

*Financial Statements*

**Troy City Board of Education**

**September 30, 2010**

Troy City Board of Education  
Troy, Alabama  
September 30, 2010

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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, 2010, 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

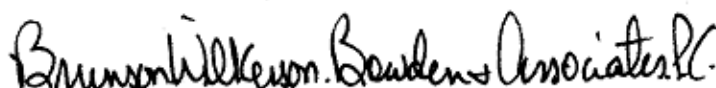
In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2011, on our consideration of the Troy City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 17 and 47 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Troy City Board of Education's financial statements as a whole. 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 financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

February 22, 2011

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

**Troy City Board of Education  
Troy, Alabama  
Management's Discussion and Analysis  
September 30, 2010**

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, 2010. 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 2010 fiscal year by \$11.58 million (net assets). Our *government-wide financial statements* reflect \$8.33 million of unrestricted net assets, which may be used to meet the Board's future costs of operations, and \$3.25 million that is 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 \$20.72 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 \$4.19 million - a decrease of twelve percent from the previous year.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7.62 million, or 50 percent of the total General Fund expenditures, before other financing uses and special items.

The Board reduced its outstanding long-term debt by \$515,575 during the year.

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Management's Discussion and Analysis  
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**Using the Financial Statements – An Overview for the User**

According to the 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 supplementary information*, and *other supplemental information*.

The Board's 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 12<sup>th</sup> 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 18) 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 19) 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 20. 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.

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 ability to meet immediate financial needs such as monthly payrolls or recurring bills. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term

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

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 21 and 23 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 24 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 \$11.58 million at September 30, 2010.

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

Of this figure, 28 percent or \$3.25 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 \$8.33 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, 2010  
(in millions)

	Governmental Activities	
	9/30/2010	9/30/2009
Current and Other Assets	\$ 11.36	\$ 12.23
Capital Assets	10.14	8.83
Total Assets	<u>\$ 21.50</u>	<u>\$ 21.06</u>
Current and Other Liabilities	\$ 3.03	\$ 2.96
Long-Term Liabilities		
Including Current Portion	6.89	7.40
Total Liabilities	<u>\$ 9.92</u>	<u>\$ 10.37</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 3.25	\$ 1.43
Restricted	-	.77
Unrestricted	8.33	8.49
Total Net Assets	<u>\$ 11.58</u>	<u>\$ 10.69</u>

At the end of the current fiscal year, the Board is able to report a positive balance in its' Unrestricted Net Assets. 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, 2010, 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 stable financial position of the Troy City School System under current economic conditions is the product of the Board's continuation of past practices of controlling expenditures through careful planning, decision making and a conservative view to taking on additional costs.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 19. 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, 2010.

**Table 2: Summary of Changes in Net Assets From Operating Results**

As of September 30, 2010  
(in millions)

	<u>Governmental Activities</u>	
	<u>9/30/2010</u>	<u>9/30/2009</u>
<b>Revenues</b>		
<b>Program Revenues:</b>		
Charges for Services	\$ 1.59	\$ 1.55
Operating Grants and Contributions	12.97	12.61
Capital Grants and Contributions	1.97	1.14
<b>General Revenues:</b>		
Local Property Taxes	1.63	1.63
Local Sales Taxes	2.50	2.76
Other Taxes	.07	.07
Other - Miscellaneous Revenues	.61	.25
Investment Earnings	<u>.27</u>	<u>.39</u>
<b>Total Revenues</b>	<b>\$ 21.61</b>	<b>\$ 20.40</b>
<b>Expenses</b>		
Instructional Services	\$ 12.71	\$ 12.33
Instructional Support Services	3.24	3.20
Operation and Maintenance Services	1.41	1.45
Student Transportation Services	.23	.20
Food Services	1.21	1.25
General Administrative Services	1.13	.96
Interest and Fiscal Charges	.30	.36
Other Expenses	<u>.49</u>	<u>.32</u>
<b>Total Expenses</b>	<b>\$ 20.72</b>	<b>\$ 20.07</b>
<b>Changes in Net Assets</b>	<b>\$ .89</b>	<b>\$ .33</b>
<b>Net Assets - Beginning</b>	<u>10.69</u>	<u>10.36</u>
<b>Net Assets - Ending</b>	<b>\$ 11.58</b>	<b>\$ 10.69</b>

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

The Board's net assets increased by \$.89 million during the 2010 fiscal year. This is mainly attributable as a result of construction projects:

- Completion of new roof and interior renovations of high school gym
- Completion of renovation and construction of new central office complex
- New high school special education classroom construction 1/3 completed

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2010, was \$20.72 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 \$14.94 million.

Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$.88 million in revenues.

\$4.19 million of the Board's total costs of \$20.72 million was financed by district and state taxpayers, as follows: \$1.63 million in property taxes, \$2.50 million in county sales tax, \$.07 million in other taxes (such as helping-school vehicle tags, and manufactured home registration fees).

*Table 3* is a condensed statement taken from the Statement of Activities on page 19 showing the total cost for providing identified services for seven major Board activities for fiscal year 2010 compared with fiscal year 2009. 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 local 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, 2010  
(in millions)

	9/30/2010	9/30/2009
Instructional Services	\$ .48	\$ 1.81
Instructional Support Services	1.07	.72
Operation and Maintenance Services	1.17	1.13
Student Transportation Services	.16	.14
Food Services	.12	.20
General Administrative Services	.71	.29
Interest and Fiscal Charges	.30	.36
Other Expenses	<u>.18</u>	<u>.11</u>
<b>Total</b>	<u>\$ 4.19</u>	<u>\$ 4.76</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 20.

