

*Financial Statements*

**Troy City Board of Education**

**September 30, 2013**

**Troy City Board of Education  
Troy, Alabama  
September 30, 2013**

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**Independent Auditors' Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Troy City Board of Education, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the



financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Troy City Board of Education, as of September 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 17 and pages 54 through 55 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.

*Other Information*

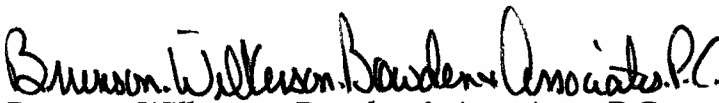
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Troy City Board of Education's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2014, 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* in considering Troy City Board of Education's internal control over financial reporting and compliance.

April 24, 2014

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

**Troy City Board of Education  
Troy, Alabama  
Management's Discussion and Analysis  
September 30, 2013**

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, 2013. 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 2013:

On the government-wide financial statements:

The assets of the Board exceeded its liabilities at the close of the 2013 fiscal year by \$5.53 million (net position). Our government-wide financial statements reflect \$2.08 million (unrestricted net position), which may be used to meet the Board's future costs of operations, and \$2.21 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 \$20.62 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 \$4.52 million.

At the end of the current fiscal year, the Unreserved Fund Balance (Budgetary Basis) for the General Fund was \$1.48 million which is sufficient to cover 1.1 months of normal monthly operating expenditures.

The Board completed the capital project for the CHHS Cafetorium/New Media Center in 2013. Construction began on the CHMS new school in summer 2013 with completion scheduled in summer 2014 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 12<sup>th</sup> grade instructional programs.

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

The *statement of net position* (page 18) is most closely related to a balance sheet. It presents information on all of the Board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position 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 19) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted

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

**Government-Wide Financial Statements (Continued)**

for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense, function, or activity of the Board. By showing the change in net position 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 position 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 20. 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. The relationship between governmental activities reported in the *government-wide*

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

**Fund Financial Statements (Continued)**

*financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 21 and 23 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

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

**Notes to the Basic Financial Statements**

The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 24 in this section.

**Required Supplementary Information**

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 position 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 position. The Board's assets exceeded liabilities by \$5.53 million at September 30, 2013.

Of this figure, 40% or \$2.21 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 position 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 position \$2.08 million or 38% may be used at the Board's discretion to meet ongoing obligations to citizens, creditors, and future operations.

**Table 1: Summary of Net Position**

For the Year Ended September 30, 2013  
(with Comparative Totals for September 30, 2012)  
(in millions)

	<u>Governmental Activities</u>	
	<u>9/30/2013</u>	<u>9/30/2012</u>
Current and Other Assets	\$ 11.78	\$ 18.86
Capital Assets	19.36	14.48
Total Assets	<u>\$ 31.14</u>	<u>\$ 33.34</u>
Current Obligations (Due within One Year)	\$ 1.66	\$ 1.68
Long-Term Obligations	22.56	22.79
Total Liabilities	<u>\$ 24.22</u>	<u>\$ 24.47</u>
Deferred Inflows of Resources	<u>\$ 1.39</u>	<u>\$ 1.38</u>
Net position:		
Invested in Capital Assets, Net of Related Debt	\$ 2.21	\$ 2.03
Restricted	1.24	2.11
Unrestricted	2.08	3.35
Total Net position	<u>\$ 5.53</u>	<u>\$ 7.49</u>

At the end of the current fiscal year, the Board is able to report a positive balance in its Unrestricted Net position. 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, 2013, 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 19. Table 2 below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2013.



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

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

For the Year Ended September 30, 2013  
(with Comparative Totals for September 30, 2012)  
(in millions)

	<u>Governmental Activities</u>	
	<u>9/30/2013</u>	<u>9/30/2012</u>
<b>Revenues</b>		
<b>Program Revenues:</b>		
Charges for Services	\$ 1.94	\$ 1.61
Operating Grants and Contributions	11.30	11.69
Capital Grants and Contributions	.50	.50
<b>General Revenues:</b>		
Local Property Taxes	1.64	1.59
Local Sales Taxes	2.82	2.81
Other Taxes	.06	.07
Other - Miscellaneous Revenues	.37	.40
Investment Earnings	<u>.03</u>	<u>.05</u>
<b>Total Revenues</b>	<u>\$ 18.66</u>	<u>\$ 18.72</u>
<b>Expenses</b>		
Instructional Services	\$ 11.70	\$ 12.58
Instructional Support Services	3.16	3.12
Operation and Maintenance Services	1.48	1.40
Student Transportation Services	.23	.26
Food Services	1.41	1.28
General Administrative Services	1.05	1.21
Interest and Fiscal Charges	1.07	1.07
Other Expenses	<u>.52</u>	<u>.49</u>
<b>Total Expenses</b>	<u>\$ 20.62</u>	<u>\$ 21.41</u>
<b>Changes in Net position</b>	\$ ( 1.96)	\$ ( 2.69)
<b>Net position - Beginning</b>	<u>7.49</u>	<u>10.18</u>
<b>Net position - Ending</b>	<u>\$ 5.53</u>	<u>\$ 7.49</u>

The Board's net position decreased by \$1.96 million during the 2013 fiscal year resulting from expenditures exceeding revenues. Analysis of the table above shows that revenues statistically remained unchanged while expenses, in total, were cut by almost 4% or roughly \$790,000 for the year.

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2013, was \$20.62 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, \$1.94 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 \$11.80 million.

Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$.40 million in revenues.

\$4.52 million of the Board's total costs of \$20.62 million was financed by district and state taxpayers, as follows: \$1.63 million in property taxes, \$2.82 million in county sales tax, \$.07 million in other taxes (such as helping-school vehicle tags, and manufactured home registration fees).

