

Financial Statements

Troy City Board of Education

September 30, 2015

**Troy City Board of Education
Troy, Alabama
September 30, 2015**

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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 Troy City Board of Education (the "Board"), as of and for the year ended September 30, 2015, 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.

Auditors' 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 auditors' 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter

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 - 17 and 58 - 59 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 relates 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 is 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 June 27, 2016, on our consideration of the Board'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 the Troy City Board of Education's internal control over financial reporting and compliance.

June 27, 2016


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

Troy City Board of Education
Troy, Alabama
Management's Discussion and Analysis
September 30, 2015

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, 2015. 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 2015:

On the government-wide financial statements:

The assets of the Board exceeded its liabilities at the close of the 2015 fiscal year by \$2.12 million (net position) before the effect of Troy City's share of the pension fund liability re-statement. Our government-wide financial statements reflect \$0.46 million (unrestricted net position), which may be used to meet the Board's future costs of operations, and \$1.66 million (net investment in capital assets). 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 decreased by approximately one million dollars to \$19.84 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 \$5.97 million.

At the end of the current fiscal year, the Unassigned Fund Balance (Budgetary Basis) for the General Fund was \$1.06 million which is sufficient to cover 0.77 months of normal monthly operating expenditures.

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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 information*.

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

Government-Wide Financial Statements

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

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

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

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

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

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

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

Government-Wide Financial Statements (Continued)

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

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

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

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

The *statement of net 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 uses 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 supplementary information to be presented following the *notes to the basic financial statements*. The required supplementary 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 \$2.12 million (excluding effects of the pension liability re-statement) at September 30, 2015.

Of this figure, 83% or \$1.66 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 \$0.46 million or 22% 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, 2015
(with Comparative Totals for September 30, 2014)
(in millions)

	Governmental Activities	
	<u>9/30/2014</u>	<u>9/30/2015</u>
Current and Other Assets	\$ 3.83	\$ 3.71
Capital Assets	<u>24.29</u>	<u>23.66</u>
Total Assets	<u>\$ 28.12</u>	<u>\$ 27.37</u>
Deferred Outflows of Resources	<u>\$ 0.00</u>	<u>\$ 1.18</u>
Current Obligations (Due within One Year)	\$ 1.74	\$ 1.82
Long-Term Obligations	<u>22.20</u>	<u>37.55</u>
Total Liabilities	<u>\$ 23.94</u>	<u>\$ 39.37</u>
Deferred Inflows of Resources	<u>\$ 1.33</u>	<u>\$ 2.89</u>
Net position:		
Net Investment in Capital Assets	\$ 2.17	\$ 1.66
Restricted	0.45	-
Unrestricted	0.23	(15.37)
Restatement	<u>(15.84)</u>	<u>-</u>
Total Net position	<u>\$ (12.99)</u>	<u>\$ (13.71)</u>

At the end of the current fiscal year, the Board is able to report a positive balance in its Unrestricted Net Position before calculating the effects of the Board's share of the pension liability. 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, 2015, with resources left over to support next year's operations.

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, 2015.

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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, 2015
(with Comparative Totals for September 30, 2014)
(in millions)

	Governmental Activities	
	9/30/2014	9/30/2015
Revenues		
Program Revenues:		
Charges for Services	\$ 1.89	\$ 1.87
Operating Grants and Contributions	11.34	11.42
Capital Grants and Contributions	.48	.58
General Revenues:		
Local Property Taxes	1.65	1.59
Local Sales Taxes	2.93	3.09
Other Taxes	.06	.06
Grants/Contributions Not Restricted	-	.22
Other - Miscellaneous Revenues	.38	.26
Investment Earnings	.02	.00
Rounding	-	.02
Total Revenues	<u>\$ 18.75</u>	<u>\$ 19.11</u>
Expenses		
Instructional Services	\$ 11.99	\$ 11.45
Instructional Support Services	2.95	2.70
Operation and Maintenance Services	1.51	1.44
Student Transportation Services	.23	.21
Food Services	1.35	1.32
General Administrative Services	1.01	1.02
Interest and Fiscal Charges	1.22	1.13
Other Expenses	.60	.55
Rounding	-	.02
Total Expenses	<u>\$ 20.86</u>	<u>\$ 19.84</u>
Changes in Net position	\$ (2.11)	\$ (0.73)
Net position - Beginning (As Restated - 2014)	(10.88)	(12.99)
Rounding	-	.01
Net position - Ending	<u>\$ (12.99)</u>	<u>\$ (13.71)</u>

The Board's net position decreased by \$0.73 million during the 2015 fiscal year resulting from expenditures exceeding revenues. Analysis of the table above shows that revenues increased approximately \$360,000 (mostly in sales tax revenue) while overall expenses decreased by slightly more than \$1 million 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, 2015, was \$19.84 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, \$1.87 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, and extended day.

State and federal governments subsidized certain programs with grants and contributions totaling \$12.00 million.

Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$0.26 million in revenues.

\$4.74 million (24%) of the Board's total costs of \$19.84 million was financed by district and state taxpayers, as follows: \$1.59 million in property taxes, \$3.09 million in county sales tax, \$0.06 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 2015 compared with fiscal year 2014. 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, 2015
(with Comparative Totals for September 30, 2014)
(in millions)

	<u>9/30/2014</u>	<u>9/30/2015</u>
Instructional Services	\$ 2.69	\$ 1.89
Instructional Support Services	.78	.61
Operation and Maintenance Services	.96	.90
Student Transportation Services	.06	.10
Food Services	.24	.25
General Administrative Services	.84	.82
Interest and Fiscal Charges	1.22	1.13
Other Expenses	<u>.37</u>	<u>.27</u>
Total	<u>\$ 7.16</u>	<u>\$ 5.97</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). The Board's governmental funds reported combined ending fund balances of \$399,092 comprised of:

General Fund: (primary operating fund of Board operations), recorded a deficit of \$4,763 comprised of a nonspendable fund balance of \$84,034 and an unassigned fund balance deficit of \$88,707.

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 \$0.40 million.

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

Performance of School Board Funds (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) budget and expending of funds from the bond refinancing on planned capital projects and (2) expenditures from local funds exceeding 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 Ended</u>	<u>Total Fund Balance</u>	<u>Surplus / (Deficit)</u>
September 30, 2015	\$ 399,092	\$ (329,353)
September 30, 2014	728,444	(6,827,752)**
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

** Includes \$5.54 million spent on capital projects from bond funds in FY 2014. Of the remainder \$1.16 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 2014. 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 June 15, 2015, was made to add additional allocations received after approval of the original budget, and adjust budget as needed to meet operational needs 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, 2015, amounted to \$24.29 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, 2015
(with Comparative Data for September 30, 2014)
(in millions)

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2015</u>
Land and Land Improvements	\$ 1.45	\$ 1.44
Buildings and Improvements	22.17	21.60
Construction in Progress	-	0.01
Vehicles	.31	.24
Equipment	<u>.36</u>	<u>.36</u>
Total	<u>\$ 24.29</u>	<u>\$ 23.65</u>

Net capital assets decreased by \$0.64 million for the 2015 fiscal year. This decrease is attributed to there being no new major projects completed or assets purchased for the 2015 fiscal year.

