

Financial Statements

Troy City Board Of Education

September 30, 2012

Troy City Board of Education
Troy, Alabama
September 30, 2012

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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, component unit of the City of Troy, Alabama, as of and for the year ended September 30, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2012, and the respective changes in financial position 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 March 18, 2013, 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 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 16 and page 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.

March 18, 2013


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

Troy City Board of Education
Troy, Alabama
Management's Discussion and Analysis
September 30, 2012

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, 2012. 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

Reading our financial statements provides these insights into the results of operations for fiscal year 2012:

On the government-wide financial statements:

The assets of the Board exceeded its liabilities at the close of the 2012 fiscal year by \$7.49 million (net assets). Our *government-wide financial statements* reflect \$3.35 million (unrestricted net assets), which may be used to meet the Board's future costs of operations, and \$2.03 million (invested in capital assets, net of related debt). The *government-wide financial statements* are a long-term availability approach to analyzing the financial statements.

The total cost of the Board's programs for the year was \$21.41 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 \$4.47 million - a decrease of 4% from the previous year.

At the end of the current fiscal year, the Unreserved Fund Balance (Budgetary Basis) for the General Fund was \$3.47 million which is sufficient to cover 2.6 months of normal monthly operating expenditures.

The Board completed the capital project at Troy Elementary to build the Pre-K and 6th grade wings. Construction on the CHHS Cafetorium progressed with anticipated completion to be shortly after end of the 2012 fiscal year.

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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.

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.

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

Government-Wide Financial Statements (Continued)

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

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

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

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

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

The *statement of activities* (page 18) is most closely related to an income statement. It presents information showing how the Board's net assets changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in

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

Government-Wide Financial Statements (Continued)

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 GASB 34 reporting model still requires the Board to present financial statements on a fund basis, but with some modifications. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental *fund financial statements* begin on page 19. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. As required under the reporting model, the *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 availability of spendable resources.

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

Fund Financial Statements (Continued)

The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 20 and 22 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

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

Notes to the Basic Financial Statements

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

After the presentation of the basic financial statements, the 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 \$7.49 million at September 30, 2012.

Of this figure, 27% or \$2.03 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.

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

Of the remaining balance of restricted and unrestricted net assets \$3.35 million or 45% may be used at the Board's discretion to meet ongoing obligations to citizens, creditors, and future operations.

Table 1: Summary of Net Assets

For the Year Ended September 30, 2012
(with Comparative Totals for September 30, 2011)
(in millions)

	Governmental Activities	
	9/30/2012	9/30/2011
Current and Other Assets	\$ 18.86	\$ 25.42
Capital Assets	<u>14.48</u>	<u>10.29</u>
Total Assets	<u>\$ 33.34</u>	<u>\$ 35.71</u>
Current Obligations (Due Within One Year)	\$ 3.06	\$ 2.83
Long-Term Obligations	<u>22.79</u>	<u>22.70</u>
Total Liabilities	<u>\$ 25.85</u>	<u>\$ 25.53</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 2.03	\$ 2.43
Restricted	2.11	1.47
Unrestricted	<u>3.35</u>	<u>6.28</u>
Total Net Assets	<u>\$ 7.49</u>	<u>\$ 10.18</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, 2012, with resources left over to use for next year's operations.

The continued 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 and decision making.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 18. Table 2 below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net assets as of September 30, 2012.

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

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

For the Year Ended September 30, 2012
(with Comparative Totals for September 30, 2011)
(in millions)

	<u>Governmental Activities</u>	
	<u>9/30/2012</u>	<u>9/30/2011</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 1.61	\$ 1.48
Operating Grants and Contributions	11.69	12.64
Capital Grants and Contributions	.50	.62
General Revenues:		
Local Property Taxes	1.59	1.69
Local Sales Taxes	2.81	2.76
Other Taxes	.07	.07
Other - Miscellaneous Revenues	.40	.61
Investment Earnings	.05	.08
Total Revenues	<u>\$ 18.72</u>	<u>\$ 19.95</u>
Expenses		
Instructional Services	\$ 12.58	\$ 13.09
Instructional Support Services	3.12	3.06
Operation and Maintenance Services	1.40	1.38
Student Transportation Services	.26	.25
Food Services	1.28	1.21
General Administrative Services	1.21	1.18
Interest and Fiscal Charges	1.07	.83
Other Expenses	.49	.41
Total Expenses	<u>\$ 21.41</u>	<u>\$ 21.41</u>
Changes in Net Assets	\$ (2.69)	\$ (1.46)
Net Assets - Beginning	10.18	11.58
Adjustment to Beginning Balance	-	.06
Net Assets - Ending	<u>\$ 7.49</u>	<u>\$ 10.18</u>

The Board's net assets decreased by \$2.69 million during the 2012 fiscal year. Analysis of the table above shows that while revenues decreased for the period expenses remained the same overall.

Governmental Activities - As shown in Table 2, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2012, was \$21.41 million. It is important to note that not all of these costs were paid by the taxpayers of Pike County:

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

Some of the cost, \$1.61 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 \$12.19 million.

Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$.45 million in revenues.

\$4.47 million of the Board's total costs of \$21.41 million was financed by district and state taxpayers, as follows: \$1.59 million in property taxes, \$2.81 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 18 showing the total cost for providing identified services for seven major Board activities for fiscal year 2012 compared with fiscal year 2011. 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.