Table 3 is a condensed statement taken from the Statement of Activities on page 19 showing the total cost for providing identified services for seven major Board activities for fiscal year 2013 compared with fiscal year 2012. 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, 2013  
(with Comparative Totals for September 30, 2012)  
(in millions)

	<u>9/30/2013</u>	<u>9/30/2012</u>
Instructional Services	\$ 2.48	\$ 3.27
Instructional Support Services	.94	.99
Operation and Maintenance Services	.91	.56
Student Transportation Services	.13	.18
Food Services	.22	.14
General Administrative Services	.85	1.06
Interest and Fiscal Charges	1.06	1.07
Other Expenses	<u>.30</u>	<u>.34</u>
<b>Total</b>	<u>\$ 6.89</u>	<u>\$ 7.61</u>

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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 20.

**Governmental Funds** – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* is reconciled on pages 21 and 23). At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$7.56 million comprised of:

**General Fund:** (primary operating fund of Board operations), approximately \$1.48 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. The Board has \$0.08 million in nonspendable funds which is the amount of the Board's prepaid expenses.

**Capital Projects/Capital Lease Fund:** The \$5.54 million fund balance at September 30, 2013 is the balance of funds remaining from the bond refinancing completed in March 2013. 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 \$.46 million.

Management received some relief from employee insurance costs as these remained stable during the 2013 fiscal year and are expected to remain the same for the 2014 year also.

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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) a reduction in the student ADM count causing a 5% reduction in Foundation funding and (2) expenditures from local funds exceeded the budgeted revenues. 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, 2013	\$ 7,556,196	\$ ( 7,016,139)*
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

\*\* Includes \$5.02 million spent on capital projects from bond funds in FY 2013. The remaining \$2.00 million reflects a decrease to the operating reserve of the General Fund for the period.

**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 2012. Over the course of the year, the Board made only one revision to the annual operating budget. For purposes of this budgetary analysis, only the General Fund of the Board is discussed.

Amendment #1, approved on March 21, 2013, was made to add additional allocations received after approval of the original budget, add authorized carryover amounts brought forward from FY 2012 year-end and adjust budget as needed to fully utilize available funding by the end of the fiscal year.

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**Capital Assets and Debt Administration**

**Capital Assets** – The Board's investment in capital assets for its governmental activities for the year ended September 30, 2013, amounted to \$19.36 million, net of accumulated depreciation. This amounts to 62% 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, 2013  
(with Comparative Data for September 30, 2012)  
(in millions)

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Land and Land Improvements	\$ .92	\$ .92
Buildings and Improvements	8.10	8.37
Construction in Progress	9.78	4.65
Vehicles	.29	.38
Equipment	<u>.27</u>	<u>.16</u>
<b>Total</b>	<u>\$ 19.36</u>	<u>\$ 14.48</u>

Net capital assets increased by \$4.88 million for the 2013 fiscal year. Included in this increase was the completion and dedication of the new cafetorium and media center at Charles Henderson High School. Construction also began on the new Charles Henderson Middle School project with completion scheduled for summer 2014.

**Long-Term Debt** – At year-end, the Board had \$22.79 million in general obligation bonds, capital lease obligations payable, and other long-term debt outstanding as shown in *Table 5* below.

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

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

As of September 30, 2013  
(with Comparative Data for September 30, 2012)  
(in millions)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Governmental Activities			
Bonds and Warrants Payable	\$ .58	\$ ( .07)	\$ .51
Other Liabilities			
Capital Leases	<u>22.43</u>	<u>( .15)</u>	<u>22.28</u>
Total Governmental Activities			
Long-Term Debt	<u>\$ 23.01</u>	<u>\$ ( .22)</u>	<u>\$ 22.79</u>

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

**Economic Factors and Next Year's Budget**

The following are currently known Troy City economic factors considered going into the 2013-2014 fiscal year.

The unemployment rate in Pike County for September 2013 is 6.6% down from 6.9% 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 2013 with potential for modest growth in FY 2014.

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 (Rolling Reserve) 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



**Troy City Board of Education  
Troy, Alabama  
Management's Discussion and Analysis  
September 30, 2013**

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

the previous fifteen fiscal years. Long term indications are that 2015 and 2016 funding by the Legislature will remain nearly flat with any expected growth capped by the Rolling Reserve act.

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 2013-2014 school year is 2,040, which will be a factor in the fiscal year 2015 budget. This is a decrease from 2,099 from the 2012-2013 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 65% of total revenues for the school system. The challenge 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.

<u>Fiscal Year</u>	<u>ADM</u>	<u>Enrollment Increase (Decrease)</u>
2015	2040.05	( 59.60)
2014	2099.65	23.50
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	

**Troy City Board of Education  
Troy, Alabama  
Management's Discussion and Analysis  
September 30, 2013**

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

**Medical and Retirement Costs** – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs for fiscal year 2014 will remain at \$8,568 per employee.

Employer contributions to the Teachers Retirement System (TRS) will increase from 10.08% per employee to 11.71% per employee for the 2014 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 Position  
September 30, 2013**

	<u>Governmental Activities</u>	<u>Total</u>
<b>ASSETS</b>		
Cash	\$ 2,496,891	\$ 2,496,891
Investments	18,000	18,000
Property Taxes Receivable	1,391,666	1,391,666
Due from Other Governments	708,474	708,474
Capital Lease Proceeds Receivable	5,630,874	5,630,874
Inventories	46,976	46,976
Prepaid Items	78,312	78,312
Capital Lease Issuance Costs	1,407,550	1,407,550
Capital Assets		
Nondepreciable	10,439,656	10,439,656
Depreciable, Net	<u>8,923,610</u>	<u>8,923,610</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 31,142,009</u></u>	<u><u>\$ 31,142,009</u></u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 127,378	\$ 127,378
Accrued Liabilities	56,526	56,526
Salaries and Benefits Payable	1,239,427	1,239,427
Accrued Interest Payable	10,470	10,470
Long-Term Obligations		
Due in One Year		
Bonds Payable	75,058	75,058
Capital Lease Obligations Payable	151,540	151,540
Due in More Than One Year		
Bonds Payable	435,601	435,601
Capital Lease Obligations Payable	<u>22,125,000</u>	<u>22,125,000</u>
<b>Total Liabilities</b>	<u><u>\$ 24,221,000</u></u>	<u><u>\$ 24,221,000</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue - Property Taxes	<u>\$ 1,391,666</u>	<u>\$ 1,391,666</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 2,206,940	\$ 2,206,940
Restricted For:		
Capital Projects	1,003,538	1,003,538
Debt Service	26,206	26,206
Other Purposes	209,950	209,950
Unrestricted	<u>2,082,709</u>	<u>2,082,709</u>
<b>Total Net Position</b>	<u><u>\$ 5,529,343</u></u>	<u><u>\$ 5,529,343</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 31,142,009</u></u>	<u><u>\$ 31,142,009</u></u>

See accompanying notes to financial statements.