Long-Term Debt - At year-end, the Board had \$22.24 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, 2015
(with Comparative Data for September 30, 2014)
(in millions)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Governmental Activities			
Bonds and Warrants Payable	\$ 2.75	\$ (.07)	\$ 2.68
Other Liabilities			
Long-term Debt	.04	(.02)	.02
Capital Leases	<u>19.59</u>	<u>(.05)</u>	<u>19.54</u>
Total Governmental Activities			
Long-Term Debt	<u>\$ 22.38</u>	<u>\$ (.14)</u>	<u>\$ 22.24</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 2015-2016 fiscal year.

The unemployment rate in Pike County for September 2015 is 6.5% down from 6.9% in the prior year (U.S. Dept. of Labor statistics)

The Troy and Pike County area economy, in line with the surrounding region, continues modest improvement. Overall, local sales tax receipts stabilized in FY 2015 with growth anticipated for FY 2016.

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 the Rolling Reserve Act into law in 2011 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

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Economic Factors and Next Year's Budget (Continued)

the previous fifteen fiscal years. Funding by the Legislature in 2015 and 2016 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 2015-2016 school year is 1945.25, which will be a factor in the fiscal year 2017 budget. This is a decrease of 72.70 from the 2014-2015 school year. This decrease resulted from the Publix shopping development which eliminated a large mobile home residential area. At this time it is unknown if the displaced student families will return to the school district.

<u>Fiscal Year</u>	<u>ADM</u>	<u>Enrollment Increase (Decrease)</u>
2017	1,945.25	(72.70)
2016	2,017.95	(22.10)
2015	2,040.05	(59.60)
2014	2,099.65	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	

**Troy City Board of Education
Troy, Alabama
Management's Discussion and Analysis
September 30, 2015**

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 2016 will remain at \$9,360 per employee.

Employer contributions to the Teachers Retirement System (TRS) will increase to 11.94% for Tier 1 per employee and drop slightly to 10.84% for Tier 2 per employee for the 2016 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, 2015

	Governmental Activities
ASSETS	
Cash	\$ 1,255,920
Restricted Cash	38,007
Investments	18,000
Property Taxes Receivable	1,354,068
Due from Other Governments	649,798
Inventories	61,723
Prepaid Items	84,034
Capital Assets	
Nondepreciable	1,202,222
Depreciable, Net	22,454,533
Unamortized Capital Lease Insurance	250,205
Total Assets	\$ 27,368,510
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows from Pension Activities	\$ 1,181,735
LIABILITIES	
Accounts Payable	\$ 296,659
Unearned Revenue	109,018
Salaries and Benefits Payable	1,302,713
Accrued Interest Payable	48,187
Pension Obligation	15,371,000
Long-Term Obligations	
Due in One Year	
Notes Payable	9,034
Bonds Payable	79,640
Capital Lease Obligations Payable	109,898
Due in More Than One Year	
Notes Payable	13,528
Bonds Payable	2,598,186
Capital Lease Obligations Payable	19,434,650
Total Liabilities	\$ 39,372,513
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue - Property Taxes	\$ 1,354,068
Deferred Inflows from Pension Activities	1,538,000
Total Deferred Inflows of Resources	\$ 2,892,068
NET POSITION	
Net Investment in Capital Assets	\$ 1,662,024
Unrestricted	(15,376,360)
Total Net Position	\$ (13,714,336)

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Statement of Activities
For the Year Ended September 30, 2015

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	
Governmental					
Instructional Services	\$ 11,454,286	\$ 306,625	\$ 8,688,184	\$ 565,601	\$ (1,893,876)
Instructional Support Services	2,700,333	198,037	1,895,799	-	(606,497)
Operation and Maintenance Services	1,442,983	72,085	468,440	-	(902,458)
Student Transportation Services	212,606	29,416	74,916	12,000	(96,274)
Food Services	1,323,603	1,017,446	57,179	-	(248,978)
General Administrative Services	1,022,998	62,877	144,082	-	(816,039)
Interest and Fiscal Charges	1,134,413	-	-	-	(1,134,413)
Other Expenses	549,576	182,115	95,706	-	(271,755)
Total Governmental Activities	\$ 19,840,798	\$ 1,868,601	\$ 11,424,306	\$ 577,601	\$ (5,970,290)
General Revenues					
Taxes					
Property Taxes for General Purposes					\$ 1,598,795
Local Sales Tax					3,095,417
Other Tax					65,104
Investment Earnings					2,667
Grants and Contributions Not Restricted for Specific Programs					220,000
Miscellaneous Revenues					260,031
Total General Revenues					\$ 5,242,014
Changes in Net Position					\$ (728,276)
Net Position - Beginning					\$ 2,848,940
Cumulative Effect of Change in Accounting Principle					(15,835,000)
Net Position - Beginning (As Restated)					\$ (12,986,060)
Net Position - Ending					\$ (13,714,336)

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Balance Sheet -
Governmental Funds
September 30, 2015

	General	Special Revenue Fund - Food & Nutrition	Other Governmental Funds	Totals
ASSETS				
Cash	\$ 1,025,519	\$ 162,956	\$ 105,452	\$ 1,293,927
Investments	-	-	18,000	18,000
Property Taxes Receivable	1,354,068	-	-	1,354,068
Due from Other Governments	261,704	145,855	242,239	649,798
Interfund Receivable	33,368	-	-	33,368
Prepaid Expenses	84,034	-	-	84,034
Inventories	-	61,723	-	61,723
TOTAL ASSETS	<u>\$ 2,758,693</u>	<u>\$ 370,534</u>	<u>\$ 365,691</u>	<u>\$ 3,494,918</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 255,296	\$ 24	\$ 41,339	\$ 296,659
Interfund Payable	-	-	33,368	33,368
Unearned Revenue	2,800	-	106,218	109,018
Salaries and Benefits Payable	1,151,202	63,764	87,747	1,302,713
Total Liabilities	<u>\$ 1,409,298</u>	<u>\$ 63,788</u>	<u>\$ 268,672</u>	<u>\$ 1,741,758</u>
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	<u>\$ 1,354,068</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,354,068</u>
Fund Balances				
Fund Balances				
Nonspendable	\$ 84,034	\$ 61,723	\$ -	\$ 145,757
Unassigned	(88,707)	245,023	97,019	253,335
Total Fund Balances	<u>\$ (4,673)</u>	<u>\$ 306,746</u>	<u>\$ 97,019</u>	<u>\$ 399,092</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,758,693</u>	<u>\$ 370,534</u>	<u>\$ 365,691</u>	<u>\$ 3,494,918</u>

