

Report on the

# Troy University

Troy, Alabama

October 1, 2009 through September 30, 2010

Filed: September 23, 2011



## Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: [www.examiners.alabama.gov](http://www.examiners.alabama.gov)

*Ronald L. Jones, Chief Examiner*





Ronald L. Jones  
Chief Examiner

State of Alabama  
Department of  
**Examiners of Public Accounts**

P.O. Box 302251, Montgomery, AL 36130-2251  
50 North Ripley Street, Room 3201  
Montgomery, Alabama 36104-3833  
Telephone (334) 242-9200  
FAX (334) 242-1775

Honorable Ronald L. Jones  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, I submit this report on the results of the audit of Troy University for the period October 1, 2009 through September 30, 2010.

Sworn to and subscribed before me this  
the 29th day of August, 2011.

Melinda Baarts  
Notary Public

Respectfully submitted,

Lynette Long  
Examiner of Public Accounts

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## *Table of Contents*

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	<i>Page</i>	
<b>Summary</b>	A	
Contains items pertaining to state and federal legal compliance, University operations and other matters.		
<b>Comments</b>	C	
Contains information pertaining to the history of the University.		
<b>Schedule of State Compliance and Other Findings</b>	E	
Contains detailed information about findings pertaining to state legal compliance and other findings.		
<b>Independent Auditor's Report</b>	H	
Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).		
<b>Management's Discussion and Analysis</b>	K	
Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the University introducing the basic financial statements and providing an analytical overview of the University's financial activities for the year. This information has not been audited, and no opinion is provided about the information.		
<b><u>Basic Financial Statements</u></b>	1	
Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the University's financial position and results of operations in accordance with GAAP.		
<b>Troy University</b>		
Exhibit #1	Statement of Net Assets	2
Exhibit #2	Statement of Revenues, Expenses and Changes in Net Assets	4
Exhibit #3	Statement of Cash Flows	5



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---

## *Table of Contents*

---

---

	<i>Page</i>
<b>Troy University Foundation</b>	
Exhibit #4     Consolidated Statements of Financial Position	7
Exhibit #5     Consolidated Statements of Activities and Changes in Net Assets	8
<b><u>Notes to the Financial Statements</u></b>	
Troy University	9
<b><u>Supplementary Information</u></b>	
Contains financial information and notes relative to federal financial assistance.	
Exhibit #6     Schedule of Expenditures of Federal Awards	30
<b>Notes to the Schedule of Expenditures of Federal Awards</b>	40
<b><u>Additional Information</u></b>	
Provides basic information related to the University, including reports and items required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits.	
Exhibit #7 <b>Board Members and Officials</b> – a listing of the Board Members and Officials.	43
Exhibit #8 <b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b> – a report on internal controls related to the financial statements and on whether the University complied with laws and regulations which could have a direct and material effect on the University’s financial statements.	44



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---

## *Table of Contents*

---

---

	<i>Page</i>	
Exhibit #9	<b>Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133</b> – a report on internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to major federal programs and an opinion on whether the University complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.	46
Exhibit #10	<b>Schedule of Findings and Questioned Costs</b> – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by OMB Circular A-133.	49
Exhibit #11	<b>Auditee Response</b> – a response by the University on the results of the audit.	52

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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Troy University**  
**October 1, 2009 through September 30, 2010**

**Troy University Foundation**  
**October 1, 2008 through September 30, 2010**

Troy University (the “University”) is a state-supported public institution of higher education. The University offers studies in the following colleges: the College of Education; the College of Arts and Sciences; the College of Communication and Fine Arts; the College of Health and Human Services; and the Sorrell College of Business. Additional information on the history of the University is included in the Comments section of this report.

Troy University Foundation (the “Foundation”) was established to promote the study and teaching of all subjects that may be offered at or under the auspices of Troy University and to enhance the University’s ability to seek private funding.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the University complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. This report also presents the results of an audit of the University’s component unit, the Foundation, which was audited by other auditors. The University audit was conducted 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, as well as, the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14. The Foundation audit was conducted in accordance with auditing standards generally accepted in the United States of America.

An unqualified opinion was issued on the basic financial statements of the University and its component unit, which means the financial statements present fairly, in all material respects, the financial positions and the results of operations for the fiscal years ended September 30, 2010.

Findings are numbered and reported by the fiscal year in which the finding originally occurred.

The prior year audit finding has been resolved.

The following instance of noncompliance with state laws and regulations and other matters was found during the audit as shown on the Schedule of State Compliance and Other Findings and is summarized below.

**CURRENT FINDING**

- ◆ 2010-01 Construction project changes authorized by the University do not appear to comply with the *Code of Alabama 1975*, Section 39-2-2.

The following officials/employees were invited to an exit conference to discuss the findings and recommendations appearing in this report: Mr. James Bookout, Senior Vice-Chancellor for Finance and Business Affairs and Tara Donaldson, Controller. The following individuals attended the exit conference: Mr. James Bookout, Senior Vice-Chancellor for Finance and Business Affairs and Tara Donaldson, Controller. Representing the Department of Examiners of Public Accounts were Brian Harris, Director of Education Audits and Hal Bradsher, Audit Manager.



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**COMMENTS**

**Troy University  
October 1, 2009 through September 30, 2010**

Established by the Acts of Alabama 1886-87, pages 959-962, Troy University originated as a training school for teachers known as the State Normal School at Troy. In establishing a school at Troy, the State required the town to furnish grounds and buildings. To fulfill its part of the contract, the city council of Troy purchased the lands of the estate of the late William M. Murphree. This plot consisted of four acres in the downtown area of Troy near the bustling railroad tracks and trade centers. The city constructed an 80 by 100 two-story brick structure in the center of the grounds complete with furnishings for \$25,000. In 1926, the City of Troy purchased farmland southeast of the downtown area and constructed the first new building on the present day site.

In 1888, the State Normal School graduated four of its inaugural class. At the end of its first year, under new leadership, the school developed programs in theology and other non-teaching disciplines and initiated extension programs and summer institutes that gave students greater access to higher education. The name of the institution changed to State Normal College in 1893. In 1911, the Alabama Legislature authorized the creation of a State Board of Trustees to govern normal schools and voted to change the focus of those state normal schools to educational methodology, which meant that they were required to limit the types of courses normally offered at regional colleges. The name of the institution was changed back to the State Normal School at Troy and its course of study was limited to two years of post-secondary training in teaching methodology. In 1927, after Governor Bibb Graves raised the status of the State's Normal Schools to four-year undergraduate colleges, the school was authorized to grant bachelor of science degrees. The State Normal School at Troy became the State Teachers College in 1929. The College conferred its first degree in 1931. The name of the institution was changed to Troy State College in 1957 and began granting master's degrees at this time. In 1967, the name then changed to Troy State University, and in 1986, the University changed to a Chancellor rather than a President as the head official to reflect the university's development into a multi-centered educational system. The University obtained its first branches initially due to the servicing of military students. Military residence centers opened at Fort Rucker in Dothan in 1961, at Maxwell Air Force Base in Montgomery in 1965, and Phenix City, near Fort Benning, in the mid-1970's. August 1, 2005, the name was changed to Troy University, signaling its expanded mission and programs. In its first year, the Normal School had four faculty members and 128 students. However, in 2007, enrollment at Troy University exceeded 27,000.

The University has evolved from a training school for teachers into a global institution providing education in 16 states and 11 countries. These sites outside of Alabama are under the supervision and control of the Troy Global Campus division. It includes almost sixty sites throughout the U. S. and abroad and also administers Troy's on-line (eCampus) courses.

Until 1967, the University was controlled by the State Board of Education. However, at that time, Governor Lurleen B. Wallace appointed an eight member Board of Trustees to govern the institution, and this remains to be the present controlling body. In 1968, the Board of Trustees authorized the establishment of the Troy University Foundation, which is a private, non-profit entity created to attract private support for the institution. This Foundation is governed by a board of directors and seeks to gain financial support from private sources to supplement legislative funds, students' fees, and federal grants.

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*Schedule of State Compliance  
and Other Findings*

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***Schedule of State Compliance and Other Findings***  
***For the Year Ended September 30, 2010***

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Ref. No.	Finding/Noncompliance
2010-01	<p><b><u>Finding:</u></b></p> <p>The <i>Code of Alabama 1975</i>, Section 39-2-2 requires awarding authorities to advertise for sealed bids before entering into any contract for a public works involving an amount in excess of fifty thousand dollars (\$50,000). The Attorney General has opined on several occasions that under certain circumstances, changes to an awarded contract are allowable without being rebid. Specifically, in Opinion Number 79-313, the Attorney General set out the types of change orders to be allowed on public works projects as follows:</p> <ol style="list-style-type: none"><li>1. Minor changes for a total monetary value less than required for competitive bidding;</li><li>2. Changes for matters relatively minor and incidental to the original contract necessitated by unforeseeable circumstances arising during the course of the work;</li><li>3. Emergencies arising during the course of the work on the contract;</li><li>4. Changes or alternates provided for in the original bidding where there is no difference in the price of the change order from the original best bid on the alternate;</li><li>5. Changes of relatively minor items not contemplated when the plans and specifications were prepared and the project was bid which are in the public interest and which do not exceed 10% of the contract price.</li></ol> <p>The opinion also required that a signed statement from the architect be attached to each change order containing the following:</p> <ol style="list-style-type: none"><li>1. A statement of what the change order covers and who instituted the change order and why it is necessary or desired;</li><li>2. There must be a statement stating the reasons for using the change order method rather than competitive bids;</li><li>3. There must be a statement that all prices have been reviewed and found reasonable, fair and equitable and recommending approval of the same;</li><li>4. The local owner shall either endorse the architects statement and recommendations or submit a separate statement covering the foregoing items.</li></ol>

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***Schedule of State Compliance and Other Findings***  
***For the Year Ended September 30, 2010***

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Ref. No.	Finding/Noncompliance
	<p><b><u>Finding Continued:</u></b></p> <p>Bid specifications for the Fraternity Village Construction Project required contractors to include \$170,000.00 in their bids to cover unforeseen conditions or minor changes that are necessary to correct or supplement the work as detailed in the contract documents as an Owners Contingency. According to the specifications, the \$170,000.00 would be removed from the contract with a deductive change order if not used. The Fraternity Village project was awarded to a General Contractor for \$7,957,000.00 and included the \$170,000.00 Owners Contingency. From September 29, 2009 to August 15, 2010 specification changes were made that decreased the cost for various phases of the project by \$151,705.00. Instead of being treated as deductive change orders, the \$151,705.00 was added to the Owners Contingency, bringing the total available for contingencies to \$321,705.00. By August 15, 2010, \$320,630.00 had been paid to the General Contractor out of the Contingency.</p> <p>Three change orders were used to add \$300,582.90 to the contract. Change order number three included \$122,277.00 for landscaping to be done by a subcontractor plus an additional 15% markup for the General Contractor. Taking into consideration the markup, the total for the landscaping was \$140,618.60. Landscaping for this particular type of construction contract did not appear to be either an emergency or unforeseeable and the cost exceeded the amount required for competitive bidding. None of the change orders reviewed included a signed statement from the architect as required by Attorney General Opinion Number 79-313.</p> <p><b><u>Recommendation:</u></b></p> <p>The University should comply with the Public Works Law and ensure change orders follow guidelines developed by the Office of the Attorney General.</p>

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*Independent Auditor's Report*

## *Independent Auditor's Report*

We have audited the accompanying basic financial statements of Troy University, a component unit of the State of Alabama, as of and for the year ended September 30, 2010, as listed in the table of contents as Exhibits 1 through 3. These financial statements are the responsibility of Troy University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of Troy University Foundation, a component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Troy University Foundation, is based on the report of other auditors.