Table 3: Net Cost of Governmental Activities

For the Year Ended September 30, 2012
(with Comparative Totals for September 30, 2011)
(in millions)

	<u>9/30/2012</u>	<u>9/30/2011</u>
Instructional Services	\$ 3.27	\$ 2.77
Instructional Support Services	.99	.70
Operation and Maintenance Services	.56	.98
Student Transportation Services	.18	.17
Food Services	.14	.14
General Administrative Services	1.06	.86
Interest and Fiscal Charges	1.07	.83
Other Expenses	<u>.34</u>	<u>.21</u>
Total	<u>\$ 7.61</u>	<u>\$ 6.66</u>

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

Performance of School Board Funds

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

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* is reconciled on pages 20 and 22). At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$17.40 million comprised of:

General Fund: (primary operating fund of Board operations), approximately \$6.05 million of the amount above constitutes an unassigned (unreserved) fund balance which is available as of the end of the fiscal year for spending on future operations.

Capital Projects/Capital Lease Fund: the \$10.56 million fund balance at September 30, 2012 is the balance of funds remaining from the bond refinancing completed in March 2012. This fund accounts for the costs of the capital projects planned for each of the system's school campuses.

Other Governmental Funds: the remainder of the amount is non-discretionary balances for the Child Nutrition Program, federal programs, and balances at the local schools, all of which total \$.79 million.

Management saw an increase in the recurring cost of the employer's share of retirement during 2012 while also addressing the need for funding for capital plans to meet long-term system needs.

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

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 by a combination of factors: (1) 3% pro-ratio to reduce state funding by approximately \$300,000 (2) purchase of SMART board technology for classrooms for \$1,010,121 that was not included in original budget and (3) the expenditures on the refinanced long-term debt in fiscal year 2012 exceeded the budgeted amount by \$659,876. 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, 2012	\$ 14,572,335	\$ (6,674,110)**
September 30, 2011	21,246,445	13,005,674
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

** Includes \$4.4 million spent on capital projects from bond funds in FY 2012. The remaining \$2.2 million reflects a decrease to the operating reserve of the General Fund for the period. This amount also includes a prior period adjustment of \$5,598 to correct interest receivable in the prior year.

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 adopted in September 2011. Over the course of the year, the Board made two revisions to the annual operating budget. For purposes of this budgetary analysis, only the General Fund of the Board is discussed.

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

Amendment #1, approved on April 19, 2012, was necessary to, add additional allocations received after approval of the original budget, add authorized carryover amounts brought forward from FY 2011 year-end and budget funds for August-September months for start of new Pre-K Program at Troy Elementary.

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Budgetary Highlights of Major Funds (Continued)

The second amendment was approved in June 2012, to align budgets to fully utilize available funding by end of the fiscal year.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2012, amounted to \$14.48 million, net of accumulated depreciation. This amounts to 43% 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.

Table 4: Capital Assets (Net of Accumulated Depreciation)

As of September 30, 2012
(in millions)

	Governmental Activities	
	2012	2011
Land and Land Improvements	\$.92	\$.92
Buildings and Improvements	8.37	8.50
Construction in Progress	4.65	.27
Vehicles	.38	.40
Equipment	.16	.20
Total	\$ 14.48	\$ 10.29

Net capital assets increased by \$4.19 million for the 2012 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 Pre-K wing at Troy Elementary. Construction also began this year on the addition of a new cafetorium at Charles Henderson High School.

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Capital Assets and Debt Administration (Continued)

Long-Term Debt – At year-end, the Board had \$23.01 million in general obligation bonds, capital lease obligations payable, and other long-term debt outstanding. This is a significant increase in debt from last year, as shown in *Table 5* below.

Table 5: Outstanding Long-Term Debt

As of September 30, 2012
(in millions)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Governmental Activities			
Bonds and Warrants Payable	\$.65	\$ (.07)	\$.58
Other Liabilities			
Capital Leases	22.13	.30	22.43
Compensated Absences	-	-	-
Other Long-Term Liabilities	<u>.08</u>	<u>(.08)</u>	<u>-</u>
Total Governmental Activities			
Long-Term Debt	<u>\$ 22.86</u>	<u>\$.15</u>	<u>\$ 23.01</u>

The Board chose to refinance its general obligation bonded debt issued in 2001, 2002 and 2004 and to borrow an additional \$15 million that is designated and required by law to be spent only on capital projects. The Board's plans have been to work with architects to stretch these funds to enable much-needed construction and renovation at all three school campuses.

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

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Economic Factors and Next Year's Budget

The following are currently known Troy City economic factors considered going into the 2012-2013 fiscal year.

The unemployment rate in Pike County for September 2012 is 6.5%. This rate is an improvement from the 8.0% rate in the prior year.

The Troy and Pike County area economy seem to have weathered the economic downturn and indicate tentative growth in the coming year. Overall, local sales tax receipts stabilized in FY 2012 with potential for modest growth in FY 2013.

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. The Alabama Legislature passed House Bill #57 into law in 2012 which placed a cap on any projected increase in spending for any given budget year from the Education Trust Fund based on the average percentage change in the trust fund tax collections from the previous fifteen fiscal years. Recent activity in the 2013 Legislative Session prior to the issuance of this report indicates possible changes to the Education Trust Fund of which the impact is not known at this time.