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, 2015

Total *fund balances* for governmental funds \$ 399,092

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	\$ 1,191,222	
Construction in Progress	11,000	
Land Improvements, net of \$536,892 accumulated depreciation	251,752	
Buildings and Improvements, net of \$7,795,938 accumulated depreciation	21,600,168	
Equipment, net of \$689,418 accumulated depreciation	372,161	
Vehicles, net of \$838,524 accumulated depreciation	<u>230,452</u>	
Total Capital Assets (See Note 6)		23,656,755

Capital Lease insurance costs on capital lease obligations are recognized as expenditures in the governmental funds when paid. For reporting in the statement of net position, the costs are capitalized and amortized over the life of the capital lease. This amount represents the total capital lease insurance cost, net of \$45,119 amortization expense. 250,205

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. (356,265)

Net pension obligation is not due and payable in the current period and it, therefore, is not reported in governmental funds. (15,371,000)

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, 2015, were:

Accrued Interest payable	\$ (48,187)	
Long-Term Debt	(22,562)	
Bonds Payable (See Note 9)	(2,677,826)	
Capital Lease Contracts Payable (See Note 9)	<u>(19,544,548)</u>	
Total long-term obligations		<u>(22,293,123)</u>

Total Net Position of governmental activities \$ (13,714,336)

Troy City Board of Education
Troy, Alabama
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended September 30, 2015

	General	Special Revenue Fund - Food & Nutrition	Other Governmental Funds	Totals
REVENUES				
State Sources	\$ 9,872,412	\$ -	\$ 576,144	\$ 10,448,556
Federal Sources	68,075	789,484	1,400,870	2,258,429
Local Sources	4,540,553	297,223	1,481,875	6,319,651
Other Revenues	59,452	26,434	-	85,886
Total Revenues	\$ 14,540,492	\$ 1,113,141	\$ 3,458,889	\$ 19,112,522
EXPENDITURES				
Instructional Services	\$ 9,547,615	\$ -	\$ 1,423,621	\$ 10,971,236
Instructional Support Services	2,344,381	-	325,047	2,669,428
Operation and Maintenance	1,419,394	-	14,488	1,433,882
Student Transportation Services	136,356	-	12,635	148,991
Food Services	-	1,431,450	1,412	1,432,862
General Administrative Services	923,676	-	124,456	1,048,132
Other Expenditures	359,917	47,775	147,483	555,175
Capital Outlay	23,303	18,435	22,597	64,335
Debt Service	53,699	-	1,262,567	1,316,266
Total Expenditures	\$ 14,808,341	\$ 1,497,660	\$ 3,334,306	\$ 19,640,307
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (267,849)	\$ (384,519)	\$ 124,583	\$ (527,785)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 157,949	\$ 399,856	\$ 217,865	\$ 775,670
Indirect Cost	149,310	-	-	149,310
Proceeds from Long-Term Debt	49,122	-	-	49,122
Operating Transfers Out	(490,568)	-	(285,102)	(775,670)
Total Other Financing Sources (Uses)	\$ (134,187)	\$ 399,856	\$ (67,237)	\$ 198,432
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (402,036)	\$ 15,337	\$ 57,346	\$ (329,353)
FUND BALANCE - BEGINNING	397,363	291,409	39,673	728,445
FUND BALANCE - ENDING	\$ (4,673)	\$ 306,746	\$ 97,019	\$ 399,092

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2015

Net change in <i>fund balances</i> -- total governmental funds	\$ (329,353)
The change in <i>net position</i> reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$693,881) exceeded capital outlay in the current period. (See Note 6)	(629,546)
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)	205,923
In governmental funds, bond and capital lease issuance and insurance 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 bond and capital lease issuance and insurance amortization in the current period.	
Assets Acquired by Capital Lease	(49,122)
Amortization of Bond Discounts/Premiums	(2,905)
Amortization of Capital Lease Discount/Insurance	(30,672)
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 Increase in Accrued Interest Expense	(336)
Pension Expense	107,735
Change in <i>net position</i> of governmental activities	<u>\$ (728,276)</u>

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

The 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, 2015, as *other governmental funds*. Inclusion of these funds in the financial statements increased the account balances by the amounts listed below:

Cash	\$ 111,165
Investments	\$ 18,000
Accounts Payable	\$ 13,407
Interfund Payable	\$ 33,368
Fund Balance	\$ 82,390

B. Adoption of Accounting Principles

The Board implemented the following financial accounting and reporting standards issued by GASB during the fiscal year ended September 30, 2015:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement will improve the financial reporting of public employee pensions by state and local governments. The requirements of this statement were effective for financial statements for periods beginning after June 15, 2014. The Board has implemented GASB No. 68 in the current year (Reference Note 7).

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 1 - Summary of Significant Accounting Policies (Continued)

B. Adoption of Accounting Principles (Continued)

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. The City has implemented GASB No. 69 in the current year, however, it does not have any current impact on the City.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City has implemented GASB No. 71 in the current year.

C. 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.

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.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Basis of Presentation (Continued)

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.

The Board reports the following major governmental funds:

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

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Basis of Presentation (Continued)

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.

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

Capital Projects Fund - 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.

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

Local School Activity Funds – These funds account for revenues and expenses under the control of school principals.

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, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

C. 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, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

C. 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, 2015**

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/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 acquired by the Board. Investments are stated at fair value. The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in companies not insured by the Federal government.

Receivables 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, 2015**

Note 1 - Summary of Significant Accounting Policies (Continued)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity
(Continued)**

Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2015, 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.

Restricted Assets

Certain resources set aside for bond repayment or capital expenditures, are classified as restricted on the Balance Sheet, or Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants or by law.

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, 2015.

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:

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

Capital Assets (Continued)

<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.)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section or deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The Board currently has one item that qualifies for reporting in this category, deferred charge from pension activities.

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 currently has two items that qualify for reporting in this category, unavailable revenue from property taxes and deferred charge on pensions. 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

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

Long-Term Obligations (Continued)

statement of net position. Bond premiums and discounts and gains/losses on refunding 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 expensed during the current period.

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.

Unamortized Bond Insurance

Unamortized debt expense related to bond insurance is amortized by using the outstanding principal method over the life of the related debt and is reported as unamortized bond insurance on the statement of net position. Other bond issuance costs are expensed as incurred.

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.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 1 - Summary of Significant Accounting Policies (Continued)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity
(Continued)**

Compensated Absences (Continued)

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.

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.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity
(Continued)

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.

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.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

Net Position/Fund Equity (Continued)

- *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.

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 2014-2015 fiscal year was September 16, 2014. The Board approved and submitted its original 2014-2015 annual budget on September 14, 2014.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 2 – Stewardship, Compliance and Accountability (Continued)

A. Budgets (Continued)

The 2014-2015 fiscal year budget was amended in June 2015 primarily to include federal and state allocation not included in the original budget, and to adjust budget areas to meet program operational needs.