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 basic financial statements are free of material misstatement. The financial statements of Troy University Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Troy University, as of September 30, 2010, and the Troy University Foundation as of September 30, 2009 and 2010, and the respective changes in financial position, including cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2011 on our consideration of Troy University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Troy University, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 6) 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

July 5, 2011

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*Management's Discussion and Analysis*  
*(Required Supplementary Information)*



## Management's Discussion and Analysis

### INTRODUCTION

The following discussion and analysis provides an overview of the financial position of Troy University ("TROY" or "the University") at September 30, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Troy University, a public institution of higher education with nearly 30,000 students headquartered in Troy, Alabama, operates four campuses in Alabama and more than 60 sites around the world. TROY has long been a provider of quality undergraduate and graduate learning, and in 2009, our offerings expanded to include a Doctorate in Nursing Practice. Long a leader in distance education, its eCampus provides on-line undergraduate and graduate-level courses. The University has a strong affiliation with the military which began in Fort Rucker, Alabama in 1950.

### NOTABLE RECOGNITIONS AND NATIONAL RANKINGS

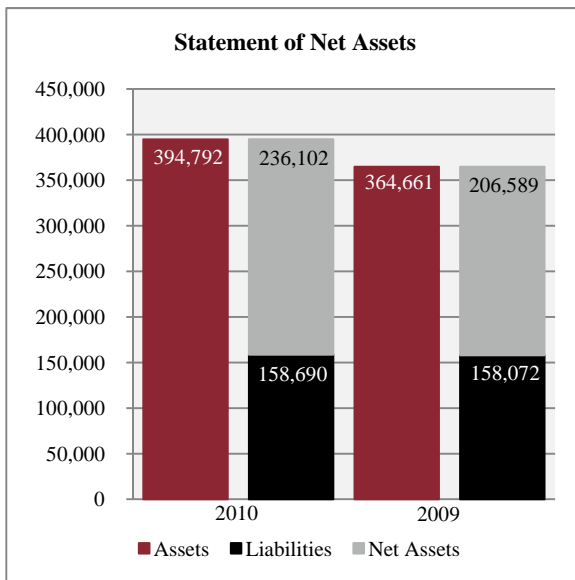
Troy University is committed to academic excellence and service to students. Recent highlights focusing on academic achievements include:

- In 2010, TROY received an overall rank of 237 of the 600 colleges surveyed by Forbes Magazine in their annual college and university survey, making it the only institution in Alabama – public or private – ranked in the top 250. TROY was ranked as the leading public institution of higher education in the state of Alabama. The survey, conducted jointly with the Center for College Affordability and Productivity, based its rankings on student evaluations, graduates' success, student debt loads, and graduation rates. TROY was also ranked 16<sup>th</sup> in the nation on the Forbes "America's Best College Buys" list.
- Also in 2010, TROY was named among the best in the southeastern United States by The Princeton Review. The designation marks the sixth year in a row TROY has been named to the list that includes only 640 colleges and universities nationwide and 141 colleges and universities in the Southeast.
- TROY was ranked in the top 15 percent of all universities, colleges, community colleges and trade schools in the country in terms of being "military friendly" by GIJobs.com.

- Troy University was named one of the top 50 universities in the country in terms of serving military students by Military Times EDGE. The ranking also placed Troy as the top “Best for Vets” university in the state of Alabama, and the only public institution in the state to make the top 100 list. The "Best for Vets: 2010" ranking invited more than 4,000 colleges and universities to respond to a survey on their programs, policies and resources for veterans. The responses were evaluated on four criteria, including financial assistance, academic flexibility, campus culture, and support services for veterans. The survey included public universities and both profit and non-profit private universities and colleges.

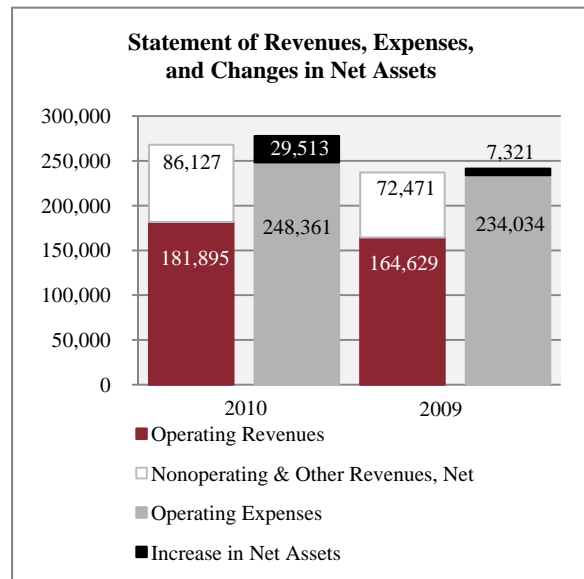
## FINANCIAL HIGHLIGHTS

The University’s financial position at September 30, 2010 was impacted by the global economic downturn as the State’s revenues were well below budgeted levels. Higher education was not immune to the national economic crisis, and the University initiated budget reductions, hiring freezes, and other measures to address shortages in resources. The University’s proactive stance helped to mitigate the impact of financial shortfalls from proration and reduced state funding. The University’s total assets were \$394.8 million at September 30, 2010. Net assets, which represent the residual interest in the University’s assets after deducting liabilities, were \$236.1 million at September 30, 2010. A comparison of total assets, liabilities, and net assets as September 30, 2010 and September 30, 2009 are illustrated in the first chart below.



operating, nonoperating, and other changes in net assets. A comparison of the changes in net assets at September 30, 2010 and September 30, 2009 is shown in the second chart below.

The University’s net assets increased by \$29.5 million in fiscal year 2010 as a result of



## USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

### STATEMENTS OF NET ASSETS

The statements of net assets present the University's financial position at the end of each fiscal year and include all assets and liabilities. The difference between total assets and total liabilities — net assets — is one indicator of current financial condition of the University, while the change in net assets is an indication of whether the overall financial condition has improved or worsened during the year. A comparison of the University's assets, liabilities, and net assets as of September 30, 2010 and 2009 is summarized below.

<b>Condensed Statements of Net Assets</b>		
<i>(in thousands)</i>	2010	2009
<b>Assets:</b>		
<b>Current Assets</b>	\$128,835	\$ 108,128
<b>Noncurrent Assets:</b>		
<b>Capital Assets, Net</b>	166,703	144,042
<b>Other</b>	99,254	112,490
<b>Total Assets</b>	394,792	364,660
<b>Liabilities:</b>		
<b>Current Liabilities</b>	55,092	50,934
<b>Noncurrent Liabilities</b>	103,598	107,137
<b>Total Liabilities</b>	158,690	158,071
<b>Net Assets:</b>		
<b>Invested in Capital Assets, Net</b>	93,127	84,245
<b>Restricted – Expendable</b>	3,679	9,426
<b>Restricted – Nonexpendable</b>	120	120
<b>Unrestricted</b>	139,176	112,798
<b>Total Net Assets</b>	\$236,102	\$206,589

Troy continues to maintain and protect its strong financial foundation. This financial health, as reflected in the statements of net assets at September 30, 2010 and 2009, is a result of prudent utilization of financial resources including careful cost controls, conservative utilization of debt, and adherence to a long-range capital plan for the maintenance and replacement of the physical plant.

### ***CURRENT ASSETS***

Current assets consist of cash and cash equivalents, short-term investments, net student accounts receivable, net accounts receivable, deposits with trustees, and prepaid expenses. Total current assets increased \$20.71 million to \$128.8 million as of September 30, 2010 primarily due to increases in cash and cash equivalents.

### ***CAPITAL ASSETS***

One of the critical factors in continuing the quality of the University's academic programs is the development and renewal of capital assets. The University continues to implement its long-range plan to modernize its complement of older facilities, along with balanced investment in new construction.

Capital asset additions primarily represent replacement, renovation, and new construction of academic, administrative, and athletic facilities, as well as significant investments in equipment, including information technology.

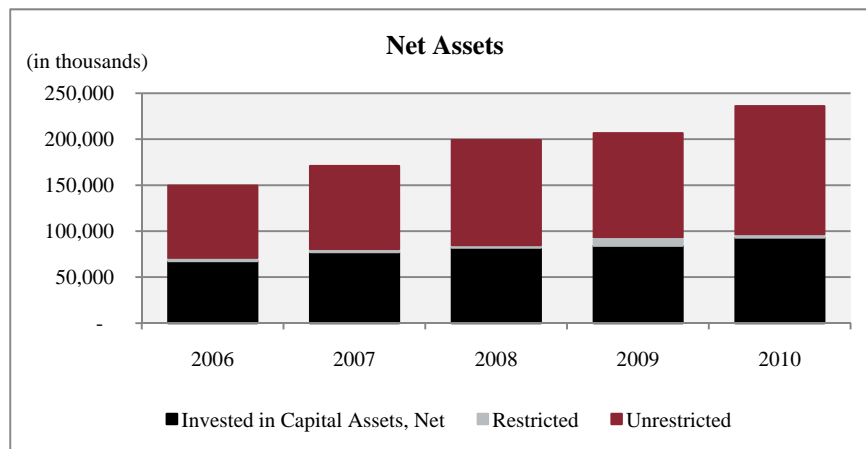
Capital asset additions totaled \$28.2 million in 2010, as compared to \$11.8 million in 2009. Current year capital asset additions were primarily funded with reserves for renewal and replacement, debt proceeds, and capital grants and contracts.