**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* is reconciled on pages 21 and 23). At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$8.24 million.

**General Fund:** (primary operating fund of Board operations), approximately \$7.62 million of the amount above constitutes unreserved fund balance 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:** the remainder of the amount is an unreserved fund balance of \$.58 million, and a reserved fund balance of \$.04 million for inventories, totaling \$.62 million.

Management conservatively plans for increases in the recurring costs of the employer's share of salary-related benefits (health insurance and retirement) while also addressing the need for funding for capital needs to meet long-term system needs.

Overall, the Board's governmental funds had more expenditures than revenues at the end of the fiscal year resulting in a deficit for the year. The deficit was caused in large part by the combination of pro-ration to state funding (7.5% declared in October 2009 and an additional 2.0% declared in mid-September 2010) and lower sales tax collections (down 9.5%). This combination of factors required the use of a portion of the unreserved fund balance brought forward from the previous year. The schedule below recaps the total fund balance at year end for the Board for a five year period:

<u>Period Ending</u>	<u>Total Fund Balance</u>	<u>Surplus / (Deficit)</u>
September 30, 2010	\$ 8,240,771	\$ ( 919,810)
September 30, 2009	9,160,580	( 581,515)
September 30, 2008	9,742,095	122,541
September 30, 2007	9,619,553	1,165,492
September 30, 2006	8,330,284	1,084,465

**Budgetary Highlights of Major Funds**

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. This year's budget was not due until September 15, 2009; therefore, the original 2010 fiscal year budget, was adopted on August 17, 2009. In expectation of state-mandated pro-ration again in the new year the budget 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. Over the course of the year, the Board made two revisions to the annual operating budget - first on January 25, 2010 and second on May 17, 2010. For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the GASB34 reporting model.

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**Budgetary Highlights of Major Funds (Continued)**

**General Fund** - The comparison of the original General Fund budget to the final amended budget is comprised of two amendments.

Amendment #1, approved on January 25, 2010 was necessary to adjust line items in response to 7.5% proration declared by Governor Riley. Authorized carryover amounts brought forward from FY09 year-end were also budgeted in this amendment.

The second amendment was approved on May 17, 2010 to add fund source allocations and align budgets to fully utilize available funding by end of the fiscal year.

The impact of proration on the Board's budget plans was heightened by the announcement in mid-September 2010 of the additional 2% pro-ration after several months of operation under the original 7.5%. Positions originally budgeted under Foundation Program funds were re-allocated to Local funds to meet reduced state funding levels.

**Capital Assets and Debt Administration**

**Capital Assets** - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2010, amounted to \$10.14 million, net of accumulated depreciation. This amounts to 47% of the Board's total assets which reflects current and future investment in capital assets dedicated to providing educational services to the district's children. The Board's investment in capital assets includes buildings and improvements, equipment and furniture, buildings under capital lease, equipment under capital lease, and construction in progress, as shown in *Table 4* with comparative year data. Due to their nature these assets are, by definition, not available for future spending.



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**Capital Assets and Debt Administration (Continued)**

**Table 4: Capital Assets (Net of Accumulated Depreciation)**

As of September 30, 2010  
(in millions)

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land and Land Improvements	\$ .91	\$ .92
Buildings & Improvements	8.28	7.03
Construction in Progress	.27	.07
Vehicles	.48	.57
Equipment	<u>.20</u>	<u>.25</u>
<b>Total</b>	<b><u>\$ 10.14</u></b>	<b><u>\$ 8.84</u></b>

Net capital assets increased by \$1.3 million for the 2010 fiscal year. Included in this increase was the completion of a project begun the previous fiscal year with the construction and dedication of the new central administrative office for the Board. Construction also began this year on the addition of a new special education classroom at Charles Henderson High School.

**Long-Term Debt** - At year-end, the Board had \$6.89 million in general obligation bonds, capital lease contracts payable, and other long-term debt outstanding. This is a 7 percent decrease in debt from last year, as shown in *Table 5* below.

**Table 5: Outstanding Long-Term Debt**

As of September 30, 2010  
(in millions)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Governmental Activities			
Bonds and Warrants Payable	\$ 6.93	\$ ( .54)	\$ 6.39
Other Liabilities			
Other Long-Term Liabilities	<u>.48</u>	<u>.02</u>	<u>.50</u>
<b>Total Governmental Activities</b>			
Long-Term Debt	<b><u>\$ 7.41</u></b>	<b><u>\$ ( .52)</u></b>	<b><u>\$ 6.89</u></b>

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**Capital Assets and Debt Administration (Continued)**

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

The Board continued to pay down its general obligation bonded debt issued in 2001, 2002 and 2004, retiring \$.52 million in outstanding bonds during the fiscal year 2010.

(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 2010-2011 fiscal year.

The unemployment rate in Pike County for October 2010 is 7.3% down from 8.6% in October 2009.