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.

The budget is prepared under a budgetary basis of accounting that differs from accounting principles generally accepted in the United States of America (GAAP). Salaries of teachers and other personnel with contracts of less than twelve months are paid over a twelve month period. Expenditures for salaries (and related fringe benefits) and interest expense 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. Similarly, interest expense incurred but not paid as of year-end is reported as an expenditure on the financial statements.

B. Excess of Expenditures over Appropriations

At September 30, 2015, the following governmental funds had fund expenditures exceeding appropriations by the following amounts:

General Fund	\$ 402,036
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These shortages were covered by existing funds on hand.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

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, 2015, consisted of the following:

<u>\$ 33,368</u>	To the General Fund from the Local School Funds
<u>\$ 33,368</u>	Total Interfund Balances

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 4 - Interfund Balances and Activities (Continued)

Transfers between funds for the year ended September 30, 2015, consisted of the following:

\$ 399,856	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
209,023	From the General Fund to the Capital Projects Fund to fund debt payments on bonds and capital lease contract and additional capital projects
8,783	Interfund transfers between Local School Activity Funds
<u>158,008</u>	Other Governmental Fund interfund transfers
<u>\$ 775,670</u>	Total Transfers

Note 5 - Receivables and Accrued Liabilities

On September 30, 2015, the amounts due from other governments for each of the Board's governmental funds are as follows:

\$ 261,704	General Fund
<u>388,094</u>	Special Revenue Funds
<u>\$ 649,798</u>	Total Due from Other Governments

On September 30, 2015, the components of unearned revenue, reported as accrued liabilities, are primarily made up of liabilities pertaining to the following Federal programs:

\$ 46,278	Title I Grants to Local Education Agencies
34,852	Special Education - Grants to States
25,088	Improving Teacher Quality State Grants
<u>2,800</u>	Other
<u>\$ 109,018</u>	Total Unearned Revenue

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 6 – Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Balance 9/30/14	Additions	Retirements	Transfers	Balance 9/30/15
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 1,186,469	\$ 4,753	\$ -	\$ -	\$ 1,191,222
Construction in Progress	-	11,000	-	-	11,000
Total Capital Assets Not Being Depreciated	\$ 1,186,469	\$ 15,753	\$ -	\$ -	\$ 1,202,222
Capital Assets Being Depreciated:					
Buildings	\$ 25,679,517	\$ -	\$ -	\$ -	\$ 25,679,517
Building Improvements	3,716,589	-	-	-	3,716,589
Land Improvements - Exhaustible	788,644	-	-	-	788,644
Vehicles	1,068,976	-	-	-	1,068,976
Equipment	1,012,997	48,582	-	-	1,061,579
Total Capital Assets Being Depreciated	\$ 32,266,723	\$ 48,582	\$ -	\$ -	\$ 32,315,305
Less: Accumulated Depreciation For:					
Buildings	\$ 6,535,390	\$ 489,740	\$ -	\$ -	\$ 7,025,130
Building Improvements	686,934	83,874	-	-	770,808
Land Improvements - Exhaustible	531,352	5,540	-	-	536,892
Vehicles	761,688	76,836	-	-	838,524
Equipment	651,527	37,891	-	-	689,418
Total Accumulated Depreciation	\$ 9,166,891	\$ 693,881	\$ -	\$ -	\$ 9,860,772
Total Capital Assets Being Depreciated, Net	\$ 23,099,832	\$ (645,299)	\$ -	\$ -	\$ 22,454,533
Total Governmental Activities Capital Assets, Net	\$ 24,286,301	\$ (629,546)	\$ -	\$ -	\$ 23,656,755

The Board of Education is not obligated at September 30, 2015, under any significant construction contracts:

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 6 - Capital Assets (Continued)

Depreciation Expense was Charged to
Governmental Functions as follows:

Instruction Services	\$ 190,089
Instructional Support Services	47,948
Operation and Maintenance Services	12,699
Student Transportation Services	63,981
General Administration	367,191
Food Services	<u>11,973</u>

Total Governmental Activities Depreciation Expense	<u>\$ 693,881</u>
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Note 7 - Employee Retirement 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 for all employees. Vested employees may retire with full benefits as follows:

	Tier 1 (members hired before January 1, 2014)	Tier 2 (members hired on or after January 1, 2014)
Eligibility for retirement benefits	Age 60 with at least 10 years of service <i>or</i> after 25 years of service at any age	Age 62 with at least 10 years of service
Average final salary (AFS)	Average of the highest 3 fiscal years (Oct - Sept) out of the last 10 fiscal years the member made contributions	Average of the highest 5 fiscal years (Oct - Sept) out of the last 10 fiscal years the member made contributions
Benefit factor (BF)	2.0125%	1.165%
Maximum monthly benefit	(AFS x years of service x BF)/12	(AFS x years of service x BF)/12

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 7 – Employee Retirement Plan (Continued)

A. Plan Description (Continued)

Disability retirement benefits are calculated in the same manner as retirement benefits. Pre-retirement death benefits are payable to a member's beneficiaries in varying amounts dependent upon years of service and whether the member was vested (10 years or more of service).

The Teachers' Retirement System of Alabama was established as of September 15, 1939, 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. The Teachers' Retirement System Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama. Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the Teachers' Retirement Board of Control.

Employees of the Board are required by statute to contribute a percentage of their salary to the Teachers' Retirement System (7.25% for tier 1 employees and 6% for Tier 2 employees). The Board is required to contribute the remaining amounts necessary to fund the actuarial 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.

The Plan 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.

In order to comply with GASB No. 68, another valuation was performed as of September 30, 2014, the results of which are as follows.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 7 - Employee Retirement Plan (Continued)

B. Contributions

<u>Fiscal Year Ended September 30,</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total percentage of covered payroll	See below	See below	See Below
Tier 1 employees	19.21%	19.21%	17.58%
Tier 2 employees	17.05%	17.08%	15.44%
Contributions:			
Percentage contributed by the Board	See below	See below	See Below
Tier 1 employees	11.71%	11.71%	10.08%
Tier 2 employees	11.05%	11.08%	9.44%
Percentage contributed by employees	See below	See below	See Below
Percentage contributed by Tier 1 employees	7.50%	7.50%	7.50%
Percentage contributed by Tier 2 employees	6.00%	6.00%	6.00%
Contributed by the Board	\$ 1,181,735	\$ 1,254,343	\$ 1,098,079
Contributed by the employees	746,902	797,954	816,313
Total Contributions	<u>\$ 1,928,637</u>	<u>\$ 2,052,297</u>	<u>\$ 1,914,392</u>

C. Valuation

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2015 were based on the September 30, 2012 actuarial valuations.