Construction in progress, which totaled \$26.7 million at September 30, 2010 and \$4 million at September 30, 2009, includes construction and renovation of facilities for instruction, athletics and student residential life.

### ***CURRENT LIABILITIES***

Current liabilities consist primarily of accounts payable, accrued compensation, deferred revenue, and the current portion of bonds payable and compensated absences. The majority of accounts payable and accrued liabilities represent amounts owed for salaries and wages, benefits, and supplies and services.

Deferred revenue consists primarily of 2011 tuition and dormitory revenues for the portion of fall



semester that occurs after September 30, 2010. Current liabilities totaled \$55.1 million in 2010 compared to \$50.9 million in 2009, an increase of \$4.2 million resulting primarily from the increase in deferred revenue and the current portion of bonds payable.

### ***NONCURRENT LIABILITIES***

The University takes its financial stewardship responsibility seriously and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. During fiscal year 2010, noncurrent liabilities decreased by \$3.5 million primarily as a result of the payment of annual debt service.

The University’s outstanding debt obligations are summarized as follows:

<b>Long-term Debt Obligations</b>		
<i>(in thousands)</i>	2010	2009
<b>Bonds Payable</b>	\$102,880	\$105,515
<b>Capital Leases Payable</b>	29	56
	\$102,909	\$105,571

### ***NET ASSETS***

Net assets represent the residual interest in the University’s assets after liabilities are deducted. Net assets are divided into three major categories. The first category, invested in capital assets, net, provides the University’s equity in capital assets. The second category is restricted net assets which are divided into expendable and nonexpendable. The corpus of nonexpendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships and fellowships. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The last category, unrestricted net assets, discloses the net assets available to the University for any lawful purpose. Substantially all of the University’s unrestricted net assets are designated for deferred maintenance programs.

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statements of revenues, expenses and changes in net assets present the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are considered nonoperating revenue because they are provided by the Legislature to the University without the Legislature receiving commensurate goods and services in return. As noted below, without the nonoperating revenues, in particular the state appropriations, the University would not be able to cover its costs of operations. These sources are critical to the University's financial stability and directly impact the quality of its programs.

A summary of the University's revenues, expenses and changes in net assets is shown in the table at the bottom of the page.

One of the University's strengths is the diverse streams of revenue that supplement its student tuition and fees, including private support from foundations and corporations, along with government and other sponsored programs, state appropriations, and investment income.

The University continues to aggressively seek funding from all possible sources consistent with its mission in order to supplement student tuition and prudently manage the financial resources realized from these efforts to fund its operating activities.

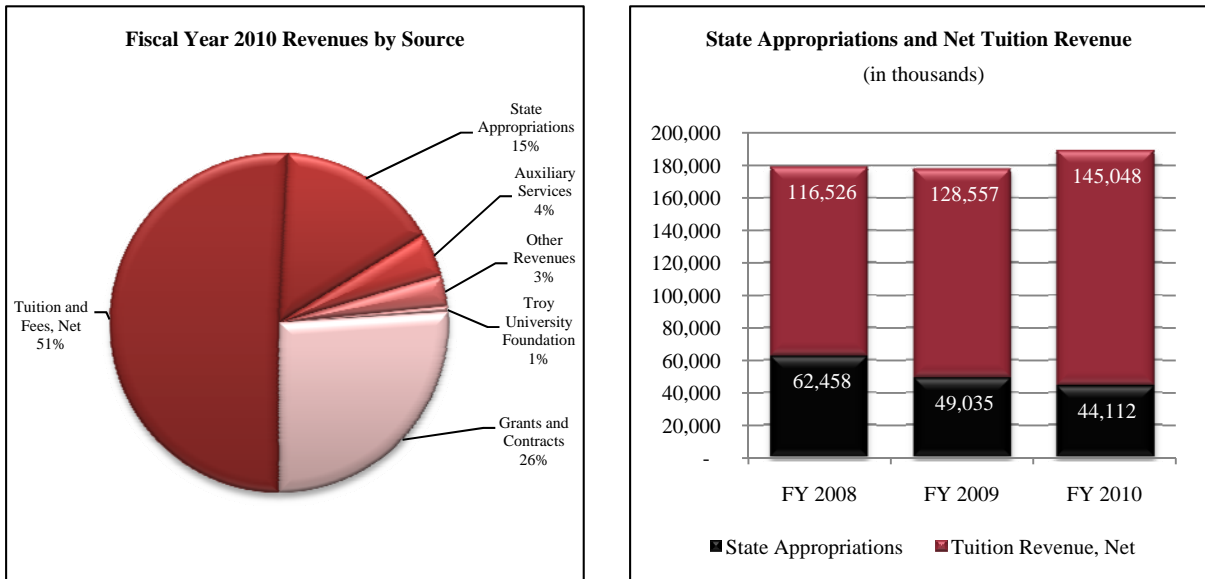
<b>Condensed Statements of Revenues, Expenses, and Changes in Net Assets</b>		
<i>(in thousands)</i>	2010	2009
Operating Revenues:		
Student Tuition and Fees, Net	\$145,048	\$128,557
Grants and Contracts	17,211	17,667
Auxiliary Sales and Services, Net	11,962	11,723
Other	7,674	6,682
Total Operating Revenues	181,895	164,629
Operating Expenses	248,360	234,034
Operating Loss	(66,465)	(69,405)
Nonoperating Revenues (Expenses) and Other Changes in Net Assets	95,978	76,726
Increase in Net Assets	29,513	7,321
Net Assets:		
Beginning of Year	206,589	199,268
End of Year	\$236,102	\$206,589

The pie chart below is an illustration of revenues by source for the year ended September 30, 2010. Net tuition and fees and state appropriations are the primary sources of funding for the University's academic programs. Because of this fact, there is a direct relationship between the level of state support and the University's ability to control tuition and fee increases.

The State of Alabama is experiencing decreasing tax revenue collections, which puts pressure on the state budget. As a result, the University is experiencing significant cuts in our state appropriation levels.

In fiscal year 2010, the base appropriation enacted by the State was further reduced by 9.5 percent resulting in \$4.6 million less in state funding than anticipated. Due to continued volatility in the state budget, the University has the expectation that state appropriations will be further reduced for fiscal year 2011.

The University must offset reductions in state appropriations with increases in tuition and fee revenue. Net tuition and fee revenue increased 12.8 percent, or \$16.5 million, to \$145 million in 2010 as compared to \$128.6 million in 2009. This relationship is illustrated below.



In 2010, tuition rates for the Alabama campuses increased 12 percent for undergraduate and graduate students. In 2009, tuition rates for the Alabama campuses increased 9 percent and 10 percent, respectively, for undergraduate and graduate students.

Despite constrained base state appropriations, the University's tuition increases have been relatively low in the state, which reflects a commitment to affordable higher education for Alabama families. At the same time, the University has also increased scholarship allowances and scholarship and fellowship expenses to benefit students in financial need.

The University receives revenues for sponsored programs from various government agencies and private sources, which sometimes provide for both direct and indirect costs to perform the sponsored activities. Revenues for sponsored programs remain steady with \$17.2 million collected as of September 30, 2010 compared with \$17.7 as of September 30, 2009.

In addition to revenue diversification, the University continues to make cost containment an ongoing priority. This is necessary as the University continues to face significant financial pressures, particularly in the areas of compensation and benefits, which represent 54 percent of total operating expenses, as well as in the areas of energy, technology and ongoing maintenance of facilities and infrastructure.

The University is committed to recruiting and retaining outstanding faculty and staff. The resources expended for compensation and benefits increased 4.5 percent, or \$5.7 million, to \$134.4 million in 2010, as compared to \$128.7 million in 2009. Health care and retirement benefits are the most significant employee benefits paid by the University.

Supplies and other services decreased by \$4.4 million in fiscal year 2010. Depreciation expense increased \$30,516 in 2010 from 2009. Scholarship and fellowship expense increased \$13 million in 2010 from 2009, primarily due to increased tuition revenue and federal student aid.

Details of operating expenses by natural and functional classifications are as follows:

Operating Expenses by Natural Classification		
<i>(in thousands)</i>	2010	2009
Compensation and Benefits	\$134,440	\$128,706
Supplies and Services	64,753	69,185
Depreciation	5,524	5,493
Scholarships and Fellowships, Net	43,644	30,650
Total	\$248,361	\$234,034

Operating Expenses by Functional Classification		
<i>(in thousands)</i>	2010	2009
Instruction	\$ 77,019	\$ 66,373
Research	127	190
Public Service	12,584	10,045
Academic Support	14,010	30,372
Student Services	18,387	17,749
Institutional Support	56,095	50,231
Operation & Maintenance of Plant	13,645	14,363
Depreciation	5,524	5,493
Scholarships & Fellowships, Net	43,644	30,650
Auxiliary Enterprises	7,326	8,568
Total	\$248,361	\$234,034

## Statements of Cash Flows

The statements of cash flows provide additional information about the University's financial results by reporting the major sources and uses of cash. A comparative summary of the statements of cash flows for the years ended September 30, 2010 and 2009 is shown below.

Condensed Statements of Cash Flows		
<i>(in thousands)</i>	2010	2009
Cash Received from Operations	\$ 181,896	\$ 169,877
Cash Expended for Operations	(243,426)	(226,815)
Net Cash Used in Operating Activities	(61,530)	(56,938)
Net Cash Provided by Non-Capital Financing Activities	91,675	74,507
Net Cash Used by Capital and Related Financing Activities	(10,921)	(12,553)
Net Cash Provided by Investing Activities	692	589
Net Increase in Cash and Cash Equivalents	19,916	5,605
Cash and Cash Equivalents, Beginning of Year	123,491	117,886
Cash and Cash Equivalents, End of Year	\$ 143,407	\$ 123,491

Cash received from operations primarily consists of student tuition, sponsored program grants and contracts, and auxiliary enterprises. Significant sources of cash provided by noncapital financing activities, as defined by GASB, include state appropriations and federal student aid. Cash and cash equivalents increased \$19.9 million in 2010, as compared to an increase of \$5.6 million in 2009.