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:

Student Enrollment - The ADM (average daily membership) for the start of the 2012-2013 school year is 2,099, which will be a factor in the fiscal year 2014 budget. This is an increase from 2,076 from the 2011-2012 school year. This number is critical to the school system due to its importance in the State Department of Education's calculations in determining the amount of state and federal funding which currently comprises approximately 68% of total revenues for the school system. The challenges this represents is two-fold:

- 1) Continue improvements to all areas of learning opportunity for students to prevent any further decrease in student population.
- 2) Manage school system expenses within strictly followed criteria reflecting only those costs deemed absolutely necessary including reducing personnel costs which comprise over 80% of total expenditures.

**Troy City Board of Education
Troy, Alabama
Management's Discussion and Analysis
September 30, 2012**

Economic Factors and Next Year's Budget (Continued)

<u>Fiscal Year</u>	<u>ADM</u>	<u>Enrollment Increase (Decrease)</u>
2013	2,076.15	(39.70)
2012	2,115.85	(44.70)
2011	2,160.55	(71.70)
2010	2,232.25	(61.70)
2009	2,293.95	(56.60)
2008	2,350.55	3.25
2007	2,347.30	(19.99)
2006	2,367.29	(34.82)
2005	2,402.11	

Medical and Retirement Costs – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs for fiscal year 2013 will remain at \$8,568 per employee.

Employer contributions to the Teachers Retirement System (TRS) will increase from 10% per employee to 10.08% per employee for the 2013 fiscal year.

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, 358 Elba Highway, Troy, AL 36079, 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, 2012

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Cash	\$ 4,900,955	\$ 4,900,955
Investments	18,000	18,000
Property Taxes Receivable	1,380,092	1,380,092
Other Receivables	418,479	418,479
Capital Lease Proceeds Receivable	10,557,179	10,557,179
Inventories	48,816	48,816
Prepaid Items	76,330	76,330
Capital Lease Issuance Costs	1,458,888	1,458,888
Capital Assets		
Nondepreciable	5,304,790	5,304,790
Depreciable, Net	<u>9,174,951</u>	<u>9,174,951</u>
TOTAL ASSETS	<u><u>\$ 33,338,480</u></u>	<u><u>\$ 33,338,480</u></u>
LIABILITIES		
Deferred Revenue	\$ 1,477,610	\$ 1,477,610
Accounts Payable	82,560	82,560
Salaries and Benefits Payable	1,267,345	1,267,345
Accrued Interest Payable	11,991	11,991
Long-Term Obligations		
Due in One Year		
Bonds Payable	73,053	73,053
Capital Lease Obligations Payable	149,114	149,114
Due in More Than One Year		
Bonds Payable	510,659	510,659
Capital Lease Obligations Payable	<u>22,276,540</u>	<u>22,276,540</u>
Total Liabilities	<u><u>\$ 25,848,872</u></u>	<u><u>\$ 25,848,872</u></u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 2,027,554	\$ 2,027,554
Restricted For:		
Capital Projects	1,796,326	1,796,326
Debt Service	5,753	5,753
Other Purposes	312,818	312,818
Unrestricted	<u>3,347,157</u>	<u>3,347,157</u>
Total Net Assets	<u><u>\$ 7,489,608</u></u>	<u><u>\$ 7,489,608</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 33,338,480</u></u>	<u><u>\$ 33,338,480</u></u>

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Statement of Activities
For the Year Ended September 30, 2012

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental					
Instructional Services	\$ 12,579,100	\$ 236,328	\$ 8,578,962	\$ 493,294	\$ (3,270,516)
Instructional Support Services	3,119,994	168,875	1,952,645	-	(998,474)
Operation and Maintenance Services	1,397,297	16,392	820,495	1,492	(558,918)
Student Transportation Services	256,549	7,919	66,264	5,753	(176,613)
Food Services	1,281,953	1,025,196	119,900	-	(136,857)
General Administrative Services	1,212,536	28,237	127,713	-	(1,056,586)
Interest and Fiscal Charges	1,066,820	-	-	-	(1,066,820)
Other Expenses	494,351	124,311	27,167	-	(342,873)
Total Governmental Activities	\$ 21,408,600	\$ 1,607,258	\$ 11,693,146	\$ 500,539	\$ (7,607,657)
General Revenues					
Taxes					
Property Taxes for General Purposes					
Local Sales Tax					
Other Tax					
Investment Earnings					
Miscellaneous Revenues					
Total General Revenues					\$ 1,592,154
					2,809,494
					65,777
					55,073
					396,968
					\$ 4,919,466
Changes in Net Assets					
Net Assets - Beginning					
Net Assets - Ending					
					\$ (2,688,191)
					10,177,799
					\$ 7,489,608

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Balance Sheet -
Governmental Funds

September 30, 2012 (With comparative totals for September 30, 2011)

	Totals			
	General	Capital Projects Capital Lease	Other Governmental Funds	September 30, 2011
ASSETS				
Cash	\$ 4,259,493	\$ -	\$ 641,462	\$ 6,779,162
Investments	-	-	18,000	18,000
Receivables	1,715,102	10,557,179	83,469	17,003,284
Interfund Receivable	368	-	2,556	-
Prepaid Expenses	76,330	-	-	71,567
Inventories	-	-	48,816	38,819
TOTAL ASSETS	\$ 6,051,293	\$ 10,557,179	\$ 794,303	\$ 23,910,832
LIABILITIES AND FUND EQUITY				
Liabilities				
Accrued Liabilities	\$ 1,123,303	\$ -	\$ 226,603	\$ 1,243,687
Interfund Payable	2,556	-	368	-
Deferred Revenue	1,381,792	-	95,818	1,420,700
Total Liabilities	\$ 2,507,651	\$ -	\$ 322,789	\$ 2,664,387
Fund Equity				
Fund Balances				
Nonspendable	\$ 76,330	\$ -	\$ 48,816	\$ 110,386
Restricted	-	-	329,625	376,776
Committed	-	10,557,179	-	15,000,000
Assigned	-	-	93,073	117,112
Unassigned	3,467,312	-	-	5,642,171
Total Fund Equity	\$ 3,543,642	\$ 10,557,179	\$ 471,514	\$ 21,246,445
TOTAL LIABILITIES AND FUND EQUITY	\$ 6,051,293	\$ 10,557,179	\$ 794,303	\$ 23,910,832