Methods and assumptions used to determine contribution rates were:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Period	24 Years
Asset Valuation Method	Five Year Smoothed
	Market
Inflation	3.00%
Salary Increases	3.50% - 8.25%, Including
	Inflation
Investment Rate of Return	8.00%, Net of Pension Plan
	Investment Expense,
	Including Inflation

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 7 – Employee Retirement Plan (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At September 30, 2015 the Board reported a liability of \$15,371,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured at September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial evaluation as of September 30, 2013. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan, totaling \$1,215,000 during the measurement period, relative to the total employer contributions of all participating Teachers' Retirement System employers. At September 30, 2014 the Board's proportion was 0.169204%, which was a decrease of 0.004863% from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015 the Board recognized pension expense of \$1,074,000. At September 30, 2015 the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	1,153,000
Changes in Proportionate and Differences Between Employer Contributions and Proportionate Share of Contributions	-	385,000
Employer Contributions Subsequent to the Measurement Date	<u>1,181,735</u>	<u>-</u>
Total	<u>\$ 1,181,735</u>	<u>\$ 1,538,000</u>

Employer contributions applied to pension liability of \$1,181,735 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 7 – Employee Retirement Plan (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

2016	\$ 377,000
2017	377,000
2018	377,000
2019	377,000
2020	30,000
Thereafter	-
Total	<u>\$ 1,538,000</u>

E. Sensitivity of the Net Position Liability to Changes in the Discount Rate

The following presents the net position liability for the Board's plan, calculated using the discount rate, as well as what the Board's net position liability would have been if it were calculated using the discount rate that is 1-percent-point-lower and 1-percent-point-higher than the current rate:

	Troy City Board of Education		
	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Plan's Net Pension Liability	\$ 20,941,000	\$ 15,371,000	\$ 10,651,000

F. Schedule of Proportionate Share of the Collective Net Pension Liability

Employer's portion of the collective net pension liability	0.169204%
Employers proportionate share of the collective net pension liability	15,371,000
Employer's covered-employee payroll during the measurement period	10,143,132
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	0.111656%
Plan fiduciary net position as a percentage of the total collective pension liability	71.01%

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 8 – Other Postemployment Benefits Other than Pension (OPEB)

The Board contributes to the Alabama Retired Education employee's health Care Trust (Trust), 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. The Trust is administered by members of the Public Education employees' Health Insurance Board (PEEHIB). The Trust provides health care benefits to state and local school system retirees. *Code of Alabama 1975, Section 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 Teachers' Retirement System of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. The report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, AL 36130-2150.

Code of Alabama 1975, Section 16-25A-8 provides the PEEHIB with authority to set the contribution requirements for plan members and employers. The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you-go basis. Retirees eligible for Medicare benefits must pay \$10 per month for coverage while those not eligible for Medicare must pay \$151 per month for coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$511,025 or 23.17% of total Board allocations paid during fiscal year 2015. 100% of the required contributions were paid by the Board. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

Note 9 – Long-Term Obligations

A. Long-Term Obligation Activity

Long-term liability obligations for the year ended September 30, 2015, were as follows:

Description	Interest Rate	Balance Outstanding 09/30/14	Additions	Reductions	Balance Outstanding 9/30/15	Amounts Due Within One Year
NOTES PAYABLE						
Regions Equipment Finance Corporation						
Special Needs Bus (1)	2.251%	\$ 33,780	\$ -	\$ 11,218	\$ 22,562	\$ 9,034
BONDS PAYABLE						
Capital Improvement Pool Series 2009-B	Various	435,601	-	78,861	356,740	82,545
General Obligation Warrant Series 2013	4.75%	2,400,000	-	-	2,400,000	-

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 9 - Long-Term Obligations (Continued)

A. Long-Term Obligation Activity (Continued)

Description	Interest Rate	Balance Outstanding 09/30/14	Additions	Reductions	Balance Outstanding 9/30/15	Amounts Due Within One Year
CAPITAL LEASES PAYABLE						
Public Educational Building Authority of the City of Troy - 2011 Capital Lease Payable	3.00-5.25%	19,975,833	-	68,854	19,906,979	70,000
Apple Lease 2014 iPads	2.93%	93,240	-	24,096	69,144	22,387
Lease Corporation of America - 21 Copiers	10.435%	71,575	-	22,894	48,681	25,401
Chrome Book Lease 2015	6.699%	-	49,122	-	49,122	12,938
Total Notes, Bonds, and Capital Leases Payable		<u>\$ 23,010,029</u>	<u>\$ 49,122</u>	<u>\$ 205,923</u>	<u>\$ 22,853,228</u>	<u>\$ 222,305</u>
Adjustments for Deferred Amounts:						
BONDS PAYABLE						
Original Issue Discount - Warrant Series 2013	N/A	\$ (81,819)	\$ -	\$ (2,905)	\$ (78,914)	\$ (2,905)
CAPITAL LEASES PAYABLE						
Original Issue Discount - 2011 Capital Lease	N/A	(550,206)	-	(20,828)	(529,378)	(20,828)
Total Adjustments for Deferred Amounts		<u>\$ (632,025)</u>	<u>\$ -</u>	<u>\$ (23,733)</u>	<u>\$ (608,292)</u>	<u>\$ (23,733)</u>
Total Notes, Bonds, and Capital Leases Payable Net of Deferred Amounts		<u>\$ 22,378,004</u>	<u>\$ 49,122</u>	<u>\$ 182,190</u>	<u>\$ 22,244,936</u>	<u>\$ 198,572</u>

(1) Secured by Special Needs Bus.

Interest expense included in functional expenses on the Statement of Activities for the year ended September 30, 2015, is \$1,110,008. There were no bonds authorized but not issued for the year ended September 30, 2015.

**Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015**

Note 9 – Long-Term Obligations (Continued)

B. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2015, are as follows:

Fiscal Year Ending September 30,	Bonds and Notes Payable		Capital Lease Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	
2016	\$ 91,579	\$ 132,373	\$ 130,726	\$ 971,830	\$ 1,326,508
2017	100,228	128,014	131,753	967,988	1,327,983
2018	91,066	123,375	110,759	963,183	1,288,383
2019	96,429	118,821	471,209	959,407	1,645,866
2020	-	114,000	551,667	943,653	1,609,320
2021-2025	-	570,000	3,109,167	4,381,038	8,060,205
2026-2030	-	570,000	3,885,000	3,631,602	8,086,602
2031-2035	-	570,000	4,978,333	2,567,927	8,116,260
2036-2040	-	570,000	6,464,167	1,116,981	8,151,148
2041-2043	<u>2,400,000</u>	<u>212,800</u>	<u>241,145</u>	<u>12,645</u>	<u>2,866,590</u>
	<u>\$ 2,779,302</u>	<u>\$ 3,109,383</u>	<u>\$ 20,073,926</u>	<u>\$ 16,516,254</u>	<u>\$ 42,478,865</u>

The Board's 2013 series bond covenant requires a fund to be established and maintained. Monthly deposits of \$9,500 are required to meet the semi-annual interest payments of \$57,000, due June 1st and December 1st. For the year ended September 30, 2015, the Board was in compliance with the bond covenant.