### Economic Outlook

The University continues to face significant financial challenges to its academic programs stemming from the State's uncertain financial circumstances. Given the continuation of this difficult economic environment, it is especially impressive that the University received upgraded ratings by both Moody's (A1) and Standard & Poor's (A+). Achieving and maintaining high credit ratings provides the University a high degree of flexibility in securing capital funds on the most competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support a level of excellence in service to our students.

A crucial element to the University's future continues to be our relationship with the State of Alabama. Historically, there has been a direct relationship between the growth or reduction of state support and the University's ability to control tuition increases. This is due to the fact that reduced growth in state appropriations generally necessitates increased tuition levels. In adopting the budget for 2010, the University anticipated a 12 percent decrease in state educational appropriations. To support the University's commitment to both academic excellence and accessibility, the University's budget for 2010 includes a moderate increase in tuition rates along with an increased investment in financial aid for undergraduates. Based on state revenue forecasts, the University is also preparing for further declines in state support for higher education in 2011 and beyond.

The University continues to execute its long-range plan to modernize and expand its complement of older facilities while adding new facilities for instruction, administration, and residential life. This strategy addresses the University's growth and the continuing effects of technology on teaching methodologies. While the State continues to support systematic renewal of core academic facilities, economic pressures may also affect the State's future support.

In spite of the economic downturn, the University's future remains bright. With our entrepreneurial spirit to increase externally generated revenues, Troy continues to experience revenue growth in web-based instruction and targeted group instruction (i.e., E-Army University). The growth in these non-traditional methods of instructional delivery and the expanding market for online education will allow the University to continue to grow with less dependency on state funding.



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# *Basic Financial Statements*

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***Statement of Net Assets***  
***September 30, 2010***

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**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 78,306,006.00
Short-Term Investments	388,519.42
Deposit with Bond Trustee	5,164,947.85
Accounts Receivable, Net	43,689,775.04
Inventories	88,929.07
Security Deposits	152,300.00
Loans Receivable	242,568.74
Prepaid Expenses	719,875.32
Bond Issuance Costs	82,315.21
Total Current Assets	<u>128,835,236.65</u>

**Noncurrent Assets**

Cash	65,101,392.94
Endowment Investments	389,465.78
Investments	1,423,517.47
Deposit with Bond Trustee	29,292,898.07
Loans Receivable	2,004,567.83
Bond Issuance Costs	1,042,048.43
Capital Assets:	
Land	8,658,742.19
Improvements Other Than Buildings	14,590,959.20
Buildings	178,338,204.42
Construction in Progress	26,675,723.01
Equipment and Furniture	15,084,358.78
Assets Under Capital Lease	142,260.60
Museum Exhibits	1,685,956.45
Less: Accumulated Depreciation	<u>(78,473,198.41)</u>
Total Capital Assets, Net of Depreciation	<u>166,703,006.24</u>
Total Noncurrent Assets	<u>265,956,896.76</u>
Total Assets	<u>\$ 394,792,133.41</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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**LIABILITIES****Current Liabilities**

Funds Held for Others	\$ 1,748,969.26
Accounts Payable and Accrued Liabilities	11,644,555.51
Deferred Revenue	38,075,733.17
Lease Obligations	18,560.20
Bonds Payable	3,470,000.00
Compensated Absences	133,850.93
Total Current Liabilities	<u>55,091,669.07</u>

**Noncurrent Liabilities**

Funds Held for Others	2,099,038.04
Lease Obligations	10,720.15
Bonds Payable	99,410,000.00
Compensated Absences	2,078,736.35
Total Noncurrent Liabilities	<u>103,598,494.54</u>

Total Liabilities	<u>158,690,163.61</u>
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	93,127,291.71
Restricted for:	
Nonexpendable:	
Capital Contributions	120,000.00
Expendable:	
Scholarships and Fellowships	328,226.77
Instructional Department Uses	3,052,431.77
Loans	298,128.94
Unrestricted	<u>139,175,890.61</u>
Total Net Assets	<u>\$ 236,101,969.80</u>

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***Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended September 30, 2010***

**OPERATING REVENUES**

Student Tuition and Fees (Net of Scholarship Allowances of \$15,167,400.33)	\$ 145,048,017.12
Federal Grants and Contracts	7,226,162.51
State and Local Grants and Contracts	9,605,536.73
Nongovernmental Grants and Contracts	379,108.91
Sales and Services of Educational Departments	7,673,911.43
Auxiliary Enterprises (Net of Scholarship Allowances of \$1,331,170.71)	11,962,652.43
Total Operating Revenues	<u>181,895,389.13</u>

**OPERATING EXPENSES**

Instruction	77,018,907.24
Research	127,292.02
Public Service	12,583,904.18
Institutional Support	56,094,946.85
Academic Support	14,009,308.99
Student Services	18,387,103.49
Operation and Maintenance	13,645,227.47
Scholarships and Financial Aid	43,644,215.30
Depreciation	5,523,584.36
Auxiliary Enterprises	7,326,117.08
Total Operating Expenses	<u>248,360,606.98</u>

Operating Income (Loss) (66,465,217.85)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	44,111,668.00
Federal Grants	43,563,859.00
Federal ARRA Fiscal Stabilization Funds	4,599,282.00
Build America Bond Subsidy	590,881.58
Investment Income	644,497.97
Interest on Capital Asset Related Debt	(6,434,118.68)
Other Nonoperating Revenues/(Expenses)	(948,810.74)
Net Nonoperating Revenues	<u>86,127,259.13</u>
Income Before Other Revenues, Expenses, Gains, or Losses	19,662,041.28
Capital Grants and Contracts	8,284,434.89
Net Assets Transferred from Troy University Foundation	1,566,490.82
Total Other Revenues	<u>9,850,925.71</u>
Changes in Net Assets	29,512,966.99
Total Net Assets - Beginning of Year	206,589,002.81
Total Net Assets - End of Year	<u>\$ 236,101,969.80</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

# ***Statement of Cash Flows***

## ***For the Year Ended September 30, 2010***

### **CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and Fees	\$ 143,977,285.74
Federal Grants and Contracts	7,516,243.09
State and Local Grants and Contracts	10,698,745.16
Nongovernmental Grants and Contracts	71,020.74
Sales and Services of Educational Departments	7,670,601.24
Auxiliary Enterprise Revenue	11,962,652.43
Payments to Employees	(104,693,712.31)
Payments for Benefits	(28,171,879.80)
Payments to Suppliers	(61,062,908.14)
Utilities	(6,046,742.83)
Payments for Scholarships	(43,451,179.83)
Net Cash Provided (Used) by Operating Activities	(61,529,874.51)

### **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	44,111,668.00
Federal Grants	42,731,269.00
Build America Bond Subsidy	590,881.58
Federal ARRA Fiscal Stabilization Funds	4,599,282.00
Direct Loan Receipts	207,426,306.06
Direct Loan Disbursements	(208,114,516.77)
Deposit Held for Others	(489,198.43)
Transfer from Foundation	1,635,644.80
Other Nonoperating Expenditures	(815,665.82)
Net Cash Provided (Used) by Noncapital Financing Activities	91,675,670.42

### **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital Grants and Gifts Received	7,281,415.21
Purchases of Capital Assets	(27,779,763.97)
Deposits with Trustees	17,296,695.91
Principal Paid on Capital Debt	(2,662,158.29)
Interest Paid on Capital Debt	(5,056,841.77)
Net Cash Provided (Used) by Capital and Related Financing Activities	(10,920,652.91)

### **CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	2,245,444.62
Interest on Investments	647,658.90
Purchase of Investments	(2,201,502.67)
Net Cash Provided (Used) by Investing Activities	691,600.85

Net Increase (Decrease) in Cash and Cash Equivalents	19,916,743.85
Cash and Cash Equivalents - Beginning of Year	123,490,655.09
Cash and Cash Equivalents - End of Year	\$ 143,407,398.94

The accompanying Notes to the Financial Statements are an integral part of this statement.

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**Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:**

Operating Income (Loss) \$ (66,465,217.85)

**Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:**

Depreciation Expense 5,523,584.36

Changes in Assets and Liabilities:

(Increase)/Decrease in Receivables, Net (3,570,960.18)

(Increase)/Decrease in Prepaid Expenses 204,535.47

(Increase)/Decrease in Inventory (3,310.19)

Increase/(Decrease) in Accounts Payable (881,245.51)

Increase/(Decrease) in Deferred Revenue 3,575,429.64

Increase/(Decrease) in Compensated Absences 87,309.75

Net Cash Provided (Used) by Operating Activities \$ (61,529,874.51)

***Consolidated Statements of Financial Position***  
***Troy University Foundation***  
***September 30, 2010 and 2009***

	<b>2010</b>	<b>2009</b>
<b><u>ASSETS</u></b>		
Cash and Cash Equivalents	\$ 17,515,335	\$ 16,103,948
Unconditional Promises to Give	1,690,172	1,830,163
Investments	26,929,065	23,995,186
Other Assets	88,328	308,442
Beneficial Interest in Trusts	736,447	746,198
Operating Assets, Net	30,522,995	25,520,110
Debt Issuance Costs	544,757	565,776
Program Cash Held as Agent	1,438,359	1,398,167
<b>TOTAL ASSETS</b>	<b>79,465,458</b>	<b>70,467,990</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts Payable	454,424	215,300
Gift Annuity Liability	113,005	66,606
Capital Lease Obligation	20,879,220	21,272,008
Deferred Revenue	1,669,200	1,155
Escrow Funds Held	232,848	180,128
Obligation to Others	4,614,966	
Reversionary Interest in Land	1,126,603	1,126,603
Funds Held as Agent	1,438,359	1,398,167
Total Liabilities	<b>30,528,625</b>	<b>24,259,967</b>
<b><u>NET ASSETS</u></b>		
Unrestricted	14,183,740	13,587,721
Temporarily Restricted	18,307,416	16,536,069
Permanently Restricted	16,445,677	16,084,233
Total Net Assets	<b>48,936,833</b>	<b>46,208,023</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 79,465,458</b>	<b>\$ 70,467,990</b>

See Independent Auditors' Report and Notes to Consolidated Financial Statements.