Troy City Board of Education  
Troy, Alabama  
Statement of Activities  
For the Year Ended September 30, 2013

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental</b>					
Instructional Services	\$ 11,700,467	\$ 292,536	\$ 8,456,195	\$ 474,231	\$ ( 2,477,505)
Instructional Support Services	3,166,612	253,254	1,973,435	-	( 939,923)
Operation and Maintenance Services	1,483,723	50,431	521,145	1,513	( 910,634)
Student Transportation Services	231,528	19,015	62,409	20,452	( 129,652)
Food Services	1,408,181	1,077,878	115,115	-	( 215,188)
General Administrative Services	1,045,186	46,322	149,663	-	( 849,201)
Interest and Fiscal Charges	1,063,030	-	-	-	( 1,063,030)
Other Expenses	523,487	195,682	25,476	-	( 302,329)
<b>Total Governmental Activities</b>	<b>\$ 20,622,214</b>	<b>\$ 1,935,118</b>	<b>\$ 11,303,438</b>	<b>\$ 496,196</b>	<b>\$ ( 6,887,462)</b>
<b>General Revenues</b>					
Taxes					
Property Taxes for General Purposes					\$ 1,636,724
Local Sales Tax					2,820,046
Other Tax					65,296
Investment Earnings					35,560
Gain on Disposition of Capital Assets					8,261
Miscellaneous Revenues					361,310
<b>Total General Revenues</b>					<b>\$ 4,927,197</b>
Changes in Net Position					\$ ( 1,960,265)
<b>Net Position - Beginning</b>					<b>7,489,608</b>
<b>Net Position - Ending</b>					<b>\$ 5,529,343</b>

See accompanying notes to financial statements.

Troy City Board of Education  
Troy, Alabama  
Balance Sheet -

Governmental Funds

September 30, 2013 (With comparative totals for September 30, 2012)

	Totals				
	Capital Projects		Other Governmental Funds	September 30, 2013	September 30, 2012
	General	Capital Lease			
ASSETS					
Cash	\$ 2,301,643	\$ -	\$ 195,248	\$ 2,496,891	\$ 4,900,955
Investments	-	-	18,000	18,000	18,000
Property Taxes Receivable	1,391,666	-	-	1,391,666	1,380,092
Due from Other Governments	323,204	-	385,270	708,474	418,479
Capital Lease Proceeds Receivable	-	5,630,874	-	5,630,874	10,557,179
Interfund Receivable	31,049	-	39,351	70,400	2,924
Prepaid Expenses	78,312	-	-	78,312	76,330
Inventories	-	-	46,976	46,976	48,816
TOTAL ASSETS	\$ 4,125,874	\$ 5,630,874	\$ 684,845	\$ 10,441,593	\$ 17,402,775
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts Payable	\$ 1,135,745	\$ 95,542	\$ 135,518	\$ 1,366,805	\$ 1,447,424
Accrued Liabilities	-	-	56,526	56,526	-
Interfund Payable	39,351	-	31,049	70,400	2,924
Total Liabilities	\$ 1,175,096	\$ 95,542	\$ 223,093	\$ 1,493,731	\$ 1,450,348
Deferred Inflows of Resources					
Unavailable Revenue - Property Taxes	\$ 1,391,666	\$ -	\$ -	\$ 1,391,666	\$ 1,380,092
Fund Balances					
Fund Balances					
Nonspendable	\$ 78,312	\$ -	\$ 46,976	\$ 125,288	\$ 125,146
Restricted	-	-	317,274	317,274	329,625
Committed	-	5,535,332	-	5,535,332	10,557,179
Assigned	-	-	97,502	97,502	93,073
Unassigned	1,480,800	-	-	1,480,800	3,467,312
Total Fund Balances	\$ 1,559,112	\$ 5,535,332	\$ 461,752	\$ 7,556,196	\$ 14,572,335
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,125,874	\$ 5,630,874	\$ 684,845	\$ 10,441,593	\$ 17,402,775

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 Position  
September 30, 2013

Total <i>fund balances</i> for governmental funds	\$	7,556,196
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Total *net position* reported for governmental activities in the statement of net position 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 \$525,812 accumulated depreciation		262,832	
Buildings and Improvements, net of \$6,796,301 accumulated depreciation		8,095,838	
Equipment, net of \$613,921 accumulated depreciation		275,352	
Vehicles, net of \$711,003 accumulated depreciation		289,588	
Construction in Progress		9,781,540	
Total Capital Assets (See Note 6).			19,363,266

Issuance costs on capital lease obligations are recognized as expenditures in the governmental funds when paid. For reporting in the net position, the costs are capitalized and amortized over the life of the capital lease. This amount represents the total capital lease issuance, net of \$132,626 amortization expense.