The property tax base in Pike County, based on the 2010 tax levy, shows an increase in assessed value of property in the county by approximately 2 percent from the 2009 tax levy.

The Troy and the Pike County area economy have weathered the economic downturn and indicate the potential for growth in the coming year. Among recent additions to the business community, CGI, a large I.T. and business processing service company that opened the previous year, has employed approximately 200 people at this point with additional hiring expected. Local sales tax receipts declined in FY 2009 but stabilized in FY 2010. Receipts in the months of October and November 2010 were up from the same period one year ago.

The Troy City Board of Education continues to withstand the economic recession well with conservative spending and allocation of resources. Uncertainty remains in future state funding levels due to decreasing revenues flowing into the Education Trust Fund for the State. This is caused by the economic recession, and increasing expenditures, primarily in the areas of retirement and health insurance. For these reasons the Board has budgeted for continued cautious spending for the 2011 fiscal year.

**Troy City Board of Education  
Troy, Alabama  
Management's Discussion and Analysis  
September 30, 2010**

**Economic Factors and Next Year's Budget (Continued)**

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 receives the largest share of its annual revenues from the State. Although 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 require 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%
2008-09	11.0000%
2009-10	9.5000%

**Estimated Capital Needs** - As of September 30, 2010, the Board's Five-Year Capital Plan, based upon critical needs and a State facility assessment, included \$13.65 million in estimated capital needs throughout the system, \$.95 million of which is scheduled for the 2011 fiscal school year. This will be funded with local funds.

To assist with the financing of the system's capital needs the Board had, as of the end of fiscal year 2010, obtained the services of an investment banking firm to research the feasibility of refinancing the current outstanding 2001, 2002, and 2004 bond issues. With this refinancing the Board intended to determine the feasibility of extending the current maturity date beyond 2024 and borrowing additional funds sufficient to meet some of the needs.

**Troy City Board of Education  
Troy, Alabama  
Management's Discussion and Analysis  
September 30, 2010**

**Economic Factors and Next Year's Budget (Continued)**

**Student Enrollment** – The latest student enrollment figure of 2,115, as of the forty-day report in the 2010-2011 school year, indicates there will be an actual decrease in enrollment of approximately seventy-one students for the 2011 fiscal year.

<u>Enrollment</u> <u>Increase (Decrease)</u>	<u>Fiscal Year</u>
(71)	2011
(43)	2010
(58)	2009
(53)	2008
09	2007
(25)	2006
(35)	2005
50	2004

**Medical and Retirement Costs** – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs have remained at \$752 per employee per month in fiscal year 2011.

Employer contributions to the Teachers Retirement System (TRS) will remain at 12.51% of gross salaries for fiscal year 2011.

**Contacting the School Board's Financial Management**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mickey Daughtry, Chief Financial Officer, 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, 2010

	Governmental Activities	Total
<b>ASSETS</b>		
Cash	\$ 9,165,176	\$ 9,165,176
Investments	18,000	18,000
Ad Valorem Property Taxes Receivable	1,433,623	1,433,623
Receivables	516,229	516,229
Inventories	39,027	39,027
Deferred Charges	180,397	180,397
Prepaid Items	8,508	8,508
Capital Assets		
Nondepreciable	925,550	925,550
Depreciable, Net	9,215,944	9,215,944
<b>TOTAL ASSETS</b>	<b>\$ 21,502,454</b>	<b>\$ 21,502,454</b>
<b>LIABILITIES</b>		
Deferred Revenue	\$ 1,546,335	\$ 1,546,335
Salaries and Benefits Payable	1,393,457	1,393,457
Accrued Interest Payable	91,959	91,959
Long-Term Obligations		
Due in One Year	498,949	498,949
Due in More Than One Year	6,392,162	6,392,162
<b>Total Liabilities</b>	<b>\$ 9,922,862</b>	<b>\$ 9,922,862</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 3,250,383	\$ 3,250,383
Unrestricted	8,329,209	8,329,209
<b>Total Net Assets</b>	<b>\$ 11,579,592</b>	<b>\$ 11,579,592</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 21,502,454</b>	<b>\$ 21,502,454</b>

See accompanying notes to financial statements.

Troy City Board of Education  
Troy, Alabama  
Statement of Activities  
For the Year Ended September 30, 2010

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 Activities
<b>Governmental</b>					
Instructional Services	\$ 12,712,536	\$ 210,650	\$ 10,061,364	\$ 1,958,909	\$ ( 481,613)
Instructional Support Services	3,235,296	159,958	1,996,547	13,641	( 1,065,150)
Operation and Maintenance Services	1,405,755	54,931	179,233	1,544	( 1,170,047)
Student Transportation Services	233,641	9,230	60,216	-	( 164,195)
Food Services	1,206,191	1,019,441	66,343	-	( 120,407)
General Administrative Services	1,127,742	27,222	395,565	-	( 704,955)
Interest and Fiscal Charges	303,188	-	-	-	( 303,188)
Other Expenses	498,625	111,328	208,551	-	( 178,746)
<b>Total Governmental Activities</b>	<b>\$ 20,722,974</b>	<b>\$ 1,592,760</b>	<b>\$ 12,967,819</b>	<b>\$ 1,974,094</b>	<b>\$ ( 4,188,301)</b>
<b>General Revenues</b>					
Taxes					
Property Taxes for General Purposes					\$ 1,625,649
Local Sales Tax					2,495,606
Other Tax					75,053
Investment Earnings					268,965
Miscellaneous Revenues					607,454
<b>Total General Revenues</b>					<b>\$ 5,072,727</b>
Changes in Net Assets					\$ 884,426
Net Assets - Beginning					10,695,166
Net Assets - Ending					<u>\$ 11,579,592</u>

See accompanying notes to financial statements.