***Consolidated Statements of Activities and Changes in Net Assets***  
***Troy University Foundation***  
***For the Years Ended September 30, 2010 and 2009***

	2010	2009
<b><u>SUPPORT AND REVENUE</u></b>		
Contributions	\$ 2,588,015	\$ 2,580,682
Investment Income	2,852,943	1,133,068
Affinity Card Income	247,374	31,564
Special Event Revenue	331,963	779,054
Change in Value of Split Interest		
Agreement and Perpetual Trusts	19,273	(6,177)
Other Income	2,447,025	2,049,010
Transfers from Troy University		549
TOTAL SUPPORT AND REVENUE	<u>8,486,593</u>	<u>6,567,750</u>
<b><u>EXPENSES</u></b>		
Program Services:		
Athletics and Other Grants	621,623	629,449
Supporting Services:		
Management and General	2,848,251	2,686,585
Transfers to Troy University	2,287,909	2,618,671
TOTAL EXPENSES	<u>5,757,783</u>	<u>5,934,705</u>
Change in Net Assets*	2,728,810	633,045
Net Assets, Beginning of Year	46,208,023	45,574,978
Net Assets, End of Year	<u>48,936,833</u>	<u>46,208,023</u>
Change in Net Assets*		
Unrestricted	120,601	(127,837)
Temporarily Restricted	2,249,703	488,713
Permanently Restricted	358,506	272,169
TOTAL CHANGES IN NET ASSETS	<u>\$ 2,728,810</u>	<u>\$ 633,045</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### **Note 1 – Summary of Significant Accounting Policies**

The financial statements of Troy University are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the University are described below.

#### **A. Reporting Entity**

Troy University is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement Number 14, “The Financial Reporting Entity,” states that a primary government is financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama and the Governor appoints Troy University’s Board of Trustees. In addition, the University receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, Troy University is considered for financial reporting purposes to be a component unit of the State of Alabama.

#### **B. Component Unit**

The Troy University Foundation (the “Foundation”) is organized exclusively for charitable, scientific and educational purposes for the benefit of the University. Because of the significance of the relationship between the University and the Foundation, the Foundation is considered a component unit of the University. The Foundation’s financial statements are reported separately because of the difference in the reporting model for the Foundation. The Foundation follows the Financial Accounting Standards Board (FASB) rather than the Governmental Accounting Standards Board (GASB). As a result, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial statements for these differences. Disclosures relating to significant transactions and balances between the Foundation and the University are included in these notes. Complete financial statements for the foundation can be obtained from the Senior Vice-Chancellor for Finance and Business Affairs Office at 241 Adams Administration Building, Troy, Alabama 36082.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of Troy University have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The University follows all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

It is the policy of the University to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted net assets are available.

The Statement of Revenues, Expenses and Changes in Net Assets distinguishes between operating and nonoperating revenues. Operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the University. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the University's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations.

#### **D. Assets, Liabilities, and Net Assets**

##### **1. Deposits and Investments**

Cash and cash equivalents include cash on hand and demand deposits.

Statutes authorize the University to invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof or of the United States of America that meet specified criteria.

Investments are reported at fair value based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### 2. Receivables

Accounts receivable relate to amounts due from students for tuition and fees, federal grants, third party tuition, and auxiliary enterprise sales such as food service and residence halls. The receivables are shown net of allowance for doubtful accounts.

#### 3. Inventories

The inventories are comprised of items held for resale. Inventories are valued using the first in/first out (FIFO) method.

#### 4. Capital Assets

Capital assets with a unit cost of over \$5,000 and an estimated useful life in excess of one year, are recorded at historical cost or estimated historical cost if purchased or constructed. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land and Construction in Progress are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon the sale or retirement of fixed assets being depreciated using the straight-line method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

The method of depreciation used by the University is the straight-line basis. Equipment items except for vehicles are being depreciated over four years. Vehicles are depreciated over eight years. Museum exhibits are depreciated over 40 years. Buildings are depreciated over forty years. Improvements involving computers are depreciated over four years. Signs and buildings of non-permanent nature are depreciated over twenty years. Other building improvements that involve landscaping items are depreciated over forty years.

The University evaluates impairment in accordance with GASB Statement Number 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the year ended September 30, 2010, no impairments were recorded.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### **5. Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

#### **6. Compensated Absences**

The Board of Trustees determines annual and sick leave policies for the University's employees. The annual and sick leave policies adopted by the University are as follows:

All employees earn 12 days of annual leave each year with accumulation limited to 20 days. Classified employees (non-instructional and other bi-weekly payroll employees) earn 12 days of sick leave each year with no limit on accumulation and ten days of annual leave each year with accumulation limited to 20 days.

#### **7. Deferred Tuition and Fee Revenue**

Tuition and fee revenues received but related to the period after September 30, 2010 have been deferred.

#### **8. Net Assets**

Net assets are required to be classified for accounting and reporting purposes into the following net asset categories:

- ◆ **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
  
- ◆ **Restricted:**
  - ✓ **Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.
  
  - ✓ **Expendable** – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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

#### **9. Federal Financial Assistance Programs**

The University participates in various federal programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U. S. Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Office of Management and Budget (OMB) Compliance Supplement.

#### **10. Scholarship Allowances and Student Aid**

Student tuition and fees are reported net of scholarship allowances and discounts. The amount for scholarship allowances and discounts is the difference between the stated charge for goods and services provided by the University and the amount that is paid by the student and/or third parties making payments on behalf of the student. The University uses the alternate method as prescribed by the National Association of College and University Business Officers (NACUBO) in their Advisory Report 2000-05 to determine the amount of scholarship allowances and discounts.

#### **Note 2 – Deposits and Investments**

##### **A. Deposits**

The majority of the University's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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The remaining portion of the University's deposits was held by financial institutions in other states. The total bank balance is categorized as follows:

Amount of Funds Held by Financial Institutions Participating in the SAFE Program	\$183,497,848.08
Amount Insured by the FDIC or Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the University's Name	2,418,093.28
Uncollateralized Deposits	2,147.98
Total Bank Balance	<u>\$185,918,089.34</u>

The Statement of Net Assets classification "cash and cash equivalents" includes all readily available cash such as petty cash and demand deposits.

**B. Investments**

Investments, as shown on the Statement of Net Assets, include non-negotiable certificates of deposit in the amount of \$1,413,486.29; however, they are considered deposits in the context of this disclosure and are not subject to risk categorization.

The University's formally adopted investment policy is as follows:

Because of the diverse nature of the funds coming under the management and control of the Board and the corresponding operational needs of the University, the policies and practices hereinafter set forth necessarily separate funds into two investment categories; these are Operational Investments consisting of relatively short-term investments and Permanent Investments consisting of relatively longer term investments.

The Chancellor or his designee shall be responsible for the direct investment and administration of Operational Investments; however, such investments shall be limited to the following marketable securities:

- A. Direct obligations of the United States of America of obligations unconditionally guaranteed as to the principal and interest by the United States of America.
- B. Obligations of any agency or instrumentality of the United States of America.
- C. Repurchase agreements secured by the U. S. Government and Agency obligations.
- D. Shares in externally managed money-market funds, specifically approved by the Board.
- E. Certificates of deposit with commercial banks secured as required and approved as depositories by the Board.

The maturity range of Operational Investments shall be consistent with liquidity requirements of the funds in this category. However, funds established under certain debt instruments, may be invested in accordance with the applicable criteria.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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The Chancellor or his designee shall be responsible for the direct investment and administration of the several categories of Permanent Investments; however unless otherwise restricted by the donor, such investments shall be limited to the same marketable securities allowable for Operational Investments.

All funds are to be invested in accordance with the above criteria unless there are specific restrictions placed on individual investments by external donors. In such cases these funds shall be separately invested in accordance with the restrictions set forth by the donor.

As of September 30, 2010, the University had the following investments.

Investment Type	Fair Value	1 – 5	6 – 10	11 – 15	16 – 20	No Maturity
Mutual Funds	\$389,465.78	\$	\$	\$	\$	\$389,465.78
Stocks	398,550.60					398,550.60
Total	<u>\$788,016.38</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$788,016.38</u>

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

*Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The University does not have a formal investment policy that limits its investments to a particular rating.

*Custodial Credit Risk* – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The University has no formal policy that limits the amount of securities that can be held by counterparties.

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University did not have a formal investment policy which limited investment in any one issuer to less than 5%. At September 30, 2010, the University's investment in SunLife Corporation Stock constituted 50.6% of the University's investment portfolio.

*Foreign Currency Risk* – The risk that changes in exchange rates will adversely affect the fair value of an investment. Exposure to foreign currency risk was limited to investment in SunLife Corporation Stock in the amount of \$398,550.60.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**For the University Trustee that Holds Bond Funds**

At September 30, 2010, the University had \$34,457,845.92 in accounts administered by its bond trustee. In accordance with the covenants of the University's Revenue Bonds, the trustee is permitted to invest these funds in direct general obligations of the United States or securities the payment of which is unconditionally guaranteed by the United States.

The balance on deposit with the trustee at September 30, 2010, was invested in the trustee's Treasury Money Market Fund (the "Fund"), an external investment pool. The Fund's investments consist primarily of U. S. Treasury obligations.

The Fund is consistently rated AAA by Standard & Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Fund maintains an average of 60 days or less.

