budgetary comparison schedule	\$ 15,156,910	\$ 504,199
 Differences - Budget to GAAP		
Insurance for the year is paid in annual installments. Expenditures for insurance are based on the amount that will be paid from budgeted revenues. However, insurance expired is reported as an expenditure on the financial statements.	1	-
 Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements.	<u>21,107</u>	<u>29,737</u>
 Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 15,178,018</u>	<u>\$ 533,936</u>

See accompanying notes to financial statements.

**Troy City Board of Education
Troy, Alabama
Supplementary Schedule of
Expenditures of Federal Awards
For the Year Ended September 30, 2007**

Description	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Special Education - Grants to States	84.027	131	\$ 482,796
Special Education Preschool Grants	84.173	131	17,969
Title I Grants to Local Education Agencies	84.010	131	549,612
Title I Program for Neglected and Delinquent Children	84.013	131	12,095
Improving Teacher Quality State Grants	84.367	131	180,785
Safe and Drug Free Schools and Communities	84.186	131	11,119
Vocational Education - Basic Grants to States	84.048	131	28,907
Innovative Programs	84.298	131	3,526
Education for Homeless Children and Youth	84.196	131	17,633
Reading First	84.357	131	15,293
English Language Acquisition Grants	84.365	131	4,859
Impact Aid	84.041	131	21,913
Rural & Low Income Schools	84.358	131	76,679
Education Technology State Grants	84.318	131	64,305
Total U.S. Department of Education			<u>\$ 1,487,491</u>
U.S. DEPARTMENT OF AGRICULTURE			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
National School Lunch Program	10.555	131	\$ 518,713
Food Distribution Program (Non Cash Assistance)	10.550	5605	61,431
School Breakfast Program	10.553	131	94,964
Total U.S. Department of Agriculture			<u>\$ 675,108</u>
DEPARTMENT OF DEFENSE			
ROTC Program	12.999	N/A	<u>\$ 49,249</u>
SOCIAL SECURITY ADMINISTRATION			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Disability Determination	96.001	131	<u>\$ 523</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Child Care and Development Block Grant	93.575	131	<u>\$ 5,000</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$ 2,217,371</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Troy City Board of Education
Troy, Alabama
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Troy City Board of Education and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Subrecipients

The Troy City Board of Education did not provide any federal awards to subrecipients.

**Troy City Board of Education
Troy, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007**

Section I - Summary of Auditors' Results

Financial Statements

Type of Auditors' Report Issued Unqualified

Internal Control Over Financial Reporting

Material Weakness Identified? No

Reportable Conditions Identified

Not Considered to be Material Weaknesses? None

Noncompliance Material to Financial
Statements Noted?

No

Federal Awards

Internal Control Over Major Programs

Material Weakness Identified? No

Reportable Conditions Identified Not

Considered to be Material Weaknesses? None

Type of Auditors' Report Issued on Compliance
For Major Programs

Unqualified

Any Audit Findings Disclosed that are
Required to be Reported in Accordance
with Circular A-133, Section 510(a)?

No

Identification of Major Programs:

CFDA Number

84.010

10.555

Name of Federal Programs

Title I Grants to Local Education Agencies

National School Lunch Program

See accompanying notes to financial statements.

**Troy City Board of Education
Troy, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007**

Dollar Threshold Used to Distinguish Between Type A and Type B	\$ 300,000
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Auditee Qualified as Low-Risk Auditee	Yes
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Section II - Financial Statement Findings
No Matters Reported

Section III - Federal Award Findings and Questioned Costs
No Matters Reported

See accompanying notes to financial statements.

Troy City Board of Education
Comments on Accounting Procedures,
Internal Control and Related Matters
September 30, 2007

Current Year Recommendations

None

Prior Year Recommendations

None



**BRUNSON, WILKERSON,
BOWDEN & ASSOCIATES, P.C.**

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**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Troy City Board of Education as of and for the year ended September 30, 2007, which collectively comprise the Troy City Board of Education's basic financial statements and have issued our report thereon dated January 28, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Troy City Board of Education's internal control over financial reporting as a basis for designing our auditing procedures 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 Troy City Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Troy City Board of Education's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Troy City Board of Education's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Troy City Board of Education's financial statements that is more than inconsequential will not be prevented or detected by the Troy City Board of Education's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Troy City Board of Education's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 28, 2008


Brunson, Wilkerson, Bowden & Associates, P.C.



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Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the Troy City Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Troy City Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Troy City Board of Education's management. Our responsibility is to express an opinion on the Troy City Board of Education's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Troy City Board of Education'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. Our audit does not provide a legal determination of the Troy City Board of Education's compliance with those requirements.

In our opinion, the Troy City Board of Education, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the Troy City Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Troy City Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Troy City Board of education's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 28, 2008


Brunson, Wilkerson, Bowden & Associates, P.C.

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