Troy City Board of Education  
Troy, Alabama  
Balance Sheet -  
Governmental Funds  
September 30, 2010 (With comparative totals for September 30, 2009)

			Totals	
	General	Other Governmental Funds	September 30, 2010	September 30, 2009
<b>ASSETS</b>				
Cash	\$ 8,406,709	\$ 758,467	\$ 9,165,176	\$ 6,732,943
Investments	-	18,000	18,000	3,132,092
Receivables	1,792,241	157,611	1,949,852	2,120,679
Prepaid Expenses	8,508	-	8,508	8,906
Inventories	-	39,027	39,027	41,650
<b>TOTAL ASSETS</b>	<b>\$ 10,207,458</b>	<b>\$ 973,105</b>	<b>\$ 11,180,563</b>	<b>\$ 12,036,270</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>Liabilities</b>				
Accrued Liabilities	\$ 1,149,952	\$ 243,505	\$ 1,393,457	\$ 1,473,910
Deferred Revenue	1,433,623	112,712	1,546,335	1,401,779
<b>Total Liabilities</b>	<b>\$ 2,583,575</b>	<b>\$ 356,217</b>	<b>\$ 2,939,792</b>	<b>\$ 2,875,689</b>
<b>Fund Equity</b>				
Fund Balances				
Reserve for Inventories	\$ -	\$ 39,027	\$ 39,027	\$ 41,650
Unreserved	7,623,883	-	7,623,883	8,540,342
Unreserved, Reported in Other Governmental Funds	-	577,861	577,861	578,589
<b>Total Fund Equity</b>	<b>\$ 7,623,883</b>	<b>\$ 616,888</b>	<b>\$ 8,240,771</b>	<b>\$ 9,160,581</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 10,207,458</b>	<b>\$ 973,105</b>	<b>\$ 11,180,563</b>	<b>\$ 12,036,270</b>

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, 2010

Total <i>fund balances</i> for governmental funds	\$	8,240,771
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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	\$	658,116	
Land Improvements, net of \$510,500 accumulated depreciation		252,619	
Buildings and improvements, net of \$5,976,984 accumulated depreciation		8,279,097	
Equipment, net of \$580,268 accumulated depreciation		201,580	
Vehicles, net of \$700,425 accumulated depreciation		482,648	
Construction in Progress		267,434	
Total Capital Assets (See Note 6).			10,141,494

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.		180,397
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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, 2009 are:

Accrued interest payable	\$ (	91,959)	
Bonds and Warrants Payable (See Note 9).		( 6,700,203)	
Other long-term obligations (See Note 9).		( 190,908)	
Total long-term obligations.			( 6,983,070)

Total net assets of governmental activities	\$	11,579,592
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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, 2010 (With comparative totals for September 30, 2009)

			Totals	
	General	Other Governmental Funds	September 30, 2010	September 30, 2009
<b>REVENUES</b>				
State Sources	\$ 9,834,353	\$ 1,972,549	\$ 11,806,902	\$ 12,133,326
Federal Sources	59,372	3,838,181	3,897,553	2,276,765
Local Sources	4,661,540	1,174,775	5,836,315	5,934,630
Other Revenues	37,637	28,994	66,631	48,423
<b>Total Revenues</b>	<b>\$ 14,592,902</b>	<b>\$ 7,014,499</b>	<b>\$ 21,607,401</b>	<b>\$ 20,393,144</b>
<b>EXPENDITURES</b>				
Instructional Services	\$ 10,037,858	\$ 2,455,511	\$ 12,493,369	\$ 12,102,152
Instructional Support Services	2,430,679	756,788	3,187,467	3,177,589
Operation and Maintenance	1,395,869	9,781	1,405,650	1,432,307
Student Transportation Services	138,959	13,038	151,997	328,069
Food Services	-	1,279,068	1,279,068	1,401,888
General Administrative Services	704,525	414,664	1,119,189	956,235
Capital Outlay	327,044	1,362,787	1,689,831	634,272
Debt Service	-	818,738	818,738	820,900
Other Expenditures	295,131	205,407	500,538	317,928
<b>Total Expenditures</b>	<b>\$ 15,330,065</b>	<b>\$ 7,315,782</b>	<b>\$ 22,645,847</b>	<b>\$ 21,171,340</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ ( 737,163)</b>	<b>\$ ( 301,283)</b>	<b>\$ ( 1,038,446)</b>	<b>\$ ( 778,196)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	\$ 51,667	\$ 364,895	\$ 416,562	\$ 396,376
Indirect Cost	118,636	-	118,636	186,929
Other Financing Sources	-	-	-	9,753
Operating Transfers Out	( 392,523)	( 24,039)	( 416,562)	( 396,376)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ ( 222,220)</b>	<b>\$ 340,856</b>	<b>\$ 118,636</b>	<b>\$ 196,682</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ ( 959,383)</b>	<b>\$ 39,573</b>	<b>\$ ( 919,810)</b>	<b>\$ ( 581,514)</b>
<b>FUND BALANCE - BEGINNING OF YEAR - AS PREVIOUSLY STATED</b>	<b>8,583,266</b>	<b>577,315</b>	<b>9,160,581</b>	<b>9,742,095</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 7,623,883</b>	<b>\$ 616,888</b>	<b>\$ 8,240,771</b>	<b>\$ 9,160,581</b>

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, 2010

Net change in <i>fund balances</i> -- total governmental funds	\$ ( 919,810)
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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 capital outlay (\$1,700,431) exceeded depreciation expense (\$380,503) and accumulated depreciation of (\$16,586 on asset disposals) in the current period. (See Note 6).