**Note 3 – Receivables**

Receivables are reported net of uncollectible amounts and are summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$ 3,756,347.00
State and Local	3,027,064.25
Troy University Foundation	311,756.16
Third Party	13,924,168.49
Other	3,860.96
Less: Allowance for Doubtful Accounts	<u>(3,418,660.98)</u>
Total Accounts Receivable	<u>17,604,535.88</u>
<u>Student Receivables:</u>	
Current	39,414,259.37
Less: Allowance for Doubtful Accounts	<u>(13,329,020.21)</u>
Total Student Receivables	<u>26,085,239.16</u>
Total Receivables	<u>\$ 43,689,775.04</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### **Note 4 – Capital Assets**

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Deductions	Reclassification/ Adjustments	Ending Balance
Land	\$ 7,050,280.34	\$ 1,608,461.85	\$	\$	\$ 8,658,742.19
Improvements Other Than Buildings	13,564,719.75	748,166.05		278,073.40	14,590,959.20
Buildings	177,198,996.57	784,080.41		355,127.44	178,338,204.42
Equipment	13,332,922.66	1,775,394.04	63,035.92	39,078.00	15,084,358.78
Capital Leases	234,023.60		52,685.00	(39,078.00)	142,260.60
Museum Exhibits	1,685,956.45				1,685,956.45
Construction in Progress	3,987,703.22	23,321,220.63		(633,200.84)	26,675,723.01
Total	<u>217,054,602.59</u>	<u>28,237,322.98</u>	<u>115,720.92</u>		<u>245,176,204.65</u>
Less: Accumulated Depreciation					
Improvements Other Than Buildings	2,113,201.91	441,362.32			2,554,564.23
Buildings	60,117,031.48	3,911,787.93			64,028,819.41
Equipment	10,382,001.90	1,128,285.20	63,035.92		11,447,251.18
Museum Exhibits	400,414.68	42,148.91			442,563.59
Total Accumulated Depreciation	<u>73,012,649.97</u>	<u>5,523,584.36</u>	<u>63,035.92</u>		<u>78,473,198.41</u>
Capital Assets, Net	<u>\$144,041,952.62</u>	<u>\$22,713,738.62</u>	<u>\$ 52,685.00</u>	<u>\$</u>	<u>\$166,703,006.24</u>

#### **Note 5 – Defined Benefit Pension Plan**

##### **A. Plan Description**

The University 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 Troy University are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the University. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members, in addition to \$15,000.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

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

#### **B. Funding Policy**

Employees, with the exception of full-time law enforcement officers, are required by statute to contribute 5 percent of their salary to the Teachers' Retirement System. As of January 1, 2001, full-time law enforcement officers (as defined by Act Number 2000-669, Acts of Alabama, page 1335) are required by statute to contribute 6 percent of their salary to the Teachers' Retirement System. Troy University is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the 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 Troy University and its employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2010	2009	2008
Total Percentage of Covered Payroll	17.51%	17.07%	16.75%
<b>Contributions:</b>			
Percentage Contributed by Troy University	12.51%	12.07%	11.75%
Percentage Contributed by Employees	5.00%	5.00%	5.00%
Contributed by Troy University	\$10,937,725.94	\$ 9,890,689.18	\$ 9,015,161.82
Contributed by Employees	4,377,919.92	4,111,917.28	3,841,242.06
Total Contributions	<u>\$15,315,645.86</u>	<u>\$14,002,606.46</u>	<u>\$12,856,403.88</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### **Note 6 – Other Postemployment Benefits (OPEB)**

##### **A. Plan Description**

The University contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *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. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab. The provisions of GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* were implemented prospectively.

##### **B. Funding Policy**

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 255, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year 2010
Individual Coverage – Non-Medicare Eligible	\$ 97.54
Individual Coverage – Medicare Eligible	\$ 1.14
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$284.94
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$188.54
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$188.54
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 92.14
Surviving Spouse – Non-Medicare Eligible	\$598.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$730.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$689.00
Surviving Spouse – Medicare Eligible	\$313.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$445.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$404.00

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. The tobacco surcharge is \$25.00 per month for retired members that smoke.

The University pays premiums for retired employee's health insurance. The following shows the required contributions in dollars and the percentage of that amount contributed for retirees:

Fiscal Year Ended September 30,	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2010	\$2,122,774.00	100%
2009	\$2,094,888.00	100%
2008	\$1,988,773.00	100%

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

**Note 7 – Additional Benefit Plans**

**A. Supplemental Retirement**

Regular full-time employees who have completed one year of continuous service are eligible for an optional supplemental retirement program, the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) or Lincoln National. Retirement payments under the plan are obligations of the provider and not the University. Employees of the University who were hired before September 1, 1991, and earn less than \$60,535.00 annually may contribute five or more percent of their salary annually, not to exceed Internal Revenue Service limits, and receive a 5% match by the University. Employees hired on September 1, 1991, or later would be provided matching contributions of up to three percent on a maximum of \$18,000.00 of annual salary. The maximum dollar benefit would be \$540.00 per year. New employees can enroll after one year of employment without regard to age. Grandfathered employees may also choose this plan or remain with the previously described plan.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**B. Self-Insured Health Insurance Program**

The University self-insures its health insurance program for all eligible current employees. Underwriters assist in the calculation of employee premium rates based on claim history and market trends. The University has a Stop Loss policy to cover costs up to \$825,000.00 per participant after meeting a \$175,000.00 deductible. Claims are processed and paid by an outside servicer. The contributions made by Troy University and its employees and the associated costs for the year ended September 30, 2010 were as follows:

	2010
Employee Contribution	\$2,429,148.34
Employer Contribution	6,770,502.24
Total Program Costs	<u>\$9,199,650.58</u>

**C. Life Insurance**

Employees of the University, who were hired before September 1, 1991, are eligible for life insurance provided by the University. There are four options the employee could choose based on their classification and co-pay arrangement. The University will pay up to \$0.55 per \$1,000 up to 100% of the premium for active employees or retirees. Troy University collects the co-pay from employees annually. Amounts remitted in fiscal years 2010 and 2009 were \$462,970.25 and \$471,841.91, respectively.

**Note 8 – Accounts Payable**

Accounts payable and accrued liabilities represent amounts due at September 30, 2010, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$ 3,210,564.51
Benefits	2,322,214.12
Supplies	3,840,793.74
Sales and Other Taxes	96,589.75
Due to Grantor	12,570.57
Accrued Interest Payable	2,161,822.82
Total	<u>\$11,644,555.51</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**Note 9 – Lease Obligations**

**Capital Leases**

The University is acquiring equipment under a capital lease agreement, which provides for the University to purchase equipment over a period of years. Minimum lease payments under capital leases together with the present value of the net minimum lease payments are shown in the table below:

Fiscal Years	Equipment
2010-2011	\$20,491.20
2011-2012	10,052.16
Minimum Lease Payments	30,543.36
Less: Amounts Representing Interest	1,263.01
Present Value of Net Minimum Lease Payments	<u>\$29,280.35</u>

**Operating Leases**

The University engaged in a joint venture with Troy University Housing, LLC to build an apartment-dorm complex for Troy campus students in fiscal year 2006. The University sought to use “off balance sheet” financing in order to keep the asset and debt off the accounting records of the University and to complete the project quickly. The City of Troy assisted in incorporating the Troy Public Educational Bond Authority which issued bonds to fund the joint venture. Troy University advertised land for sale as the prospective site for the apartment complex. The land sale was advertised as required by Section 9-15-75 of the Code of Alabama Land Sale Act. An auction was held August 3, 2006 at the University’s attorney’s office. Attending the land sale were two University employees and the University’s attorney. The land was acquired by Troy University Housing, LLC. Troy University’s Vice-Chancellor for Financial Affairs serving as President for Troy University Housing, LLC, submitted a bid on the land in the amount of \$600,000 at the public auction. The total received for the land was deposited into a prepaid rental account to offset the University’s rental payments.

The University entered into a thirty-year annually renewable operating lease for a new dormitory complex on the Troy campus with Troy University Housing, LLC. Operating leases do not give rise to property rights.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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The following is a schedule by fiscal year of future minimum rental payments required under the aforementioned operating lease for the dormitory complex that has a remaining cancelable lease term in excess of thirty years as of September 30, 2010:

Fiscal Year	Principal	Interest	Total
2010-2011	\$ 425,000.00	\$ 966,817.50	\$ 1,391,817.50
2011-2012	440,000.00	951,100.00	1,391,100.00
2012-2013	460,000.00	933,500.00	1,393,500.00
2013-2014	475,000.00	916,250.00	1,391,250.00
2014-2015	495,000.00	896,062.50	1,391,062.50
2015-2016	520,000.00	871,312.50	1,391,312.50
2016-2017	545,000.00	845,312.50	1,390,312.50
2017-2018	570,000.00	822,512.50	1,392,512.50
2018-2019	595,000.00	799,712.50	1,394,712.50
2019-2020	615,000.00	775,317.50	1,390,317.50
2020-2021	645,000.00	749,795.00	1,394,795.00
2021-2022	670,000.00	722,705.00	1,392,705.00
2022-2023	700,000.00	694,230.00	1,394,230.00
2023-2024	730,000.00	664,130.00	1,394,130.00
2024-2025	760,000.00	632,740.00	1,392,740.00
2025-2026	795,000.00	598,450.00	1,393,450.00
2026-2027	835,000.00	558,700.00	1,393,700.00
2027-2028	875,000.00	516,950.00	1,391,950.00
2028-2029	920,000.00	473,200.00	1,393,200.00
2029-2030	965,000.00	427,200.00	1,392,200.00
2030-2031	1,015,000.00	378,950.00	1,393,950.00
2031-2032	1,065,000.00	328,200.00	1,393,200.00
2032-2033	1,115,000.00	274,950.00	1,389,950.00
2033-2034	1,170,000.00	224,775.00	1,394,775.00
2034-2035	1,220,000.00	172,125.00	1,392,125.00
2035-2036	1,275,000.00	117,225.00	1,392,225.00
2036-2037	1,330,000.00	59,850.00	1,389,850.00
<b>Total Minimum Payments Required</b>	<b>\$21,225,000.00</b>	<b>\$16,372,072.50</b>	<b>\$37,597,072.50</b>

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2010**

**Note 10 – Long-Term Liabilities**

Long-term liabilities activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Leases and Bonds Payable:</b>					
Lease Obligations	\$ 56,438.64	\$	\$ 27,158.29	\$ 29,280.35	\$ 18,560.20
Revenue Bonds	105,515,000.00		2,635,000.00	102,880,000.00	3,470,000.00
Total Leases and Bonds	105,571,438.64		2,662,158.29	102,909,280.35	3,488,560.20
<b>Other Liabilities</b>					
Compensated Absences	2,125,277.53	87,309.75		2,212,587.28	133,850.93
Total Long-Term Liabilities	\$107,696,716.17	\$87,309.75	\$2,662,158.29	\$105,121,867.63	\$3,622,411.13

The Revenue Bonds were issued in 1998, 2001, 2003, 2004, 2005, 2007, and 2009 by the Board of Trustees to provide funds for construction and renovation of various capital projects.