C. Notes Payable

During the year ended September 30, 2014, the Board entered into a financing agreement with Regions Equipment Finance Corporation for the acquisition of a special needs bus. The total cost of the bus was \$92,153, \$45,622 of this amount was financed by Regions Equipment Finance Corporation. The note is payable annually and matures in February 2018.

D. 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.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 9 – Long-Term Obligations (Continued)

D. Bonds Payable (Continued)

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 bond proceeds were to fund the Escrow Trust Agreement and refund \$2,095,000 of the Public Educational Building Authority Educational Facilities Revenue Bonds, Series 2011, which is accounted for by the Board as lease-purchase agreement with The Public Educational Building Authority of the City of Troy (the Authority). In essence the proceeds of the bond reduced the principal debt owed by the Board to the Authority in the capital lease-purchase agreement by \$2,095,000 during the year ended September 30, 2014. The Board has pledged tax revenue to pay the obligations of the bond issuance. The pledged tax revenue consist of County Wide Sales and Use Tax, 1.7 Mill County Wide Ad Valorem Tax, and 5 Mill County Wide Ad Valorem Tax levied in Pike County, as discussed below under Capital Leases.

The Board has original issue discount costs associated with the bond. These costs are being amortized using the straight-line method over a period of twenty-nine years. The total current year amortization costs were \$2,905.

E. Capital Leases

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.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 9 - Long-Term Obligations (Continued)

E. Capital Leases (Continued)

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

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

The Authority has two accounts - 1) The bond fund account where rent is paid by the Board and from which the bond payments are made. 2) The \$15,000,000 remaining after debt defeasement and issuance costs, was put into the construction account for payment of construction and equipment costs at September 30, 2011. When payments are made out of this account, capital assets are recorded and the receivable from the Authority is reduced. For the year ended September 30, 2015, there was not a balance remaining in the account previously reported as receivable. 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.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 9 - Long-Term Obligations (Continued)

E. Capital Leases (Continued)

During the year ended September 30, 2014, the Board used the proceeds of bond funds to reduce the principal debt owed by the Board to the Authority by \$2,095,000 during the year ended September 30, 2014.

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, 2015.

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 1,035,093
2017	1,037,159
2018	1,035,768
2019	1,416,851
2020	1,495,320
2021-2025	7,490,205
2026-2030	7,516,602
2031-2035	7,546,260
2036-2040	7,581,148
2041	<u>253,788</u>
Total Minimum Lease Payments	\$ 36,408,194
Less: Amount Representing Interest	<u>(16,501,215)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 19,906,979</u>

The Board has original issue discount costs associated with the capital lease entered into with the Authority. These costs are being amortized using the straight-line method over a period of thirty years. The total current year amortization costs were \$20,828.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 9 – Long-Term Obligations (Continued)

E. Capital Leases (Continued)

The Board also has prepaid insurance associated with the capital lease entered into with the Authority. These costs are being amortized using the straight-line method over a period of thirty years.

	<u>Insurance</u>
Total	\$ 295,324
Amount Amortized in Prior Year	<u>(35,275)</u>
Balance	\$ 260,049
Current Year Amortization	<u>(9,844)</u>
Balance	<u>\$ 250,205</u>

During the year ended September 30, 2014, the Board entered into a lease-purchase agreement with Apple, Inc. to purchase iPads for students at Troy City Schools totaling \$93,240. 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. agreement, together with the net present value of the minimum lease payments as of September 30, 2015.

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 24,410
2017	24,410
2018	24,410
Less: Amount Representing Interest	<u>(4,086)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 69,144</u>

During the year ended September 30, 2014, the Board entered into a lease-purchase agreement with Lease Corporation of America to purchase twenty-one copiers for the District totaling \$71,575. 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 copiers for \$1. The following is a schedule of future minimum lease payments under capital leases related to the Lease Corporation of America agreement, together with the net present value of the minimum lease payments as of September 30, 2015.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 9 - Long-Term Obligations (Continued)

E. Capital Leases (Continued)

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 29,289
2017	24,408
Less: Amount Representing Interest	<u>(5,016)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 48,681</u>

During the year ended September 30, 2015, the Board entered into a lease-purchase agreement with VAR Resources, Inc. to purchase computer equipment for the District totaling \$49,122. 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 copiers for fair market value as of the end of the original term. The following is a schedule of future minimum lease payments under capital leases related to the VAR Resources, Inc. agreement, together with the net present value of the minimum lease payments as of September 30, 2015.

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 13,765
2017	13,765
2018	13,765
2019	13,765
Less: Amount Representing Interest	<u>(5,938)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 49,122</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, 2015**

Note 10 - Contingent Liabilities (Continued)

B. Litigation

The Board is involved in various claims and litigation arising in the ordinary course of operations. In the opinion of legal counsel, the range of potential recoveries or liabilities in excess of insurance coverage, if any, is not determinable.

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.

During the year ended September 30, 2015, the Board did not reduce insurance coverage from coverage levels in place as of September 30, 2015. 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 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.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 12 – Recently Issued Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72 *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The Board is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement will improve the usefulness of information and decisions made by the various users of the general purpose external financial reports. The requirements of this statement are effective for periods beginning after June 15, 2015. The Board is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The Board is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement will establish the hierarchy of GAAP for state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Troy City Board of Education
Troy, Alabama
Notes to the Financial Statements
September 30, 2015

Note 12 – Recently Issued Accounting Pronouncements (Continued)

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 13 – Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the fiscal year ended through June 27, 2016, 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.

Note 14 – Restatement of Net Position at October 1, 2014

As mentioned in Note 1, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in the current fiscal year. As a result, net position was restated at October 1, 2014. With the adoption of these statements, the Board is reporting the difference between the Net Pension Obligation calculation and the Net Pension Liability calculation as a reduction to the prior year net position. The restatement resulted in a reduction of beginning net position of \$15,835,000.