1,407,550

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, 2013, were:

Accrued Interest payable	\$ (	10,470)	
Bonds Payable (See Note 9).		( 510,659)	
Capital Lease Contracts Payable (See Note 9).		( 22,276,540)	
Total long-term obligations.			( 22,797,669)

Total Net Position of governmental activities	\$	5,529,343
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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, 2013 (With comparative totals for September 30, 2012)

	Totals			
	General	Capital Projects Capital Lease	Other Governmental Funds	September 30, 2012
<b>REVENUES</b>				
State Sources	\$ 9,698,886	\$ -	\$ 494,684	\$ 10,193,570
Federal Sources	64,402	-	2,331,811	2,396,213
Local Sources	4,206,390	18,133	1,778,370	6,002,893
Other Revenues	35,719	-	25,294	61,013
<b>Total Revenues</b>	<b>\$ 14,005,397</b>	<b>\$ 18,133</b>	<b>\$ 4,630,159</b>	<b>\$ 18,653,689</b>
				<b>\$ 18,720,423</b>
<b>EXPENDITURES</b>				
Instructional Services	\$ 10,130,760	\$ 160,702	\$ 1,291,861	\$ 11,583,323
Instructional Support Services	2,588,798	223,168	496,882	3,308,848
Operation and Maintenance	1,461,458	-	9,818	1,471,276
Student Transportation Services	141,811	-	23,267	165,078
Food Services	-	-	1,479,740	1,350,742
General Administrative Services	873,311	-	144,990	1,018,301
Capital Outlay	-	4,959,407	-	4,959,407
Debt Service	153,867	-	1,132,852	1,286,719
Other Expenditures	289,574	-	235,542	525,116
<b>Total Expenditures</b>	<b>\$ 15,639,579</b>	<b>\$ 5,343,277</b>	<b>\$ 4,814,952</b>	<b>\$ 25,797,808</b>
				<b>\$ 25,947,511</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ ( 1,634,182)</b>	<b>\$ ( 5,325,144)</b>	<b>\$ ( 184,793)</b>	<b>\$ ( 7,227,088)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	\$ 102,772	\$ 303,297	\$ 257,806	\$ 663,825
Indirect Cost	103,622	-	-	103,622
Sale of Capital Assets	20,325	-	4,033	24,358
Proceeds from Capital Lease	-	-	-	-
Operating Transfers Out	( 577,017)	-	( 86,808)	( 663,825)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ ( 350,348)</b>	<b>\$ 303,297</b>	<b>\$ 175,031</b>	<b>\$ 127,980</b>
				<b>\$ 547,380</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ ( 1,984,530)</b>	<b>\$ ( 5,021,847)</b>	<b>\$ ( 9,762)</b>	<b>\$ ( 6,679,708)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>3,543,642</b>	<b>10,557,179</b>	<b>471,514</b>	<b>14,572,335</b>
Adjustment to Beginning Balance	-	-	-	-
<b>FUND BALANCE - ENDING</b>	<b>\$ 1,559,112</b>	<b>\$ 5,535,332</b>	<b>\$ 461,752</b>	<b>\$ 7,556,196</b>
				<b>\$ 14,572,335</b>

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, 2013

Net change in *fund balances* — total governmental funds \$ ( 7,016,139)

The change in *net position* 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 exceeded depreciation expense (\$394,901) in the current period. (See Note 6).

4,899,622

Governmental funds report the proceeds for the sale of capital assets as increases in financial resources. However, in the statement of activities only the gain or loss on the sale of capital assets is reported. This is the amount by which the proceeds from the sale of capital assets exceeded the gain on the disposition (\$8,261) for the period. (See Note 6).

( 16,097)

In governmental funds, debt proceeds are considered a source of financing, but in the statement of net position, 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 position. This is the amount of net principal repayment in the current period. (See Note 9)

222,167

In governmental funds, capital lease issuance costs are considered an expense, but in the statement of net position, 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)

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 Expense

1,522

Rounding

( 1)

Change in *net position* of governmental activities

\$ ( 1,960,265)

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 1 - Summary of Significant Accounting Policies**

The Troy City Board of Education's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP and used by the Troy City Board of Education are discussed below.

**A. Reporting Entity**

The Troy City Board of Education is governed by a five member board. The Troy City Board of Education is an independent governmental entity separate and distinct from the City of Troy, Alabama, and is not considered a component unit of the City of Troy, Alabama. The Troy City Board of Education's Board members are appointed by the Troy City Council.

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, 2013, as *other governmental funds*. Inclusion of these funds in the financial statements increased the account balances by the amounts listed below:

Cash	\$ 128,703
Investments	\$ 18,000
Interfund Payable	\$ 31,049
Accounts Payable	\$ 410
Fund Balance	\$ 115,244

**B. Basis of Presentation, Measurement Focus, Basis of Accounting**

**Basis of Presentation**

The Troy City Board of Education's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.



**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

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

**Basis of Presentation (Continued)**

Government-Wide Financial Statements: The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, 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 in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. 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 customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants* and *contributions*, the determining factor is to which function the revenues are *restricted*.

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



**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

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

**Basis of Presentation (Continued)**

**Fund Financial Statements (Continued)**

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.

**Capital Projects Funds** - This fund is used to account for the proceeds of the 2011 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 (other than those derived from special assessments or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Debt Service Funds** - These funds account resources accumulated and payment made for principal and interest on long-term general obligation debt of governmental funds.

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**

Government-wide Financial Statements: The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all liabilities and deferred inflows of resources associated with the operation of the Board are included on the statement of net position. The statement of activities reports revenues and expenses.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

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

**Measurement Focus (Continued)**

Governmental Fund Financial Statements: All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the governmental fund financial statements.

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

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis at the fund reporting level.

Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

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

**Basis of Accounting (Continued)**

**Revenues - Exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Board, the phrase "available for exchange transactions" means expected to be received within 60 days of year-end.

**Revenues - Non-exchange Transactions** - Non-exchange transactions in which the Board receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized in the governmental funds.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, and federal and state grants.

**Unearned Revenue** - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

**Expenses/Expenditures** - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

**C. Assets, Liabilities, Deferred Inflows of Resources, and Fund Equity**

**Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities within three months of the date acquired by the Board.

Investments are deposits or other investments with maturity dates greater than three months of the date acquire 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 and Interfund Balances**

Receivables are reported as receivables and due from other governments in the government-wide financial and 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.