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, 2012

Total <i>fund balances</i> for governmental funds	\$	14,572,335
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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 \$520,272 accumulated depreciation		268,372	
Buildings and improvements, net of \$6,517,870 accumulated depreciation		8,374,269	
Equipment, net of \$641,063 accumulated depreciation		164,405	
Vehicles, net of \$819,942 accumulated depreciation		367,905	
Construction in Progress		4,646,674	
Total Capital Assets (See Note 6).			14,479,741

Issuance costs on capital lease obligations 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 capital lease. This amount represents the total capital lease issuance net of \$81,287 amortization expense.

1,458,888

Long-term obligations, including bonds payable and capital lease contracts 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, 2012, were:

Accrued interest payable	\$ (11,991)	
Bonds Payable (See Note 9).		(583,712)	
Capital Lease Contracts Payable (See Note 9).		(22,425,654)	
Total long-term obligations.			(23,021,357)

Rounding		1
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Total net assets of governmental activities	\$	7,489,608
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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, 2012 (With comparative totals for September 30, 2011)

	Totals			
	General	Capital Projects Capital Lease	Other Governmental Funds	September 30, 2011
REVENUES				
State Sources	\$ 10,128,780	\$ -	\$ 499,047	\$ 10,575,271
Federal Sources	63,681	-	2,206,580	3,410,789
Local Sources	3,980,470	28,123	1,732,146	5,740,739
Other Revenues	38,174	-	43,422	52,687
Total Revenues	\$ 14,211,105	\$ 28,123	\$ 4,481,195	\$ 20,008,888
EXPENDITURES				
Instructional Services	\$ 11,020,364	\$ -	\$ 1,306,354	\$ 12,874,213
Instructional Support Services	2,612,878	-	459,287	3,011,919
Operation and Maintenance	1,439,729	-	7,183	1,393,628
Student Transportation Services	163,793	-	17,329	163,150
Food Services	-	-	1,350,742	1,299,902
General Administrative Services	1,071,035	-	105,600	1,176,635
Capital Outlay	34,062	4,476,542	13,326	4,523,930
Debt Service	153,867	-	1,219,441	1,472,042
Other Expenditures	286,135	-	209,824	410,705
Total Expenditures	\$ 16,781,883	\$ 4,476,542	\$ 4,689,086	\$ 22,290,531
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,570,778)	\$ (4,448,419)	\$ (207,891)	\$ (2,281,643)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 65,008	\$ -	\$ 207,814	\$ 848,517
Indirect Cost	93,135	-	-	123,111
Proceeds from Capital Lease	454,245	-	-	22,125,000
Other Financing Uses - Capital Lease	-	-	-	(7,020,885)
Operating Transfers Out	(211,706)	-	(61,116)	(848,517)
Total Other Financing Sources (Uses)	\$ 400,682	\$ -	\$ 146,698	\$ 15,227,226
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (2,170,096)	\$ (4,448,419)	\$ (61,193)	\$ 12,945,583
FUND BALANCE - BEGINNING	5,713,738	15,000,000	532,707	8,240,771
Adjustment to Beginning Balance	-	5,598	-	60,091
FUND BALANCE - ENDING	\$ 3,543,642	\$ 10,557,179	\$ 471,514	\$ 21,246,445

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, 2012

Net change in *fund balances* -- total governmental funds \$ (6,679,708)

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 (less retirements) exceeded depreciation expense (\$404,057) in the current period. (See Note 6).

4,190,628

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 net principal repayment in the current period. (See Note 9)

307,041

In governmental funds, capital lease issuance 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 capital lease issuance amortization in the current period.

(51,339)

In governmental funds, capital lease 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 capital lease proceeds in the current period.

(454,245)

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.

Current year decrease in Accrued Interest Receivable

(15)

Current year increase in Accrued Interest Expense

(554)

Rounding

1

Change in *net assets* of governmental activities

\$ (2,688,191)

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012

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, 2012, as *other governmental funds*. Inclusion of these funds in the financial statements increased the account balances by the amounts listed below:

Cash	\$ 185,437
Investments	\$ 18,000
Interfund Receivable	\$ 1,259
Accounts Payable	\$ 77,848
Fund Equity	\$ 126,848

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 1 - Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Measurement Focus, 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 for 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, 2012**

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Basis of Presentation (Continued)

Capital Projects Funds - This fund is used to account for the proceeds of the 2012 capital lease and to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

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

Debt Service Funds - These 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, 2012**

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Measurement Focus, 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. In governmental funds, the Board's policy is to first use restricted fund balances and then use other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

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* in the government-wide financial statements and as *Receivables* and *Interfund Balances* 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, 2012**

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, 2012.

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. Prepaid items, such as insurance premiums and rent, are recorded as expenditures in governmental funds when expended.