A trustee holds sinking fund deposits, including earnings on investments of these deposits. Revenue from student tuition and fees sufficient to pay annual debt service are pledged to secure the bonds. Principal and interest maturity requirements on bond debt are as follows:

Fiscal Year	Principal	Interest	Total
2010-2011	\$ 3,470,000.00	\$ 5,142,896.66	\$ 8,612,896.66
2011-2012	3,595,000.00	5,018,611.66	8,613,611.66
2012-2013	3,735,000.00	4,876,529.66	8,611,529.66
2013-2014	3,870,000.00	4,732,473.66	8,602,473.66
2014-2015	4,005,000.00	4,587,365.66	8,592,365.66
2015-2016	4,150,000.00	4,427,731.66	8,577,731.66
2016-2017	4,310,000.00	4,252,315.91	8,562,315.91
2017-2018	4,475,000.00	4,059,353.91	8,534,353.91
2018-2019	4,660,000.00	3,848,410.16	8,508,410.16
2019-2020	4,850,000.00	3,622,743.91	8,472,743.91
2020-2021	5,045,000.00	3,364,762.66	8,409,762.66
2021-2022	5,265,000.00	3,081,109.96	8,346,109.96
2022-2023	5,495,000.00	2,786,921.91	8,281,921.91
2023-2024	5,735,000.00	2,476,777.83	8,211,777.83
2024-2025	5,990,000.00	2,149,647.15	8,139,647.15
2025-2026	6,255,000.00	1,803,974.40	8,058,974.40
2026-2027	6,540,000.00	1,446,183.50	7,986,183.50
2027-2028	6,835,000.00	1,071,139.95	7,906,139.95
2028-2029	7,145,000.00	677,360.55	7,822,360.55
2029-2030	7,455,000.00	238,634.55	7,693,634.55
Total	\$102,880,000.00	\$63,664,945.31	\$166,544,945.31

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**Build America Bonds**

The American Recovery and Reinvestment Act of 2009 authorizes the issuance of Build America Bonds (BABs), whereby certain issuers are authorized to issue taxable bonds and receive from the federal government a subsidy equal to 35% of the interest payments on the taxable BABs. During the 2009 fiscal year the University issued BABs bonds in the amount of \$48,180,000.00. The proceeds were used to finance new dining facilities, multi-unit fraternity houses, multipurpose sports complex, and additional facilities specified by Chancellor. During the year ended September 30, 2010, the University received \$590,881.58 in interest subsidy payments that is included in non-operating revenue in the Statements. The subsidies to be received by the University are not reflected in the principal and interest maturity requirements above.

**Bond Issuance Costs**

The University has bond issuance costs in connection with the issuance of its 1998, 2001, 2003, 2004, 2005, 2007, and 2009 Revenue Bonds. The issuance costs are being amortized using the straight-line method over the life of the bonds.

Total Issuance Costs	\$1,672,128.00
Amount Amortized Prior Years	<u>(465,449.15)</u>
Balance Issuance Costs	1,206,678.85
Current Amount Amortized	<u>(82,315.21)</u>
Balance Issuance Costs	<u>\$1,124,363.64</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### Pledged Revenues

Troy University has pledged General Student Fees to repay revenue bond series, 1998, 2001, 2003, 2004, 2005, 2007, and 2009. Additionally, the University pledged Special Student Fees to repay the 2009 series revenue bonds. The bonds were issued for the purpose of providing funds to pay the costs of current refunding of outstanding Revenue Bonds, to pay the costs of developing, constructing and equipping improvements and renovation of capital projects on campus and to pay the costs incurred in connection with the issuance of these bonds. Details of each bond and its related pledged revenue is as follows:

Series	Issue Date	Purpose of Issuance	Maturity Date	Total Bond Balance Remaining	2010 Principal and Interest Paid	Future Pledged Revenue	2010 Pledged Revenue Received
2009A Series	9/16/2009	To Refund 2002 Series Bond Issuance	11/1/2028	14,590,000	342,788.54	21,220,516	143,945,619
2009B Series	9/16/2009	New Dining Facilities, Multi Unit Fraternity Houses, Multipurpose Sports Complex, and Additional Facilities Specified by Chancellor	11/1/2029	48,180,000	1,688,233.09	89,087,784	143,945,619
2007 Series	7/1/2007	To Fund Various Capital Projects	9/30/2029	13,000,000	620,023.76	22,750,476	133,679,440
2005 Series	5/1/2005	To Refund 1999 Series Bond Issuance	11/1/2028	5,995,000	738,390.00	7,280,825	133,679,440
2004 Series	2/4/2004	Refunding of 1996 Bonds	9/30/2017	3,170,000	508,998.13	3,554,953	133,679,440
2003 Series	12/1/2003	Capital Improvements to Clements Hall, and Construction of New Classroom Building Adjacent to McCartha Hall	11/1/2028	6,040,000	565,766.25	7,933,065	133,679,440
2001 Series	8/29/2001	Finance Capital Projects, Refund 1992 Bonds, 1998 Note, and 2000 BAN's	11/1/2021	6,710,000	1,281,587.50	8,326,737	133,679,440
1998 Series	9/1/1998	Finance Building of Library/Technology Building and Classroom Building on Montgomery Campus	11/1/2018	5,195,000	716,300.00	6,390,590	133,679,440

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### **Contractual Contingency**

On October 28, 2009, University entered into a management agreement with Sodexo Management, Inc. In accordance with this agreement Sodexo will manage and operate the food service for students, faculty, staff, employees, visitors and invited guests for a period of up to ten years commencing on October 1, 2009. In order to finance the renovation of University facilities as needed, Sodexo provided \$1,500,000.00 to the University as part of a prior management agreement. As part of the October 2009 agreement the University agreed that, in the event the contract was terminated prior to July 2019, Sodexo was to receive a reimbursement for the unamortized renovation costs. This contingency is not reflected in the financial statements of the University. The unamortized amount as of September 30, 2010 was \$1,082,815.81.

#### **Note 11 – Conduit Debt Obligation**

The University has issued Special Limited Obligation Revenue Bonds Series 1997 to provide athletic facility improvements for Sartain Hall and Memorial Stadium. The bonds are limited obligations of the City of Troy and are payable entirely from the amounts received under the bond indenture. This bond issue was refinanced during 2005. Extra proceeds of \$600,000.00 were given to the University for renovating Pace-Riddle Field, the University's baseball stadium. The bonds do not constitute a debt or pledge of faith and credit of Troy University, and accordingly, have not been reported in the accompanying financial statements.

Troy University has procured a policy of municipal bond insurance securing payment of debt service on the \$4,820,000.00 Troy University Special Limited Obligation Revenue Bond Series 2005 from MBIA Insurance Corporation. The total amount of outstanding conduit debt as of September 30, 2010, was \$4,110,000.00.

#### **Note 12 – Risk Management**

The University 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 University has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management which operates as a common risk management and insurance program for state owned properties. The University pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to \$2 million per occurrence and is self-insured up to a maximum of \$6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed \$6 million. The University purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, the University has fidelity bonds on the University's Chancellor, Sr. Vice-Chancellor for Finance and Business Affairs, and Controller, as well as on all other University personnel who handle funds.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by the University.

**Note 13 – Subsequent Events**

**Bond Defeasance**

On December 14, 2010, the University issued Series 2010A revenue bonds with an interest rate of 3.34% to advance refund the 1998, 2001, 2003, and 2004 Series revenue bonds with an average interest rate of 3.89%. The net proceeds from the issuance of the Series 2010A revenue bonds were for campus improvements and were used to purchase U. S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide future debt service requirements until maturity. As a result, the 1998, 2001, 2003, and 2004 Series revenue bonds were considered to be defeased and the liability for these bonds was removed from the books in the 2010-2011 fiscal year.

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*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>U. S. Department of Education</u></b>		
<b><u>Student Financial Assistance Cluster</u></b>		
<b><u>Direct Programs</u></b>		
Federal Supplemental Educational Opportunity Grants	84.007	
Federal Supplemental Educational Opportunity Grants	84.007	
Federal Work-Study Program	84.033	
Federal Work-Study Program	84.033	
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	
Federal Pell Grant Program Administrative Allowance	84.063	
Federal Pell Grant Program	84.063	
Federal Pell Grant Program Administrative Allowance	84.063	
Federal Pell Grant Program	84.063	
Academic Competitiveness Grants	84.375	
Academic Competitiveness Grants	84.375	
Total Student Financial Assistance Cluster (M)		
<b><u>TRIO Cluster</u></b>		
<b><u>Direct Programs</u></b>		
TRIO - Student Support Services	84.042	
TRIO - Student Support Services	84.042	
TRIO - Student Support Services	84.042	
TRIO - Upward Bound	84.047	
TRIO - Upward Bound	84.047	
TRIO - Upward Bound	84.047	
Total TRIO Cluster		
<b><u>Special Education Cluster (IDEA)</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Special Education-Grants to States	84.027	N.A.
Special Education-Grants to States	84.027	N.A.
Total Special Education Cluster		
<b><u>State Fiscal Stabilization Fund Cluster</u></b>		
<b><u>Passed Through State of Alabama Office of the Governor</u></b>		
ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (M)	84.394	10-1339-A