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/interfund payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

**Inventories**

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 consumed rather than when purchased. Reported inventories are equally offset by a nonspendable entity which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

**C. Assets, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)**

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond September 30, 2013, are reported as prepaid items using the consumption method by recording an asset for the prepaid amount at the time of purchase and reflecting the expenditures/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reported as nonspendable as this amount is not available for general appropriation.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net position. 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, 2013.

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.)



**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

**C. Assets, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)**

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

In Alabama, property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31.

**Long-Term Obligations**

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

In the fund financials statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, as expenditures in the current period. The face amount of debt issued and premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for debt principal, interest, and related costs are reported in the fiscal year payment is made. The balance sheet does not reflect a liability for long-term debt.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

**C. Assets, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)**

**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 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.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

**C. Assets, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)**

**Economic Dependency**

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

**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 the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

**Net Position/Fund Equity**

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

- *Net Investment in Capital Assets* - Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. (Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.)
- *Restricted* - Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- *Unrestricted* - Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Board.



**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

**C. Assets, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)**

**Net Position/Fund Equity (Continued)**

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.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the Board considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Board considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

**C. Assets, Liabilities, Deferred Inflows of Resources, and Fund Equity (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 capital projects fund, which adopts project-length budgets. 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 2012-2013 fiscal year was October 1, 2012. The Board approved its original 2012-2013 annual budget on September 27, 2012, and submitted the budget on September 28, 2012.

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, 2013, the following governmental funds had fund expenditures exceeding appropriations by the following amounts:

General Fund	\$ 1,984,530
Capital Projects - Capital Lease	\$ 5,021,847
Other Governmental Funds	\$ 9,762

These shortages were covered by existing funds on hand.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 3 – Deposits and Investments**

**A. Deposits**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal 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. The Board has no formal investment policy addressing credit and interest rate risk.

**B. Investments**

The Board's investments consist of 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, 2013, consisted of the following:

\$ 39,351	To the Special Revenue Funds from the General Fund.
<u>31,049</u>	To the General Fund from the Local School Funds.
<u>\$ 70,400</u>	Total Interfund Balances.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 4 – Interfund Balances and Activities (Continued)**

Transfers between funds for the year ended September 30, 2013, consisted of the following:

\$ 273,720	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.
303,297	From the General Fund to the Capital Projects Fund to fund interest payments on capital lease contract
8,430	Interfund transfers between Local School Activity Funds
<u>78,378</u>	Other Governmental Fund interfund transfers.
<u>\$ 663,825</u>	Total Transfers

**Note 5 – Receivables and Accrued Liabilities**

On September 30, 2013, the amounts due from other governments for each of the Board's governmental funds are as follows:

\$ 323,204	General Fund
<u>385,270</u>	Special Revenue Funds
<u>\$ 708,474</u>	Total Due from Other Governments

On September 30, 2013, the components of unearned revenue, reported as accrued liabilities, are made up of liabilities pertaining to the following Federal programs:

\$ 33,926	Title I Grants to Local Education Agencies
15,693	Improving Teacher Quality State Grants
<u>6,907</u>	Special Education – Grants to States
<u>\$ 56,526</u>	Total Due from Other Governments

**Troy City Board of Education**  
**Troy, Alabama**  
**Notes to the Financial Statements**  
**September 30, 2013**

**Note 6 – Capital Assets**

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Balance 9/30/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance 9/30/13</u>
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 658,116	\$ -	\$ -	\$ -	\$ 658,116
Construction in Progress	<u>4,646,674</u>	<u>5,134,866</u>	<u>-</u>	<u>-</u>	<u>9,781,540</u>
Total Capital Assets Not Being Depreciated	<u>\$ 5,304,790</u>	<u>\$ 5,134,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,439,656</u>
Capital Assets Being Depreciated:					
Buildings	\$ 11,345,682	\$ -	\$ -	\$ -	\$ 11,345,682
Building Improvements	3,546,457	-	-	-	3,546,457
Land Improvements – Exhaustible	788,644	-	-	-	788,644
Vehicles	1,187,847	-	187,256	-	1,000,591
Equipment	<u>805,468</u>	<u>159,657</u>	<u>75,852</u>	<u>-</u>	<u>889,273</u>
Total Capital Assets Being Depreciated	<u>\$ 17,674,098</u>	<u>\$ 159,657</u>	<u>\$ 263,108</u>	<u>\$ -</u>	<u>\$ 17,570,647</u>
Less: Accumulated Depreciation For:					
Buildings	\$ 5,985,925	\$ 203,063	\$ -	\$ -	\$ 6,188,988
Building Improvements	531,945	75,368	-	-	607,313
Land Improvements – Exhaustible	520,272	5,540	-	-	525,812
Vehicles	819,942	77,067	186,006	-	711,003
Equipment	<u>641,063</u>	<u>33,863</u>	<u>61,005</u>	<u>-</u>	<u>613,921</u>
Total Accumulated Depreciation	<u>\$ 8,499,147</u>	<u>\$ 394,901</u>	<u>\$ 247,011</u>	<u>\$ -</u>	<u>\$ 8,647,037</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 9,174,951</u>	<u>\$ ( 235,244)</u>	<u>\$ 16,097</u>	<u>\$ -</u>	<u>\$ 8,923,610</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 14,479,741</u>	<u>\$ 4,899,622</u>	<u>\$ ( 16,097)</u>	<u>\$ -</u>	<u>\$ 19,363,266</u>

The Board of Education is obligated at September 30, 2013, under the following significant construction contracts:

<u>Project</u>	<u>Project Authorized</u>	<u>Costs to Date</u>	<u>Costs to Complete</u>
CHHS Cafetorium	\$ 3,744,035	\$ 3,733,529	\$ 10,506
CHMS Renovation	7,917,210	2,642,079	5,275,131
Troy Elementary School Additions	2,922,876	2,871,593	51,283
Canopies & Site Improvements	<u>300,000</u>	<u>170,132</u>	<u>129,868</u>
Total	<u>\$ 14,884,121</u>	<u>\$ 9,417,333</u>	<u>\$ 5,466,788</u>



**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

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

Depreciation Expense was Charged to Governmental Functions as follows:	
Instruction Services	\$ 251,335
Instructional Support Services	47,889
Operation and Maintenance Services	12,448
Student Transportation Services	66,450
Food Services	15,136
General Administrative Services	<u>1,643</u>
Total Governmental Activities Depreciation Expense	<u>\$ 394,901</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.