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, 2012.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

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.

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

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Long-Term Obligations (Continued)

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.

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

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Compensated Absences (Continued)

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.

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, 2012.

Estimates

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

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:

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Net Assets/Fund Equity (Continued)

- *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.

- *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, 2012**

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of changes in the Board's financial position and operation.

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 2011-2012 fiscal year was October 1, 2011. The Board approved its original 2011-2012 annual budget on September 26, 2011, and submitted the budget on September 26, 2011.

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

B. Excess of Expenditures over Appropriations

At September 30, 2012, the following governmental funds had fund expenditures exceeding appropriations by the following amounts:

General Fund	\$ 2,170,096
Capital Projects - Capital Lease	\$ 4,448,419
Other Governmental Funds	\$ 61,193

These shortages were covered by existing funds on hand.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 3 - 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 4 - Interfund Balances and Activities

Interfund balances at September 30, 2012, consisted of the following:

\$ 1,259	To the Special Revenue Funds from the General Fund.
368	To the General Fund from the Special Revenue Funds.
<u>1,297</u>	To the Local School Funds from the General Fund.
<u>\$ 2,924</u>	Total Interfund Balances.

Transfers between funds for the year ended September 30, 2012, consisted of the following:

\$ 211,706	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.
17,520	From the Local School Funds for reimbursement of certain expenses paid.
<u>43,596</u>	Other General Fund interfund transfers.
<u>\$ 272,822</u>	Total Transfers

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

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. Interfund receivables and payables are omitted from the Statement of Net Assets at September 30, 2012. Details of these balances are as follows:

Statement of Net Assets

Receivables:	
Property Tax Receivable	\$ 1,380,092
Sales Tax Receivable	230,300
Other Taxes Receivable	54,465
Other Receivables	245
Lease Proceeds Receivable	10,557,179
USDA Reimbursements	83,469
State Department of Education	<u>50,000</u>
Total Receivables	<u>\$ 12,355,750</u>
Accounts Payable and Accrued Liabilities:	
Salaries and Employee Benefits Payable	\$ 1,267,345
Accounts Payable	82,560
Interest Payable	<u>11,991</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 1,361,896</u>

Balance Sheet

Receivables:	
Property Tax Receivable	\$ 1,380,092
Sales Tax Receivable	230,300
Other Taxes Receivable	54,465
Other Receivables	245
Interfund Receivable	2,924
Lease Proceeds Receivable	10,557,179
USDA Reimbursements	83,469
State Department of Education	<u>50,000</u>
Total Receivables	<u>\$ 12,358,674</u>
Accounts Payable and Accrued Liabilities:	
Salaries and Employee Benefits Payable	\$ 1,267,345
Interfund Payable	2,924
Accounts Payable	<u>82,560</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 1,352,829</u>

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012

Note 6 - Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Balance</u> <u>9/30/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>9/30/12</u>
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 658,116	\$ -	\$ -	\$ -	\$ 658,116
Construction in Progress	273,802	4,490,741	(117,869)	-	4,646,674
Total Capital Assets Not Being Depreciated	\$ 931,918	\$ 4,490,741	\$ (117,869)	\$ -	\$ 5,304,790
Capital Assets Being Depreciated:					
Buildings	\$ 11,345,682	\$ -	\$ -	\$ -	\$ 11,345,682
Building Improvements	3,398,508	147,949	-	-	3,546,457
Land Improvements - Exhaustible	775,269	13,375	-	-	788,644
Vehicles	1,139,339	48,508	-	-	1,187,847
Equipment	793,487	11,981	-	-	805,468
Total Capital Assets Being Depreciated	\$ 17,452,285	\$ 221,813	\$ -	\$ -	\$ 17,674,098
Less: Accumulated Depreciation For:					
Buildings	\$ 5,787,483	\$ 198,442	\$ -	\$ -	\$ 5,985,925
Building Improvements	455,653	76,292	-	-	531,945
Land Improvements - Exhaustible	515,067	5,205	-	-	520,272
Vehicles	735,951	83,991	-	-	819,942
Equipment	600,936	40,127	-	-	641,063
Total Accumulated Depreciation	\$ 8,095,090	\$ 404,057	\$ -	\$ -	\$ 8,499,147
Total Capital Assets Being Depreciated, Net	\$ 9,357,195	\$ (182,244)	\$ -	\$ -	\$ 9,174,951
Total Governmental Activities Capital Assets, Net	\$ 10,289,113	\$ 4,308,497	\$ (117,869)	\$ -	\$ 14,479,741

The Board of Education is obligated at September 30, 2012, under the following construction contracts:

<u>Project</u>	<u>Project</u> <u>Authorized</u>	<u>Costs</u> <u>to Date</u>	<u>Costs to</u> <u>Complete</u>
CHHS Cafetorium	\$ 3,812,059	\$ 2,215,994	\$ 1,596,065
Troy Elementary School Additions	2,922,876	2,260,548	662,328
Canopies & Site Improvements	300,000	170,132	129,868
Total	\$ 7,034,935	\$ 4,646,674	\$ 2,388,261

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 6 – Capital Assets (Continued)

Depreciation Expense was Charged to
Governmental Functions as follows:

Instruction Services	\$ 252,381
Instructional Support Services	47,829
Operation and Maintenance Services	9,159
Student Transportation Services	75,428
Food Services	15,974
General Administrative Services	<u>3,286</u>
Total Governmental Activities Depreciation Expense	<u>\$ 404,057</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

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 7 – Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

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.