1,303,342

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 (\$515,575). (See Note 9).

515,575

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)

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

( 25)

Change in <i>net assets</i> of governmental activities	\$ 884,426
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884,426

See accompanying notes to financial statements.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2010**

**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, 2010, as *other governmental funds*. Inclusion of these funds in the financial statements increased the account balances by the amounts listed below:

Cash	\$ 235,688
Investments	\$ 18,000
Fund Equity	\$ 253,688

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2010**

**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, 2010**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

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

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, 2010

**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, 2010**

**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. These amounts are considered deferred revenue, and are included as such, at September 30, 2010.

**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. The Board reviews its capital assets for impairments on a yearly basis. There were no assets impaired for the year ended September 30, 2010.

**Troy City Board of Education**  
**Troy, Alabama**  
**Notes to the Financial Statements**  
**September 30, 2010**

**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, 2010**

**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, 2010**

**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  
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Notes to the Financial Statements  
September 30, 2010**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**C. Assets, Liabilities and Net Assets (Continued)**

**Economic Dependency**

The Board of Education receives substantial amounts of its support from Federal and State governments. A significant reduction in the level of support, if this were to occur, may have an effect on the Board of Education's programs and activities.

**Encumbrances**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. They are reported as a reservation of fund balances in the governmental fund financial statements. There were no encumbrances outstanding at September 30, 2010.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Revenue - Exchange and Nonexchange Transactions**

Revenues, resulting exchange transactions in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year, or are expected to be collected, soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Board of Education, available means within sixty days of the fiscal year end. Nonexchange transactions, in which the Board of Education receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Board of Education must provide

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2010**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**C. Assets, Liabilities and Net Assets (Continued)**

local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Board of Education on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes.

**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 2009-2010 fiscal year was September 15, 2009. The Board approved its original 2009-2010 annual budget on August 17, 2009, and submitted the budget on August 17, 2009.

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.

**Troy City Board of Education**  
**Troy, Alabama**  
**Notes to the Financial Statements**  
**September 30, 2010**

**Note 3 - Transfers Between Funds**

Transfers between funds for the year ended September 30, 2010, consist of the following:

\$ 392,523	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.
430	From the Local Schools Fund to the General Fund for reimbursement of expenses paid through the General Fund.
<u>23,609</u>	Other General Fund interfund transfers.
<u>\$ 416,562</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. There were no inter-fund receivables at September 30, 2010. Details of these balances are as follows:

Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2010

**Note 5 - Receivables and Payables (Continued)**

**Statement of Net Assets**

Receivables:	
Property Tax Receivable	\$ 1,433,623
Sales Tax Receivable	232,234
Other Taxes Receivable	66,143
Other Receivables	45,396
USDA Reimbursements	130,228
State Department of Education	<u>42,228</u>
Total Receivables	<u>\$ 1,949,852</u>
Accounts Payable and Accrued Liabilities:	
Salaries and Employee Benefits Payable	\$ 1,393,457
Interest Payable	<u>91,959</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 1,485,416</u>

**Balance Sheet**

Receivables:	
Property Tax Receivable	\$ 1,433,623
Sales Tax Receivable	232,234
Other Taxes Receivable	66,143
Other Receivables	45,396
USDA Reimbursements	130,228
State Department of Education	<u>42,228</u>
Total Receivables	<u>\$ 1,949,852</u>
Accounts Payable and Accrued Liabilities:	
Salaries and Employee Benefits Payable	\$ 1,393,457
Accounts Payable	<u>-</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 1,393,457</u>