Effective January 1, 2013, new members are classified as Tier 2 participants. Benefits for Tier 2 participants vest after 10 years of creditable service. A member is eligible to retire at age 62 with 10 years of creditable service. Under the retirement benefit formula, retirees are allowed 1.65% of their average final salary (best five of the last ten years) for each year of service. The retirement benefit cannot exceed 80% of the average final salary. Disability retirement benefits and pre-retirement death benefits are calculated in the same manner as Tier 1 participants.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 7 - Defined Benefit Pension Plan (Continued)**

**A. Plan Description (Continued)**

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419 of the Legislature of 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control. 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**

Tier 1 and Tier 2 employees of the Board are required by statute to contribute 7.25% and 6% of their respective salaries 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,		
	2013	2012	2011
Contributions:			
Tier 1			
Total Percentage of Covered Payroll	17.25%	17.25%	17.51%
Percentage Contributed By the Board	10.00%	10.00%	12.51%
Percentage Contributed By Employees	7.25%	7.25%	5.00%

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 7 – Defined Benefit Pension Plan (Continued)**

**B. Funding Policy (Continued)**

	Fiscal Year Ended September 30,		
	2013	2012	2011
Tier 2			
Total Percentage of Covered Payroll	15.44%		
Percentage Contributed By the Board	9.44%		
Percentage Contributed By Employees	6.00%		
Amount Contributed By the Board	\$ 1,098,079	\$ 1,119,466	\$ 1,378,857
Amount Contributed By Employees	<u>816,313</u>	<u>774,229</u>	<u>551,109</u>
Total Contributions	<u>\$ 1,914,392</u>	<u>\$ 1,893,695</u>	<u>\$ 1,929,966</u>

**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

**Troy City Board of Education  
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Notes to the Financial Statements  
September 30, 2013**

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

**A. Plan Description (Continued)**

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.

Required monthly contribution rates for plan members for the year ended September 30, 2013, 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

**Troy City Board of Education  
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Notes to the Financial Statements  
September 30, 2013**

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

**B. Funding Policy (Continued)**

*Surviving Spouse Rates*

- Surviving Spouse Non-Medicare Eligible - \$671
- Surviving Spouse and Dependent Non-Medicare Eligible - \$860
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$829
- Surviving Spouse Medicare Eligible - \$317
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$506
- Surviving Spouse and Dependent Medicare Eligible - \$475

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:

<u>Fiscal Year Ended September 30,</u>	<u>Active Health Insurance Premiums Paid By Board</u>	<u>Amount of Premium Attributable to Retirees</u>	<u>Percentage of Active Employee Premiums Attributable to Retirees</u>	<u>Total Amount Paid Attributable to Retirees</u>	<u>Percentage of Required Amount Contributed</u>
2013	\$ 714.00	\$ 216.90	30.38%	\$ 652,048	100%
2012	\$ 714.00	\$ 228.95	32.07%	\$ 701,034	100%
2011	\$ 752.00	\$ 198.94	26.45%	\$ 632,316	100%

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

**Note 9 – Long-Term Obligations**

**A. Long-Term Obligation Activity**

Long-term liability obligations for the year ended September 30, 2013, were as follows:



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

**A. Long-Term Obligation Activity (Continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds Payable	\$ 583,712	\$ -	\$ 73,053	\$ 510,659	\$ 75,058
Capital Lease Payable	<u>22,425,654</u>	<u>-</u>	<u>149,114</u>	<u>22,276,540</u>	<u>151,540</u>
Total Governmental Activities Long-Term Obligations	<u>\$ 23,009,366</u>	<u>\$ -</u>	<u>\$ 222,167</u>	<u>\$ 22,787,199</u>	<u>\$ 226,598</u>

Interest expense included in functional expenses on the Statement of Activities for the year ended September 30, 2013, is \$1,063,030. There were no bonds authorized but not issued for the year ended September 30, 2013.

**B. Debt Service Requirements**

Debt service requirements on long-term debt at September 30, 2013, are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Bonds and Notes Payable</u>		<u>Capital Lease Payable</u>		<u>Total Principal and Interest Requirements to Maturity</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 75,058	\$ 25,127	\$ 151,540	\$ 1,033,971	\$ 1,285,696
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	91,066	9,375	505,000	981,318	1,586,759
2019-2023	96,429	4,821	2,785,000	4,641,206	7,527,456
2024-2028	-	-	3,410,000	4,014,756	7,424,756
2029-2033	-	-	4,315,000	3,109,575	7,424,575
2034-2038	-	-	5,570,000	1,841,962	7,411,962
2039-2041	-	-	4,115,000	331,669	4,446,669
	<u>\$ 510,659</u>	<u>\$ 92,244</u>	<u>\$ 22,276,540</u>	<u>\$ 18,986,161</u>	<u>\$ 41,865,604</u>

**Troy City Board of Education  
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Notes to the Financial Statements  
September 30, 2013**

**Note 9 – Long-Term Obligations (Continued)**

**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. 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

**Troy City Board of Education**  
**Troy, Alabama**  
**Notes to the Financial Statements**  
**September 30, 2013**

**Note 9 - Long-Term Obligations (Continued)**

**D. Capital Lease (Continued)**

and the receivable from the Authority is reduced. The remaining balance in this account totals \$5,630,874 and is reported as a receivable by the Board at September 30, 2013. 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 2013 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.