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 7.25% 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,		
	2012	2011	2010
Total Percentage of Covered Payroll	17.25%	17.51%	17.51%
Percentage Contributed By the Board	10.00%	12.51%	12.51%
Percentage Contributed By Employees	7.25%	5.00%	5.00%
Amount Contributed By the Board	\$ 1,119,466	\$ 1,378,857	\$ 1,414,938
Amount Contributed By Employees	<u>774,229</u>	<u>551,109</u>	<u>567,175</u>
Total Contributions	<u>\$ 1,893,695</u>	<u>\$ 1,929,966</u>	<u>\$ 1,982,113</u>

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 8 – Other Postemployment Benefits

A. Plan Description

Postemployment 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 2007 under the provisions of Act 2007-16 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
Troy, Alabama
Notes to the Financial Statements
September 30, 2012

Note 8 – Other Postemployment Benefits (Continued)

B. Funding Policy (Continued)

Required monthly contribution rates for plan members for the year ended September 30, 2012, were as follows:

Retired Member Rates

- Individual Coverage/Non-Medicare Eligible - \$151
- Family Coverage/Non-Medicare Eligible - \$391
- Family Coverage/Non-Medicare Eligible Member and Medicare Eligible Dependent - \$250
- Individual Coverage/Medicare Eligible - \$10
- Family Coverage/Medicare Eligible Member and Non-Medicare Eligible Dependent - \$250
- Family Coverage/Medicare Eligible Member and Dependent - \$109
- 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. Employees that retire after January 1, 2012, are required to pay four percent for each year under 25 years of service.
- Tobacco surcharge - \$28 per month

Surviving Spouse Rates

- Surviving Spouse Non-Medicare Eligible - \$658
- Surviving Spouse and Dependent Non-Medicare Eligible - \$847
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$816
- Surviving Spouse Medicare Eligible - \$328
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$517
- Surviving Spouse and Dependent Medicare Eligible - \$486

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2012	\$ 714.00	\$ 228.95	32.07%	\$ 701,034	100%
2011	\$ 752.00	\$ 198.94	26.45%	\$ 632,316	100%
2010	\$ 752.00	\$ 241.27	32.08%	\$ 739,917	100%

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012

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

A. Long-Term Obligation Activity

Long-term liability obligations for the year ended September 30, 2012, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable	\$ 653,298	\$ -	\$ 69,586	\$ 583,712	\$ 73,053
Notes Payable	<u>83,864</u>	<u>-</u>	<u>83,864</u>	<u>-</u>	<u>-</u>
Total Bonds and Notes Payable	\$ 737,162	\$ -	\$ 153,450	\$ 583,712	\$ 73,053
Capital Lease Payable	<u>22,125,000</u>	<u>454,245</u>	<u>153,591</u>	<u>22,425,654</u>	<u>149,114</u>
Total Governmental Activities Long-Term Obligations	<u>\$ 22,862,162</u>	<u>\$ 454,245</u>	<u>\$ 307,041</u>	<u>\$ 23,009,366</u>	<u>\$ 222,167</u>

Interest expense included in functional expenses on the Statement of Activities for the year ended September 30, 2012, is \$1,066,820. There were no bonds authorized but not issued for the year ended September 30, 2012.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 9 - Long-Term Obligations (Continued)

B. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2012, are as follows:

Fiscal Year Ending September 30,	Bonds and Notes Payable		Capital Lease Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	
2013	\$ 73,053	\$ 28,779	\$ 149,113	\$ 1,036,396	\$ 1,287,341
2014	75,058	25,127	151,541	1,033,971	1,285,697
2015	78,861	21,374	460,000	1,024,743	1,584,978
2016	82,545	17,837	475,000	1,010,718	1,586,100
2017	86,700	13,710	490,000	996,243	1,586,653
2018-2022	187,495	14,196	2,690,000	4,736,749	7,628,440
2023-2027	-	-	3,265,000	4,160,250	7,425,250
2028-2032	-	-	4,110,000	3,316,456	7,426,456
2033-2037	-	-	5,285,000	2,126,906	7,411,906
2038-2041	-	-	5,350,000	580,123	5,930,123
	<u>\$ 583,712</u>	<u>\$ 121,023</u>	<u>\$ 22,425,654</u>	<u>\$ 20,022,555</u>	<u>\$ 43,152,944</u>

C. Bonds Payable

During the fiscal year 2010, the Alabama Public School & College Authority disbursed a portion of their proceeds from the Series 2009-B bond to the Board. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. Principal payments are due annually on May 1, and interest payments are due semi-annually on May 1 and November 1. The proceeds from these bonds provided funds for the acquisition, construction and renovation of school facilities.

D. Notes Payable

During the fiscal year 2001, the Board entered into a note payable agreement with Fifth Third Bank. The note has an interest rate of 5.02% and is payable in quarterly installments of \$28,659, which commenced on August 1, 2002. The loan matured on May 1, 2012. The proceeds from the loan provided funds for the improvement of school facilities.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012

Note 9 - Long-Term Obligations (Continued)

E. Capital Lease

On March 1, 2011, the Board entered into a lease-purchase agreement with The Public Educational Building Authority of the City of Troy (the Authority). On that date the Authority issued \$22,125,000 in bonds to be used in the following manner: 1) Defeas the Board's General Obligation School Warrants 2001, Refunding School Warrants, Series 2002, and its Capital Outlay Warrants, Series 2004. 2) Acquire land, construct public school facilities thereon, and equip them.