Required Supplementary Information

Troy City Board of Education
Troy, Alabama
Budgetary Comparison - General Fund
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Budget to GAAP	Actual
	Original	Final	Budgetary Basis	Differences Over/(Under)	GAAP Basis
REVENUES					
State Sources	\$ 9,824,627	\$ 9,832,044	\$ 9,872,412	\$ -	\$ 9,872,412
Federal Sources	89,400	89,400	68,075	-	68,075
Local Sources	4,770,921	4,780,921	4,540,553	-	4,540,553
Other Sources	31,250	31,250	59,452	-	59,452
Total Revenues	\$ 14,716,198	\$ 14,733,615	\$ 14,540,492	\$ -	\$ 14,540,492
EXPENDITURES					
Instructional Services	\$ 9,568,113	\$ 9,447,128	\$ 9,533,588	\$ 14,027	\$ 9,547,615
Instructional Support Services	2,312,310	2,311,099	2,379,634	(35,253)	2,344,381
Operation and Maintenance Services	1,316,475	1,316,475	1,418,665	729	1,419,394
Student Transportation Services	114,929	114,929	135,054	1,302	136,356
General Administrative Services	873,558	875,838	923,892	(216)	923,676
Other Expenditures	284,895	284,894	357,685	2,232	359,917
Capital Outlay	-	-	23,303	-	23,303
Debt Service	53,699	53,699	53,699	-	53,699
Total Expenditures	\$ 14,523,979	\$ 14,404,062	\$ 14,825,520	\$ (17,179)	\$ 14,808,341
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 192,219	\$ 329,553	\$ (285,028)	\$ 17,179	\$ (267,849)
OTHER FINANCING SOURCES (USES)					
Indirect Costs	\$ 148,196	\$ 154,062	\$ 149,310	\$ -	\$ 149,310
Long-Term Debt Issued	-	-	49,122	-	49,122
Operating Transfers In	94,250	94,250	157,949	-	157,949
Operating Transfers Out	(379,110)	(379,110)	(490,568)	-	(490,568)
Total Other Financing Sources (Uses)	\$ (136,664)	\$ (130,798)	\$ (134,187)	\$ -	\$ (134,187)
EXCESS (DEFICIENCY) OF REVENUES, OTHER FINANCING SOURCES AND EXTRAORDINARY ITEMS OVER EXPENDITURES AND OTHER FINANCING USES	\$ 55,555	\$ 198,755	\$ (419,215)	\$ 17,179	\$ (402,036)
FUND BALANCE - BEGINNING	1,561,132	1,547,075	1,565,742	(1,168,379)	397,363
FUND BALANCE - ENDING	\$ 1,616,687	\$ 1,745,830	\$ 1,146,527	\$ (1,151,200)	\$ (4,673)

See accompanying notes to financial statements.

Troy City Board of Education
Troy, Alabama
Budgetary Comparison Schedule
For the Year Ended September 30, 2015

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

	<u>General Fund</u>
Sources/Inflows of Resources	
Actual amounts (budgetary basis) available for appropriation shown as Total Revenues on the budgetary comparison schedule	\$ 14,540,492
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>\$ 14,540,492</u>
Uses/Outflows of Resources	
Actual amounts (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison schedule	\$ 14,825,520
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>(17,179)</u>
Total Expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 14,808,341</u>

See accompanying notes to financial statements.

Other Information

Troy City Board of Education
Troy, Alabama
Supplementary Schedule of
Expenditures of Federal Awards
For the Year Ended September 30, 2015

Description	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Special Education - Grants to States	84.027	131	\$ 559,873
Special Education - Preschool Grants	84.173	131	14,893
Title I Grants to Local Education Agencies	84.010	131	599,398
Improving Teacher Quality State Grants	84.367	131	136,591
Career and Technical Education - Basic Grants to States	84.048	131	29,944
Impact Aid	84.041	131	4,979
Title IV Schools Safety Plan	84.184	131	23
Rural Education	84.358	131	39,059
Title III Language Enhancement	84.365	131	7,964
Child Care and Development Block Grant	95.575	131	8,146
Total U.S. Department of Education			<u>\$ 1,400,870</u>
U.S. DEPARTMENT OF AGRICULTURE			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
National School Lunch Program	10.555	131	\$ 575,660
School Breakfast Program	10.553	131	154,774
Commodity Supplemental Food Program (Non Cash Assistance)	10.565	5605	<u>59,050</u>
Total U.S. Department of Agriculture			<u>\$ 789,484</u>
DEPARTMENT OF DEFENSE			
ROTC Program	12.357	N/A	<u>\$ 66,675</u>
SOCIAL SECURITY ADMINISTRATION			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
Disability Determination	96.001	131	<u>\$ 1,400</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$ 2,258,429</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**Troy City Board of Education
Troy, Alabama
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015**

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, 2015:

- 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 when 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, 2015.

Troy City Board of Education
Troy, Alabama
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015

Note D – Schoolwide Program

The Board utilizes its funding under the Title I cluster to operate a “school wide program”. Schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to a targeted group of students.

Note E - Donated Food Program

The value of non-cash commodities received from the federal government in connection with the donated food program is reflected in the accompanying financial statements. The total assigned value of commodities donated was \$59,050 for the year ended September 30, 2015.

Note F – Contingencies

Grant monies received and disbursed by the Board are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Board does not believe that such disallowance, if any, would have a material effect on the financial position of the Board. As of June 27, 2016, there were no known material questioned or disallowed costs as a result of grant audits in process or completed.

Troy City Board of Education
Troy, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015

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?	Yes
Noncompliance Material to Financial	
Statements Noted?	No

Federal Awards

Internal Control Over Major Programs	
Material Weakness Identified?	No
Significant Deficiencies Identified?	Yes
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:

<u>CFDA Number</u>	<u>Name of Federal Programs</u>
84.010	Title 1 Grants to Local Education Agencies
10.555/10.553/10.565	National School Lunch Program Cluster
Dollar Threshold Used to Distinguish	
Between Type A and Type B	\$ 300,000
Auditee Qualified as Low-Risk Auditee	No

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, 2015**

Section II - Financial Statement Findings (Continued)

Finding 15-01: Operating Reserve Below Required Amount

The General Fund balance at September 30, 2015 is below the state required operating reserve. This is a noncompliance finding and a significant deficiency in internal control over compliance.

Criteria:

The Alabama State Board of Education requires local education agencies to maintain a one month operating reserve.

Condition:

At September 30, 2015, the General Fund was \$1.16 million or .91 months operating reserve, which is below the one month allowed by the SDE.

Cause:

Expenditures in excess of budgeted amounts.

Effect:

Noncompliance with the Alabama State Board of Education legal compliance requirements.

Questioned Cost:

None

Recommendation:

Internal control procedures should be established and implemented by the Board to regularly monitor the Board's reserves to ensure a one month reserve as required by the Alabama State Board of Education is maintained.

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, 2015**

Section II - Financial Statement Findings (Continued)

Finding 15-01: Operating Reserve Below Required Amount (Continued)

Views of Responsible Officials and Planned Corrective Actions:

Troy City Schools has returned to more than the required one month in reserve with the balance at the end of May being 2.95 months. In addition, the budget for 2016 projects a fiscal year-end balance at September 30, 2016 of 1.8 months for the General Fund reserve. Troy City Schools will continue to closely monitor the reserve and spending patterns to prevent any recurrence of last September's low balance.

**15-02: Supplanting of Federal Funds - Title 1 Grants to Local Education Agencies
CFDA No. 84.010**

Federal funds were used to fund expenditures which should have been paid from non-federal sources. This is a significant deficiency in internal control over compliance.