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. 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, 2013.

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2014	\$ 1,031,643
2015	1,484,743
2016	1,485,718
2017	1,486,243
2018	1,486,318
2019-2023	7,426,206
2024-2028	7,424,756
2029-2033	7,424,575
2034-2038	7,411,962
2039-2041	<u>4,446,669</u>
Total Minimum Lease Payments	\$ 41,108,833
Less: Amount Representing Interest	<u>( 18,983,833)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 22,125,000</u>

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 9 - Long-Term Obligations (Continued)**

**D. Capital Lease (Continued)**

The Board has issuance costs associated with the capital lease entered into with the Public Educational 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>( 81,288)</u>
Balance	\$ 1,458,888
Current Year Amortization	<u>( 51,338)</u>
Balance	<u>\$ 1,407,550</u>

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. 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, 2013.

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 153,868
Less: Amount Representing Interest	<u>( 2,328)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 151,540</u>

**Note 10 - Contingent Liabilities**

**A. Grants**

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.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 10 - Contingent Liabilities (Continued)**

**B. Litigation**

The following are descriptions of pending or threatened litigation against the Troy City Board of Education at September 30, 2013:

The Board is a party to a number of various types of lawsuits, many of which normally recur in governmental operations. The ultimate outcome of the actions are not determinable, however, Board officials believe that the outcome of these proceedings, either singularly or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

**C. Construction Commitments**

In addition to liabilities enumerated in the balance sheet at September 30, 2013, the City has contractual commitments on uncompleted construction contracts of approximately \$5,466,788.

**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. The Alabama Department of Finance Division of Risk Management issues a publicly available annual report that includes financial statements and supplementary information.

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

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 determined annually by the plan's actuary



**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 11 - Risk Management (Continued)**

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's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

The Board does not have insurance coverage for job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the *Code of Alabama* 1975, Section 16-1-1831(d). Any unreimbursed medical expenses and costs that the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustments. The Board of Adjustments determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

**Note 12 - Recently Issued Accounting Pronouncements**

In November 2010, the GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASBS 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public assets (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement was effective for periods beginning after December 15, 2011. The Board does not have any SCAs and therefore the adoption of GASBS 60 did not have any impact on the Board's financial statements.

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement was effective for periods beginning after June 15, 2012. The Board adopted GASB 61 during the current fiscal year. The adoption of GASBS 61 did not have any impact on the Board's financial statements.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 12 – Recently Issued Accounting Pronouncements (Continued)**

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASBS 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement was effective for periods beginning after December 15, 2011. The adoption of GASBS 62 did not have any impact on the Board's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement were effective for financial statements for periods beginning after December 15, 2011. The Board adopted GASB 63 during the current fiscal year.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this Statement on the Board's financial statements.

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 12 – Recently Issued Accounting Pronouncements (Continued)**

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the Board's financial statements.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the Board's financial statements.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

In April 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 are effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this Statement on the Board's financial statement.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB 68*. GASB 71 addresses an issue regarding application of the transition provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. The provisions of GASB 71 are required to be applied simultaneously with the provisions of GASB 68.

**Troy City Board of Education  
Troy, Alabama  
Notes to the Financial Statements  
September 30, 2013**

**Note 13 – Subsequent Events**

Management has reviewed subsequent events and transactions that occurred after the fiscal year ended through April 24, 2014, the date the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with accounting principles generally accepted in the United States of America. Management has determined that there are no nonrecognized subsequent events that require additional disclosure except as noted below:

On December 1, 2013, Troy City Board of Education and Regions Bank entered into an Escrow Trust Agreement, establishing an irrevocable trust fund for the benefit of a portion of the Public Educational Building Authority Educational Facilities Revenue Bonds, Series 2011. The Board also approved the issuance of \$2,400,000 aggregate principal of School Tax Warrants, Series 2013 bonds dated December 1, 2013. The Board intends to use the bond proceeds to fund the Escrow Trust Agreement and refund \$2,095,000 of the Public Educational Building Authority Educational Facilities Revenue Bonds, Series 2011. The Board has pledged tax revenue to pay the obligations of the bond issuance.

Required Supplementary Information



Troy City Board of Education  
Troy, Alabama  
Budgetary Comparison - General Fund  
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual Budgetary Basis	Budget to GAAP Differences Over/(Under)	Actual GAAP Basis
	Original	Final			
<b>REVENUES</b>					
Slate Sources	\$ 9,476,767	\$ 9,629,938	\$ 9,698,886	\$ -	\$ 9,698,886
Federal Sources	84,291	84,291	64,402	-	64,402
Local Sources	4,391,389	4,345,388	4,206,390	-	4,206,390
Other Sources	31,000	31,000	35,719	-	35,719
<b>Total Revenues</b>	<b>\$ 13,983,447</b>	<b>\$ 14,090,617</b>	<b>\$ 14,005,397</b>	<b>\$ -</b>	<b>\$ 14,005,397</b>
<b>EXPENDITURES</b>					
Instructional Services	\$ 10,255,310	\$ 10,239,837	\$ 10,143,981	\$ ( 13,221)	\$ 10,130,760
Instructional Support Services	2,435,773	2,609,895	2,585,110	3,688	2,588,798
Operation and Maintenance Services	1,291,023	1,345,184	1,464,377	( 2,919)	1,461,458
Student Transportation Services	138,667	141,564	143,338	( 1,527)	141,811
General Administrative Services	835,375	846,345	871,630	1,681	873,311
Debt Service	141,986	153,868	153,867	-	153,867
Other Expenditures	237,573	237,573	286,682	2,892	289,574
<b>Total Expenditures</b>	<b>\$ 15,335,707</b>	<b>\$ 15,574,266</b>	<b>\$ 15,648,985</b>	<b>\$ ( 9,406)</b>	<b>\$ 15,639,579</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ ( 1,352,260)</b>	<b>\$ ( 1,483,649)</b>	<b>\$ ( 1,643,588)</b>	<b>\$ 9,406</b>	<b>\$ ( 1,634,182)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Indirect Costs	\$ 92,441	\$ 103,495	\$ 103,622	\$ -	\$ 103,622
Sale of Capital Assets	-	-	20,325	-	20,325
Operating Transfers In	20,300	65,300	102,722	-	102,722
Operating Transfers Out	( 365,759)	( 250,870)	( 577,017)	-	( 577,017)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ ( 253,018)</b>	<b>\$ ( 82,075)</b>	<b>\$ ( 350,348)</b>	<b>\$ -</b>	<b>\$ ( 350,348)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES, OTHER FINANCING SOURCES AND EXTRAORDINARY ITEMS OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ ( 1,605,278)</b>	<b>\$ ( 1,565,724)</b>	<b>\$ ( 1,993,936)</b>	<b>\$ 9,406</b>	<b>\$ ( 1,984,530)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>7,654,151</b>	<b>7,094,963</b>	<b>4,662,233</b>	<b>( 1,118,591)</b>	<b>3,543,642</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 6,048,873</b>	<b>\$ 5,529,239</b>	<b>\$ 2,668,297</b>	<b>\$ ( 1,109,185)</b>	<b>\$ 1,559,112</b>