The Board pledged to repay the capital lease from the Board's portion of the following taxes:

1. County Wide Sales and Use Tax levied in Pike County. Proceeds from the tax are allocated between the Board and the Pike County Board of Education each year on the same basis as funds received from the Foundation Program.
2. 1.7 Mill County Wide Ad Valorem Tax levied in Pike County. Continuation of the tax for public school purposes was approved at an election held for a term ending with the levy for the fiscal year ending September 30, 2032.
3. 5 Mill County Wide Ad Valorem Tax and 4 Mill District Ad Valorem Taxes levied in Pike County. Continuation of both taxes was approved at an election held for a term ending with the levy for the fiscal year ending September 30, 2032.

The Authority has two accounts - 1) The bond fund account where rent is paid by the Board and from which the bond payments are made. 2) The \$15,000,000 remaining after debt defeasement and issuance costs, was put into the construction account for payment of construction and equipment costs at September 30, 2011. When payments are made out of this account, capital assets are recorded and receivable from the Authority is reduced. The remaining balance in this account totals \$10,557,179 and is reported as a receivable by the Board at September 30, 2012. When rent payments are made to the Authority the amount of interest and principal is recorded by the Board at that time. Interest earned in the bond fund account and the construction accounts are recorded as a receivable on the Board's financial statements. Any remaining balance in the construction fund must be deposited into the bond fund and applied for payment of the principal and interest on the Series 2012 Bonds for the next succeeding debt series payment dates until such balance is expended. The Board would record a reduction in the receivable account from the Authority and a reduction in the interest receivable.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012

Note 9 – Long-Term Obligations (Continued)

E. Capital Lease (Continued)

The lease is renewable annually unless the Series 2011 Bonds debt is still outstanding in which case they are renewed automatically until they are paid. Pledged taxes secure the payment of the basic rent.

If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, at the end of the lease an option has to be exercised by the Board to acquire the property for \$100. Until that time, the leased assets will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2012.

<u>Year Ending September 30,</u>	<u>Amount</u>
2013	\$ 1,031,643
2014	1,031,643
2015	1,484,743
2016	1,485,718
2017	1,486,243
2018-2022	7,426,749
2023-2027	7,425,250
2028-2032	7,426,456
2033-2037	7,411,906
2038-2041	<u>5,930,123</u>
Total Minimum Lease Payments	\$ 42,140,474
Less: Amount Representing Interest	<u>(20,015,474)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 22,125,000</u>

The Board has issuance costs associated with the capital lease entered into with the Public Education Building Authority of the City of Troy. These costs are being amortized using the straight-line method over a period of thirty years.

	<u>Issuance Costs</u>
Total	\$ 1,540,176
Amount Amortized in Prior Year	<u>(29,949)</u>
Balance	\$ 1,510,227
Current Year Amortization	<u>(51,339)</u>
Balance	<u>\$ 1,458,888</u>

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012

Note 9 - Long-Term Obligations (Continued)

E. Capital Lease (Continued)

During the year ended September 30, 2012, the Board entered into three lease-purchase agreements with Apple, Inc. to purchase iPads for students at Troy City Schools totaling \$454,245. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, at the end of the lease an option has to be exercised by the Board to acquire the property for \$1 for each iPad acquired under the lease. Until that time, the leased assets will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases related to the Apple, Inc. agreements, together with the net present value of the minimum lease payments as of September 30, 2012.

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2013	\$ 153,868
2014	<u>153,867</u>
Total Minimum Lease Payments	\$ 307,735
Less: Amount Representing Interest	<u>(7,081)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 300,654</u>

Note 10 - 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 has received threats of litigation from parents of various students. Because no formal lawsuits have been filed or other actions taken, the Board's attorneys cannot reasonably evaluate an expected outcome at this time. However, if suits are filed, the Board's attorney will defend all claims.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 11 - 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 purchases commercial insurance for its buildings and contents, fidelity bonds and vehicles. 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. Settled claims in the past three years have not exceeded the coverage amounts. The Alabama Department of Finance Division of Risk Management issues a publicly available annual report that includes financial statements and supplementary information.

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 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.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2012**

Note 12 – Deferred Revenue

Governmental Funds and Statement of Net Assets:

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. \$ 1,381,792

Other Government Funds

Federal Funds – Federal Funds received but not yet expended represent revenues that will be recognized subsequent to year-end. 95,818

Total Deferred Revenue \$ 1,477,610

Note 13 – Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through March 18, 2013. 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 there are no nonrecognized subsequent events that require additional disclosure.

Note 14 – Adjustments to Beginning Fund Balance

Beginning fund balances and net assets have been adjusted to accurately reflect the following activity:

	<u>Fund Balance</u>
Interest receivable accrued in prior year	<u>\$ 5,598</u>

Required Supplementary Information

Troy City Board of Education
Troy, Alabama
Budgetary Comparison - General Fund
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Budget to GAAP	Actual
	Original	Final	Budgetary Basis	Differences Over/(Under)	GAAP Basis
REVENUES					
State Sources	\$ 9,968,798	\$ 10,016,682	\$ 10,128,780	\$ -	\$ 10,128,780
Federal Sources	750	83,490	63,681	-	63,681
Local Sources	3,862,267	3,912,650	3,980,470	-	3,980,470
Other Sources	31,000	31,000	38,174	-	38,174
Total Revenues	\$ 13,862,815	\$ 14,043,822	\$ 14,211,105	\$ -	\$ 14,211,105
EXPENDITURES					
Instructional Services	\$ 10,089,753	\$ 9,816,075	\$ 10,969,277	\$ 51,087	\$ 11,020,364
Instructional Support Services	2,458,660	2,476,692	2,602,632	10,246	2,612,878
Operation and Maintenance Services	1,335,400	1,317,595	1,428,084	11,645	1,439,729
Student Transportation Services	144,339	115,651	164,440	(647)	163,793
General Administrative Services	1,175,672	681,714	1,071,035	-	1,071,035
Capital Outlay	-	475,000	34,062	-	34,062
Other Expenditures	102,866	257,921	421,149	18,873	440,022
Total Expenditures	\$ 15,306,690	\$ 15,140,648	\$ 16,690,679	\$ 91,204	\$ 16,781,883
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (1,443,875)	\$ (1,096,826)	\$ (2,479,574)	\$ (91,204)	\$ (2,570,778)
OTHER FINANCING SOURCES (USES)					
Indirect Costs	\$ 114,479	\$ 96,586	\$ 93,135	\$ -	\$ 93,135
Proceeds from Capital Lease	-	-	454,245	-	454,245
Operating Transfers In	10,300	10,300	65,008	-	65,008
Operating Transfers Out	(362,085)	(190,263)	(211,706)	-	(211,706)
Total Other Financing Sources (Uses)	\$ (237,306)	\$ (83,377)	\$ 400,682	\$ -	\$ 400,682
EXCESS (DEFICIENCY) OF REVENUES, OTHER FINANCING SOURCES AND EXTRAORDINARY ITEMS OVER EXPENDITURES AND OTHER FINANCING USES	\$ (1,681,181)	\$ (1,180,203)	\$ (2,078,892)	\$ (91,204)	\$ (2,170,096)
FUND BALANCE - BEGINNING	9,335,332	8,275,166	6,741,125	(1,027,387)	5,713,738
FUND BALANCE - ENDING	\$ 7,654,151	\$ 7,094,963	\$ 4,662,233	\$ (1,118,591)	\$ 3,543,642

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Budgetary Comparison Schedule
For the Year Ended September 30, 2012

Note 1 - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures.

	<u>General Fund</u>
Sources/Inflows of Resources	
Actual amounts (budgetary basis) available for appropriation shown as Total Revenues on the budgetary comparison schedule	\$ 14,211,105
Differences - Budget to GAAP	
Local taxes are not budgeted as revenues unless receivable in time to pay budgeted expenditures	<u>-</u>
Total Revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 14,211,105</u>
Uses/Outflows of Resources	
Actual amounts (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison schedule	\$ 16,690,679
Differences - Budget to GAAP	
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>91,204</u>
Total Expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 16,781,883</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, 2012

Description	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Special Education - Grants to States	84.027	131	\$ 484,148
Special Education - Preschool Grants	84.173	131	15,356
Title I Grants to Local Education Agencies	84.010	131	594,423
Improving Teacher Quality State Grants	84.367	131	142,938
Career and Technical Education - Basic Grants to States	84.048	131	27,247
Education for Homeless Children and Youth	84.196	131	15,000
Education Jobs Fund Program	84.410	131	58,331
Impact Aid	84.041	131	13,440
Rural Education	84.358	131	48,902
Total U.S. Department of Education			\$ 1,399,785
U.S. DEPARTMENT OF AGRICULTURE			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
National School Lunch Program	10.555	131	\$ 567,797
School Breakfast Program	10.553	131	115,181
Commodity Supplemental Food Program (Non Cash Assistance)	10.565	5605	61,850
Fresh Fruit and Vegetable Program	10.582	5605	61,967
Total U.S. Department of Agriculture			\$ 806,795
DEPARTMENT OF DEFENSE			
ROTC Program	12.357	N/A	\$ 62,053
SOCIAL SECURITY ADMINISTRATION			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Disability Determination	96.001	131	\$ 1,628
TOTAL FEDERAL EXPENDITURES			\$ 2,270,261

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, 2012**

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.

The following programs have been clustered for the determination of Type A or Type B programs for the year ended September 30, 2012:

- National School Lunch Program; School Breakfast Program; Food Donation Program
- Special Education - Grants to States; Special Education Preschool Grants

Note B - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C - 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, 2012**

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	
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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

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, 2012**

Section I - Summary of Auditors' Results (Continued)

Federal Awards

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
Troy, Alabama
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2012**

Summary of Prior Audit Findings

No matters reported in the prior year.

See accompanying notes to financial statements.



**BRUNSON, WILKERSON,
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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, component unit of the City of Troy, Alabama, as of and for the year ended September 30, 2012, which collectively comprise the Troy City Board of Education's basic financial statements and have issued our report thereon dated March 18, 2013. 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

Management of the Troy City Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 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.

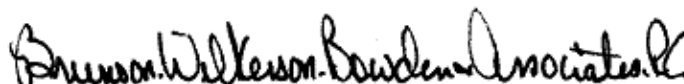
Compliance and Other Matters

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*.

We noted certain matters that we reported to management of the Troy City Board of Education in a separate letter dated March 18, 2013.

This report is intended solely for the information and use of management, the board of education, 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.

March 18, 2013


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 Troy City Board of Education's major federal programs for the year ended September 30, 2012. 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, 2012.

Internal Control over Compliance

Management of the Troy City Board of Education is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, 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.

March 18, 2013


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