**Troy City Board of Education**  
**Troy, Alabama**  
**Notes to the Financial Statements**  
**September 30, 2010**

**Note 6 – Capital Assets**

Capital asset activity for the year ended September 30, 2010, 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	\$ 658,116	\$ -	\$ -	\$ 658,116
Construction in Progress	<u>65,332</u>	<u>261,300</u>	<u>( 59,198)</u>	<u>267,434</u>
Total Capital Assets Not Being Depreciated	<u>\$ 723,448</u>	<u>\$ 261,300</u>	<u>\$ ( 59,198)</u>	<u>\$ 925,550</u>
Capital Assets Being Depreciated:				
Buildings	\$ 9,138,725	\$ 1,487,728	\$ -	\$ 10,626,453
Building Improvements	3,629,628	-	-	3,629,628
Land Improvements – Exhaustible	763,119	-	-	763,119
Vehicles	1,243,392	-	( 60,319)	1,183,073
Equipment	<u>836,226</u>	<u>10,600</u>	<u>( 64,978)</u>	<u>781,848</u>
Total Capital Assets Being Depreciated	<u>\$ 15,611,090</u>	<u>\$ 1,498,328</u>	<u>\$ ( 125,297)</u>	<u>\$ 16,984,121</u>
Less: Accumulated Depreciation For:				
Buildings	\$ 5,403,945	\$ 178,424	\$ -	\$ 5,582,369
Building Improvements	326,645	67,970	-	394,615
Land Improvements – Exhaustible	503,636	6,864	-	510,500
Vehicles	672,108	88,636	( 60,319)	700,425
Equipment	<u>590,052</u>	<u>38,609</u>	<u>( 48,393)</u>	<u>580,268</u>
Total Accumulated Depreciation	<u>\$ 7,496,386</u>	<u>\$ 380,503</u>	<u>\$ ( 108,712)</u>	<u>\$ 7,768,177</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 8,114,704</u>	<u>\$ 1,117,825</u>	<u>\$ ( 16,585)</u>	<u>\$ 9,215,944</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 8,838,152</u>	<u>\$ 1,379,125</u>	<u>\$ ( 75,783)</u>	<u>\$ 10,141,494</u>

The Board of Education is obligated at September 30, 2010, under the following construction contracts:

<u>Project</u>	<u>Project Authorized</u>	<u>Cost to Date</u>	<u>Costs to Complete</u>
CHHS Classroom Addition	\$ 431,332	\$ 247,161	\$ 184,171
Canopies & Site Improvements	<u>300,000</u>	<u>20,273</u>	<u>279,727</u>
Total	<u>\$ 731,332</u>	<u>\$ 267,434</u>	<u>\$ 463,898</u>

**Troy City Board of Education**  
**Troy, Alabama**  
**Notes to the Financial Statements**  
**September 30, 2010**

**Note 6 – Capital Assets (Continued)**

Depreciation Expense was Charged to  
Governmental Functions as follows:

Instruction Services	\$ 219,167
Instructional Support Services	47,829
Operation and Maintenance Services	10,705
Student Transportation Services	81,644
Food Services	17,872
General Administrative Services	<u>3,286</u>
Total Governmental Activities Depreciation Expense	<u>\$ 380,503</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, 2010

**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,		
	2010	2009	2008
Total Percentage of Covered Payroll	17.51%	17.07%	16.75%
Percentage Contributed By the Board	12.51%	12.07%	11.75%
Percentage Contributed By Employees	5.00%	5.00%	5.00%
Amount Contributed By the Board	\$ 1,414,938	\$ 1,372,563	\$ 1,346,851
Amount Contributed By Employees	<u>567,175</u>	<u>568,584</u>	<u>573,128</u>
Total Contributions	<u>\$ 1,982,113</u>	<u>\$ 1,941,147</u>	<u>\$ 1,919,979</u>

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2010**

**Note 8 – Other Postemployment Benefits**

**A. Plan Description**

Post-employment health care benefits are provided through the Alabama Retired Education Employees' Health Care Trust (Trust). The Alabama Retired Education Employees' Health Care Trust is a multiple-employer cost sharing defined benefit health care plan established in 2008 under the provisions of Act 2008-16 as an irrevocable trust fund that provides health care benefits to state and local school system retirees. Responsibility for the general administration and operations of the Trust is vested in its trustees who consist of the Public Education Employees' Health Insurance Board (PEEHIB) members. Retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Fund (PEEHIF). Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from PEEHIF. *Code of Alabama 1975*, §§ 16-25A-4 provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan.

The 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.

The Alabama Retired Education Employees' plan issues a stand-alone financial report that may be obtained at the Public Education Employees' Health Insurance Plan website <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Statements tab.

**B. Funding Policy**

*Code of Alabama 1975*, §§ 16-25A-8 provides the PEEHIB with the authority to set the plan member contribution rate. Monthly premiums 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.

Troy City Board of Education  
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Notes to the Financial Statements  
September 30, 2010

**Note 8 - Other Postemployment Benefits (Continued)**

**B. Funding Policy (Continued)**

Required monthly contribution rates for plan members for the year ended September 30, 2010, are as follows:

*Retired Member Rates*

- Individual Coverage/Non-Medicare Eligible - \$97.54
- Family Coverage/Non-Medicare Eligible - \$284.94
- Family Coverage/Non-Medicare Eligible Member and Medicare Eligible Dependent - \$188.54
- Individual Coverage/Medicare Eligible - \$1.14
- Family Coverage/Medicare Eligible Member and Non-Medicare Eligible Dependent - \$188.54
- Family Coverage/Medicare Eligible Member and Dependent - \$92.14
- For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.
- Tobacco surcharge - \$23.00 per month

*PEEHIP Supplemental Plans*

- Optional Plans (Hospital Indemnity, Cancer, Dental, Vision) - up to two optional plans can be taken by retirees at no cost if the retiree is not also taking one of the Hospital Medical Plans or combining allocations. Otherwise, these plans can be purchased for \$38.00 per month per plan.