See accompanying notes to financial statements.

**Troy City Board of Education  
Troy, Alabama  
Budgetary Comparison Schedule  
For the Year Ended September 30, 2013**

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

	<u>General Fund</u>
<b>Sources/Inflows of Resources</b>	
Actual amounts (budgetary basis) available for appropriation shown as Total Revenues on the budgetary comparison schedule	\$ 14,005,397
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>\$ 14,005,397</u>
<b>Uses/Outflows of Resources</b>	
Actual amounts (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison schedule	\$ 15,648,985
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>( 9,406)</u>
Total Expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 15,639,579</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, 2013**

Description	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Special Education - Grants to States	84.027	131	\$ 473,807
Special Education - Preschool Grants	84.173	131	15,379
Title I Grants to Local Education Agencies	84.010	131	681,658
Improving Teacher Quality State Grants	84.367	131	178,301
Career and Technical Education - Basic Grants to States	84.048	131	30,135
Education for Homeless Children and Youth	84.196	131	15,000
Impact Aid	84.041	131	41,889
Rural Education	84.358	131	41,075
<b>Total U.S. Department of Education</b>			<b>\$ 1,477,244</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
National School Lunch Program	10.555	131	\$ 586,689
School Breakfast Program	10.553	131	148,983
Commodity Supplemental Food Program (Non Cash Assistance)	10.565	5605	62,842
Fresh Fruit and Vegetable Program	10.582	5605	56,053
<b>Total U.S. Department of Agriculture</b>			<b>\$ 854,567</b>
<b>DEPARTMENT OF DEFENSE</b>			
ROTC Program	12.357	N/A	\$ 63,142
<b>SOCIAL SECURITY ADMINISTRATION</b>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Disability Determination	96.001	131	\$ 1,260
<b>TOTAL FEDERAL EXPENDITURES</b>			<b>\$ 2,396,213</b>

See accompanying notes to schedule of expenditures of federal awards.

**Troy City Board of Education**  
**Troy, Alabama**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2013**

**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, 2013:

- 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 of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Federal grant revenues are recorded for financial reporting purposes with the Board has met the qualifications for the respective grants. Some programs may be funded jointly by State or local appropriations and Federal funds.

Various reimbursement procedures are used for Federal awards received by the Board. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the year. Receivable balances at year-end represent an excess of expenditures over cash reimbursement. Accrued balances at year-end represent an excess of cash reimbursements received over expenditures to date. Generally, receivable or accrued balances caused by differences in the timing of cash reimbursements and expenditures will be reversed in the remaining grant period.

**Note C - Subrecipients**

The Troy City Board of Education did not provide any federal awards to subrecipients during the fiscal year ended September 30, 2013.

**Troy City Board of Education  
Troy, Alabama  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2013**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of Auditors' Report Issued

Unmodified

Internal Control Over Financial Reporting

Material Weakness Identified?

No

Significant Deficiencies Identified?

None Reported

Noncompliance Material to Financial  
Statements Noted?

No

**Federal Awards**

Internal Control Over Major Programs

Material Weakness Identified?

No

Significant Deficiencies Identified?

None Reported

Type of Auditors' Report Issued on Compliance  
For Major Programs

Unmodified

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

No

Identification of Major Programs:

**CFDA Number**

**Name of Federal Programs**

84.027

Special Education Grants to States

10.555

National School Lunch Program

See accompanying notes to financial statements.



**Troy City Board of Education  
Troy, Alabama  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2013**

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, 2013**

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Troy City Board of Education as of and for the year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise Troy City Board of Education's basic financial statements, and have issued our report thereon dated April 24, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Troy City Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Troy City Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Troy City Board of Education's internal control.

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

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

### **Compliance and Other Matters**


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

We noted certain matters that we reported to management of the Troy City Board of Education in a separate letter dated April 24, 2014.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 24, 2014

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



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

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Independent Auditors' Report on Compliance for  
Each Major Program and on Internal Control Over  
Compliance Required by OMB Circular A-133

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

**Report on Compliance for Each Major Federal Program**

We have audited 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, 2013. Troy City Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Troy City Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Troy City Board of Education's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Troy City Board of Education, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

### **Report on Internal Control Over Compliance**

Management of Troy City Board of Education, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Troy City Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Troy City Board of Education's internal control over compliance.

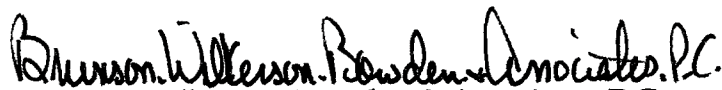
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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Members of the Board  
Troy City Board of Education

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

April 24, 2014

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