Criteria:

Local Education Agencies are not allowed to use Federal program funds to supplant funds from non-Federal sources.

Condition:

During our testing of employee time and effort reporting we noted one employee who reported time under Title I but should have been paid from non-Federal sources. This resulted in noncompliance with the Supplement Not Supplant requirement. This was also noted during the state audit, and as a result, payroll and benefits for the employee were transferred to other funds eliminating the compliance issue.

Cause:

There are no controls in place to identify noncompliance with this program requirement.

Effect:

Noncompliance with the Supplement Not Supplant requirement.

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, 2015**

Section III - Federal Award Findings and Questioned Costs

**15-02: Supplanting of Federal Funds - Title 1 Grants to Local Education Agencies
CFDA No. 84.010 (Continued)**

Questioned Costs:

None

Recommendation:

We recommend that policies and procedures be put in place to ensure all Title I funds are used to supplement other funding sources rather than replace them. This would include a regular review of all employment positions budgeted and paid under Title I, as well as comparison of those positions to time and effort reports.

Views of Responsible Officials and Planned Corrective Actions:

Troy City Schools corrected the error while auditors were on-site and has implemented procedures for a regular review of all positions budgeted and funded under Title 1 funding to confirm compliance with funding requirements.

15-03: Expenditure Approval - Special Education Grants to States CFDA No. 84.027

Failure to obtain the Special Education Coordinator's approval of expenditures paid with Special Education (IDEA B) funds. This is a significant deficiency in internal control over compliance.

Criteria:

Disbursements from the Special Education (IDEA B) Programs must be approved by the Special Education Coordinator to show evidence that these were reviewed for activities allowed and allowable costs under the Federal Program Guidelines.

Condition:

During our testing of disbursements paid with IDEA B funds, it was noted 26 of the 106 disbursements tested were not approved by the Special Education Coordinator to show evidence that these were reviewed timely for activities allowed and allowable costs under the Federal Program Guidelines for the respective Federal 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, 2015**

Section III - Federal Award Findings and Questioned Costs (Continued)

**15-03: Expenditure Approval - Special Education Grants to States CFDA No. 84.027
(Continued)**

Cause:

Established controls were not followed.

Effect:

We did not find any disbursements in this test that we considered unallowable per the Federal Program Guidelines.

Questioned Costs:

None

Recommendation:

We recommend that the board established policies and procedures for review and approval of expenditures be followed and that expenditure approval be evidenced through signature.

Views of Responsible Officials and Planned Corrective Actions:

Troy City Schools procedures for obtaining approval of expenditures paid with Special Education (IDEA B) funds has been reviewed with applicable staff. Staff will not include any invoice in a payment batch that has not received all required signatory approvals. In addition, the CSFO will conduct a final review of each payment batch for any invoices and/or purchase orders missing the required signatory approvals.

**Troy City Board of Education
Troy, Alabama
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2015**

Summary Schedule of Prior Audit Findings

Finding 14-01: Local School Financial Processes

Condition:

This finding was a significant deficiency stating that local school personnel were not consistently following internal control procedures established by the Troy City Board of Education. Audit procedures at each of the Board's local schools revealed the following:

1. Teachers and staff failed to follow general receipting procedures for collected funds and deposits.
2. Items purchased prior to preparation of purchase order, or purchase order not signed. Approval was verified by noting authorized signatures on check images.
3. No inventories were kept for school merchandise to reconcile cash collected to amounts remaining available for sale.
4. Procedures are not in place to ensure all monies collected from snack sales are properly recorded in the accounting system.
5. Local schools failed to follow procedures for vending items.
6. Teacher and sponsors did not prepare accountability reports for all fundraising and fieldtrip activities.
7. Local schools failed to follow procedures consistently when collecting and documenting gate receipts.
8. Monies collected by various school activity funds were used to cover deficits in other school activity funds.

Recommendation:

Internal Control Procedures established by the Board as noted in the Accounting and Fiscal Operations Manual should be followed by the local schools. The Board should implement additional internal control policies and procedures for those that were not addressed prior to audit completion.

Current Status:

The Board implemented, during the year 2014-2015, additional internal control policies and procedures that addressed the above internal control deficiencies. Audit procedures performed at each of the Board's local schools revealed there had been much improvement in those areas.

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, 2015**

Summary Schedule of Prior Audit Findings (Continued)

Finding 14-02: Lack of sufficient training and monitoring of Federal Programs Personnel
Title 1 Grants to Local Education Agencies CFDA No. 84.010
Improving Teacher Quality State Grants, CFDA No. 84.367
U.S. Department of Education

Condition:

Newly hired Federal Programs personnel were not sufficiently trained and monitored to ensure adequate knowledge of Federal Program requirements. Testing of time and effort records for employees paid under these Federal Award programs indicated that these records were not timely maintained. In addition, a total of 55 disbursements from the above Federal Programs were tested, of which 29 of the 55 disbursements tested were not approved by the Federal Programs Coordinator to show evidence that these were reviewed timely for activities allowed and allowable costs under the Federal Program Guidelines for the respective Federal Program.

Recommendation:

Additional training for the Federal Programs Coordinator was recommended. It was also recommended that the Federal Programs Coordinator be familiar with the requirements of OMB Circular A-87 and OMB Circular A-133 as they apply to the Federal funds received by the Troy City Board of Education. It was recommended that the Federal Programs Coordinator maintain a calendar for Federal Programs that encompasses all compliance requirements for each of the Board's Federal Programs and the due dates of the requirements and that a system of internal control and monitoring be established between the Federal Programs Coordinator, the CSFO and the Superintendent to ensure compliance requirements of Federal Programs are met. In addition, it was recommended that the Federal Programs Coordinator approve all purchase orders that relate to expenditures from Federal funds to show evidence that these were reviewed for activities allowed and allowable costs under the Federal Program Guidelines. This approval should be evidenced by signature and date on the purchase order form before the expenditure is made.

Current Status:

Testing of time and effort reports and disbursements in fiscal year 2015 for which the Federal Programs Coordinator was responsible resulted in no similar findings.

See accompanying notes to financial statements.



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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 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 the Troy City Board of Education, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Troy City Board of Education's basic financial statements and have issued our report thereon dated June 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Troy City Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Members of the Board
Troy City Board of Education

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as listed in item 15-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 15-01.


Troy City Board of Education's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board'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 Troy City Board of Education's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 27, 2016


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



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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 the Troy City Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Troy City Board of Education's major federal programs for the year ended September 30, 2015. The Troy City Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Members of the Board
Troy City Board of Education

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 the Troy City Board of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2015.

Report on Internal Control Over Compliance

Management of the Troy City Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 the Board'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we

Members of the Board
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identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items 15-02 and 15-03 that we consider to be significant deficiencies.

Troy City Board of Education's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Troy City Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

June 27, 2016


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