*Surviving Spouse Rates*

- Surviving Spouse Non-Medicare Eligible - \$598.00
- Surviving Spouse and Dependent Non-Medicare Eligible - \$730.00
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$689.00
- Surviving Spouse Medicare Eligible - \$313.00
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$445.00
- Surviving Spouse and Dependent Medicare Eligible - \$404.00

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2010	\$ 752.00	\$ 241.27	32.08%	\$ 895,151	100%
2009	\$ 752.00	\$ 205.45	27.32%	\$ 760,313	100%
2008	\$ 775.00	\$ 212.35	27.40%	\$ 691,226	100%

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2010**

**Note 8 - Other Postemployment Benefits (Continued)**

**B. Funding Policy (Continued)**

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

**Note 9 - Long-Term Obligations**

At September 30, 2010, 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.

\$ 3,505,000

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.

1,125,000

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.

1,350,000

**Troy City Board of Education  
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Notes to the Financial Statements  
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**Note 9 - Long-Term Obligations (Continued)**

**Alabama Public School and College Authority  
Capital Improvement Pool Bonds, Series 2009-B  
Allocated to Series 1999-B**

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. 720,203

**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. 190,908

Total Long-Term Obligations \$ 6,891,111

**A. Long-Term Obligations Activity**

Long-term liability obligations for the year ended September 30, 2010, 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	\$ 7,113,946	\$ -	\$ ( 413,743)	\$ 6,700,203	\$ 391,905
Notes Payable	<u>292,740</u>	<u>-</u>	<u>( 101,832)</u>	<u>190,908</u>	<u>107,044</u>
Total Bonds and					
Notes Payable	<u>\$ 7,406,686</u>	<u>\$ -</u>	<u>\$ ( 515,575)</u>	<u>\$ 6,891,111</u>	<u>\$ 498,949</u>

Interest expense included in functional expenses on the Statement of Activities for the year ended September 30, 2010, is \$303,163. There were no bonds authorized but not issued for the year ended September 30, 2010.

Troy City Board of Education  
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**Note 9 - Long-Term Obligations (Continued)**

**B. Debt Service Requirements**

Debt service requirements on long-term debt at September 30, 2010, are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 498,949	\$ 313,196	\$ 812,145
2012	498,450	291,063	789,513
2013	433,053	270,461	703,514
2014	450,058	250,865	700,923
2015	468,861	230,079	698,940
2016-2020	2,631,740	789,903	3,421,643
2021-2025	<u>1,910,000</u>	<u>168,431</u>	<u>2,078,431</u>
	<u>\$ 6,891,111</u>	<u>\$ 2,313,998</u>	<u>\$ 9,205,109</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  
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Notes to the Financial Statements  
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**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.

\$ 1,433,623

**Other Government Funds**

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

112,712

Total Deferred Revenue

\$ 1,546,335

**Troy City Board of Education  
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**Note 13 - Subsequent Events**

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through February 22, 2011. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that the following subsequent event is a required additional disclosure.

To assist with the financing of the system's capital needs the Board had, as of the end of fiscal year 2010, obtained the services of an investment banking firm to research the feasibility of refinancing the current outstanding 2001, 2002, and 2004 bond issues. With this refinancing the Board intended to determine the feasibility of extending the current maturity date beyond 2024 and borrowing additional funds sufficient to meet some of the needs. The Board estimates that the total amount of the new bond would be approximately \$21 million.

**Note 14 - New Pronouncements**

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". Certain of the significant changes in the Statement will require the following:

Fund balances for each of the Board's governmental funds (General Fund, special revenue funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance* - amounts that can be spent only for specific purposes determined by a formal action of the Board's highest level of decision-making authority.
- *Assigned fund balance* - amounts the Board intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance* - amounts that are available for any purpose; these amounts can be reported only in the Board's General Fund.



Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2010

**Note 14 - New Pronouncements (Continued)**

The Statement also establishes several new presentation and disclosure requirements, including requirements related to stabilization arrangements (i.e., "rainy day" amounts).

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the Board can report in special revenue funds.

The provisions of GASBS No. 54 must be implemented by the Troy City Board of Education no later than the fiscal year beginning October 1, 2010. Implementation will require the Board to restate existing fund balances for the governmental funds.

Required Supplementary Information

**Troy City Board of Education  
Troy, Alabama  
Budgetary Comparison - General Fund  
For the Year Ended September 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Favorable (Unfavorable)</b>
<b>REVENUES</b>				
State Sources	\$ 10,551,314	\$ 9,964,192	\$ 9,834,353	\$ ( 129,839)
Federal Sources	77,200	77,200	59,372	( 17,828)
Local Sources	4,770,382	4,770,382	4,661,540	( 108,842)
Other Revenues	-	-	37,637	37,637
<b>Total Revenues</b>	<b>\$ 15,398,896</b>	<b>\$ 14,811,774</b>	<b>\$ 14,592,902</b>	<b>\$ ( 218,872)</b>
<b>EXPENDITURES</b>				
Instructional Services	\$ 10,031,496	\$ 10,000,750	\$ 10,113,666	\$ ( 112,916)
Instructional Support Services	2,461,156	2,388,091	2,433,216	( 45,125)
Operation and Maintenance	1,547,975	1,520,701	1,390,345	130,356
Student Transportation Services	109,860	105,070	136,603	( 31,533)
General Administrative Services	904,961	926,173	704,525	221,648
Capital Outlay	300,000	309,000	337,644	( 28,644)
Other Expenditures	38,173	240,732	297,124	( 56,392)
<b>Total Expenditures</b>	<b>\$ 15,393,621</b>	<b>\$ 15,490,517</b>	<b>\$ 15,413,123</b>	<b>\$ 77,394</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 5,275</b>	<b>\$ ( 678,743)</b>	<b>\$ ( 820,221)</b>	<b>\$ ( 141,478)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	\$ 9,150	\$ 9,150	\$ 51,666	\$ 42,516
Indirect Cost	123,233	125,393	118,636	( 6,757)
Long-Term Debt Issued	-	-	-	-
Other Financing Sources	-	-	-	-
Other Fund Uses	-	-	-	-
Operating Transfers Out	( 398,493)	( 363,465)	( 392,523)	( 29,058)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ ( 266,110)</b>	<b>\$ ( 228,922)</b>	<b>\$ ( 222,221)</b>	<b>\$ 6,701</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ ( 260,835)</b>	<b>\$ ( 907,665)</b>	<b>\$ ( 1,042,442)</b>	<b>\$ ( 134,777)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>10,000,000</b>	<b>9,805,046</b>	<b>9,816,276</b>	<b>11,230</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 9,739,165</b>	<b>\$ 8,897,381</b>	<b>\$ 8,773,834</b>	<b>\$ ( 123,547)</b>

See accompanying notes to financial statements.

Troy City Board of Education  
Troy, Alabama  
Note to the Budgetary Comparison Schedule  
For the Year Ended September 30, 2010

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

	<u>General Fund</u>
<b>Uses/Outflows of Resources</b>	
Actual amounts (budgetary basis) available for expenditures are shown as Total Expenditures on the budgetary comparison schedule.	\$ 15,413,123
 <b>Differences - Budget to GAAP</b>	
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.	399
 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>( 83,457)</u>
 Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	 <u>\$ 15,330,065</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, 2010**

Description	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Special Education - Grants to States	84.027	131	\$ 505,079
Special Education - Grants to States ARRA	84.391	131	366,143
Special Education - Preschool Grants	84.173	131	15,387
Special Education - Preschool Grants ARRA	84.392	131	19,575
Title I Grants to Local Education Agencies	84.010	131	693,597
Title I Grants to Local Education Agencies ARRA	84.389	131	411,106
Improving Teacher Quality State Grants	84.367	131	146,164
Reading First State Grants	84.357	131	96,424
Rural & Low Income Schools	84.358	131	61,035
Career and Technical Education - Basic Grants to States	84.048	131	31,759
Education for Homeless Children and Youth	84.196	131	15,000
Education for Homeless Children and Youth ARRA	84.387	131	6,710
Impact Aid	84.041	131	9,343
Education Technology State Grants ARRA	84.386	131	141,799
State Fiscal Stabilization Fund ARRA	84.394	131	535,965
Safe and Drug Free Schools and Communities	84.186	131	9,387
Education Technology State Grants	84.318	131	5,853
Career Tech Preparation	84.243	131	2,304
<b>Total U.S. Department of Education</b>			<b>\$ 3,072,630</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
National School Lunch Program	10.555	131	\$ 584,207
Food Distribution Program (Non Cash Assistance)	10.550	5605	68,903
School Breakfast Program	10.553	131	112,441
<b>Total U.S. Department of Agriculture</b>			<b>\$ 765,551</b>
<b>DEPARTMENT OF DEFENSE</b>			
ROTC Program	12.999	N/A	\$ 58,634
<b>SOCIAL SECURITY ADMINISTRATION</b>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Disability Determination	96.001	131	\$ 738
<b>TOTAL FEDERAL EXPENDITURES</b>			<b>\$ 3,897,553</b>

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, 2010**

**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, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of Auditors' Report Issued	Unqualified
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Internal Control Over Financial Reporting

Material Weakness Identified?	No
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Significant Deficiencies Identified	
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Not Considered to be Material Weaknesses?	None
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Noncompliance Material to Financial

Statements Noted?	No
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Federal Awards

Internal Control Over Major Programs

Material Weakness Identified?	No
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Significant Deficiencies Identified Not	
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Considered to be Material Weaknesses?	None
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Type of Auditors' Report Issued on Compliance

For Major Programs	Unqualified
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Any Audit Findings Disclosed that are

Required to be Reported in Accordance with Circular A-133, Section 510(a)?	No
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Identification of Major Programs:

CFDA Number

Name of Federal Programs

84.010	Title I Grants to Local Education Agencies
84.389	ARRA - Title I Grants to Local Education Agencies
84.027	Special Education - Grants to States
84.391	ARRA Special Education - Grants to States
84.173	Special Education - Preschool Grants
84.392	ARRA Special Education - Preschool Grants
84.394	ARRA State Fiscal Stabilization Fund

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, 2010**

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, 2010**

**Current Year Recommendations**

**None**

**Prior Year Recommendations**

**None**



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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, 2010, which collectively comprise the Troy City Board of Education's basic financial statements and have issued our report thereon dated February 22, 2011. 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 deficiency in internal control exists* when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

February 22, 2011

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



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

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Independent Auditors' Report on Compliance with  
Requirements That Could Have a Direct and Material Effect  
on 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 Troy City Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Troy City Board of Education's major federal programs for the year ended September 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

### 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

February 22, 2011

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