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
07/01/2009-06/30/2010	\$ 674,431.00	\$ 674,431.00	\$ 196,994.00	\$ 196,994.00
07/01/2010-06/30/2011	703,142.00	703,142.00	435,577.00	435,577.00
07/01/2009-06/30/2010	1,591,849.00	1,591,849.00	1,389,467.63	1,389,467.63
07/01/2010-06/30/2011	1,243,719.00	1,243,719.00	333,753.28	333,753.28
07/01/2009-06/30/2010	153,316.00	153,316.00	87,500.00	87,500.00
07/01/2010-06/30/2011	77,500.00	77,500.00	45,000.00	45,000.00
07/01/2008-06/30/2009	35.00	35.00	35.00	35.00
07/01/2009-06/30/2010	41,575,520.00	41,575,520.00	28,372,712.00	28,372,712.00
07/01/2009-06/30/2010	58,660.00	58,660.00	58,660.00	58,660.00
07/01/2010-06/30/2011	20,192,632.00	20,192,632.00	15,132,452.00	15,132,452.00
07/01/2009-06/30/2010	129,001.00	129,001.00	83,538.00	83,538.00
07/01/2010-06/30/2011	39,408.00	39,408.00	25,644.00	25,644.00
			<u>46,161,332.91</u>	<u>46,161,332.91</u>
09/01/2008-08/31/2009	809,167.00	809,167.00	71,889.67	71,889.67
09/01/2009-08/31/2010	829,817.00	829,817.00	736,020.58	736,020.58
09/01/2010-08/31/2011	833,442.00	833,442.00	48,959.98	48,959.98
09/01/2008-08/31/2009	347,833.00	347,833.00	15,796.81	15,796.81
09/01/2009-08/31/2010	347,833.00	347,833.00	322,585.24	322,585.24
09/01/2010-08/31/2011	347,833.00	347,833.00	14,547.14	14,547.14
			<u>1,209,799.42</u>	<u>1,209,799.42</u>
10/01/2009-09/30/2010	16,000.00	16,000.00	16,000.00	16,000.00
10/01/2009-09/30/2010	108,559.00	108,559.00	102,571.06	102,571.06
			<u>118,571.06</u>	<u>118,571.06</u>
10/01/2009-09/30/10	\$ 4,599,282.00	\$ 4,599,282.00	\$ 4,599,282.00	\$ 4,599,282.00

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>Educational Technology State Grants Cluster</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
ARRA - Education Technology State Grants, Recovery Act	84.386	X000111
<b><u>Vocational Rehabilitation Cluster</u></b>		
<b><u>Passed Through Alabama Department of Rehabilitation Services</u></b>		
Rehabilitation Services-Vocational Rehabilitation Grants to States (M)	84.126	C00870030
<b><u>Highway Safety Cluster</u></b>		
<b><u>U. S. Department of Transportation</u></b>		
<b><u>Passed Through Enterprise State Community College</u></b>		
Safety Belt Performance Grants	20.609	10-HS-K4-003
<b><u>Other Federal Awards</u></b>		
<b><u>U. S. Department of Education</u></b>		
<b><u>Direct Programs</u></b>		
Fund for the Improvement of Postsecondary Education	84.116	
Fund for the Improvement of Postsecondary Education	84.116	
Total Fund for the Improvement of Postsecondary Education		
Rehabilitation Long-Term Training	84.129	
Rehabilitation Long-Term Training	84.129	
Total Rehabilitation Long-Term Training		
<b><u>Passed Through Alabama Department of Education</u></b>		
Ready to Teach	84.286	X000111
College Access Challenge Grant Program	84.378	X000111
Mathematics and Science Partnerships	84.366	U900637
<b><u>Passed Through Lamar County Board of Education</u></b>		
Special Education - State Personnel Development	84.323	C0X0003
<b><u>Passed Through Alabama Department of Rehabilitation Services</u></b>		
Special Education - State Personnel Development	84.323	AE0087MS21
Total Special Education - State Personnel Development		
<b><u>Passed Through Alabama Commission on Higher Education</u></b>		
Improving Teacher Quality State Grants	84.367	N.A.

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2009-12/31/2010	\$ 154,062.00	\$ 50,000.00	\$ 4,205.60	\$ 4,205.60
10/01/2009-09/30/2010	889,912.54	889,912.54	776,354.34	776,354.34
05/24/2010-06/06/2010	300.00	300.00	93.56	93.56
09/01/2007-08/31/2011	179,998.00	179,998.00	53,781.14	53,781.14
08/01/2009-07/31/2010	238,000.00	238,000.00	215,646.47	215,646.47
			<u>269,427.61</u>	<u>269,427.61</u>
10/01/2008-09/30/2009	205,036.00	150,000.00	7,776.20	7,776.20
10/01/2009-09/30/2010	205,036.00	150,000.00	147,682.08	147,682.08
			<u>155,458.28</u>	<u>155,458.28</u>
10/01/2009-12/31/2010	204,732.00	100,670.00	96,841.01	96,841.01
10/01/2009-12/31/2010	109,062.00	5,000.00	1,250.00	1,250.00
08/17/2009-08/16/2010	1,870,010.00	280,000.00	105,689.12	105,689.12
02/09/2010-04/09/2010	1,500.00	1,500.00	1,500.00	1,500.00
04/01/2010-09/30/2010	1,500.00	1,500.00	1,500.00	1,500.00
			<u>3,000.00</u>	<u>3,000.00</u>
01/15/2010-06/15/2011	\$ 95,000.00	\$ 95,000.00	\$ 41,138.86	\$ 41,138.86

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>Passed Through University of California</u></b>		
National Writing Project	84.928	92-AL04
National Writing Project	84.928	92-AL04
Total National Writing Project		
<b><u>Passed Through Alabama Chapter of Project Citizen</u></b>		
Civic Education - We the People and the Cooperative Education Exchange Program	84.304	N.A.
<b><u>U. S. Department of Defense</u></b>		
<b><u>Passed Through University of Alabama</u></b>		
Procurement Technical Assistance for Business Firms	12.002	PTAC-TU-10-003
Procurement Technical Assistance for Business Firms	12.002	PTAC-TU-10-064
Total Procurement Technical Assistance for Business Firms		
<b><u>U. S. Department of the Interior</u></b>		
<b><u>Passed Through South Dakota State University</u></b>		
Genetic Analysis of Sauger, Walleye and their Hybrids	15.000	Q097618
<b><u>U. S. Department of Justice</u></b>		
<b><u>Direct Program</u></b>		
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	
Total Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		
<b><u>Passed Through Alabama Department of Economic and Community Affairs</u></b>		
Crime Victim Assistance	16.575	09-VA-SA-004
ARRA - Recovery Act-State Victim Assistance Formula Grant Program	16.801	09-VR-SA-007
<b><u>Passed Through Alabama Attorney General's Office</u></b>		
Crime Victim Assistance/Discretionary Grants	16.582	2008-VF-GX-K011
<b><u>National Endowment for the Humanities</u></b>		
<b><u>Passed Through the Alabama Humanities Foundation</u></b>		
Promotion of the Humanities-Federal/State Partnership	45.129	0909-1945 PD
Promotion of the Humanities-Federal/State Partnership	45.129	0409-1922 MN
Promotion of the Humanities-Federal/State Partnership	45.129	0210-1971 MN
Total Promotion of the Humanities-Federal/State Partnership		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
03/01/2009-06/30/2010	\$ 105,297.43	\$ 46,000.00	\$ 25,722.78	\$ 25,722.78
03/01/2010-06/30/2011	118,069.95	46,000.00	35,202.52	35,202.52
			<u>60,925.30</u>	<u>60,925.30</u>
06/01/2010-09/30/2010	1,614.00	1,614.00	1,446.08	1,446.08
10/01/2009-07/31/2010	37,206.00	18,480.00	18,480.00	18,480.00
08/01/2010-07/31/2011	44,293.00	22,000.00	3,766.89	3,766.89
			<u>22,246.89</u>	<u>22,246.89</u>
07/01/2002-Indefinite	20,000.00	20,000.00	199.84	199.84
08/01/2008-07/31/2011	469,533.00	469,533.00	117,297.14	117,297.14
10/01/2009-09/30/2012	350,000.00	350,000.00	13,720.19	13,720.19
			<u>131,017.33</u>	<u>131,017.33</u>
10/01/2009-09/30/2010	49,872.51	39,898.00	35,763.17	35,763.17
05/01/2009-04/30/2010	8,155.22	6,524.00	4,229.87	4,229.87
10/01/2009-09/30/2010	25,476.44	15,485.86	13,363.34	13,363.34
11/15/2009-05/31/2010	18,018.20	4,000.00	3,960.32	3,960.32
07/01/2009-01/31/2010	6,652.29	1,797.20	1,797.20	1,797.20
04/15/2010-07/31/2010	\$ 8,524.75	\$ 1,700.00	1,700.00	1,700.00
			<u>\$ 7,457.52</u>	<u>\$ 7,457.52</u>

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>National Science Foundation</u></b>		
<b><u>Passed Through Mathematical Association of America</u></b>		
Education and Human Resources	47.076	N.A.
<b><u>U. S. Small Business Administration</u></b>		
<b><u>Direct Program</u></b>		
Small Business Development Centers	59.037	
<b><u>Passed Through the University of Alabama</u></b>		
Small Business Development Centers	59.037	0-603001-Z-0001-30
Total Small Business Development Centers		
<b><u>U. S. Department of Health and Human Services</u></b>		
<b><u>Direct Programs</u></b>		
Advanced Nursing Education Traineeships	93.358	
Nursing Workforce Diversity	93.178	
Nursing Workforce Diversity	93.178	
Nursing Workforce Diversity	93.178	
Total Nursing Workforce Diversity (M)		
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	
Total Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program		
<b><u>Passed Through Alabama Department of Rehabilitation Services</u></b>		
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	C00870030
<b><u>Passed Through Alabama Department of Human Resources</u></b>		
Children's Justice Grants to States	93.643	4132
<b><u>Passed Through Alabama Department of Mental Health and Mental Retardation</u></b>		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	C9821351

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
01/01/2010-05/30/2010	\$ 1,680.00	\$ 1,680.00	\$ 1,455.55	\$ 1,455.55
07/01/2006-08/31/2011	493,614.00	493,614.00	14,134.02	14,134.02
10/01/2009-09/30/2010	150,753.00	69,036.00	69,036.00	69,036.00
			<u>83,170.02</u>	<u>83,170.02</u>
07/01/2009-06/30/2010	42,668.00	42,668.00	33,943.00	33,943.00
07/01/2010-06/30/2011	293,012.00	293,012.00	34,868.58	34,868.58
07/01/2009-06/30/2010	290,919.00	290,919.00	258,571.38	258,571.38
07/01/2008-06/30/2009	305,092.00	305,092.00	13,236.09	13,236.09
			<u>306,676.05</u>	<u>306,676.05</u>
05/01/2010-04/30/2011	156,722.00	156,722.00	40,920.61	40,920.61
05/01/2009-04/30/2010	150,000.00	150,000.00	95,215.31	95,215.31
			<u>136,135.92</u>	<u>136,135.92</u>
10/01/2009-09/30/2010	275,930.33	275,930.33	257,176.17	257,176.17
10/01/2009-09/30/2010	128,155.38	128,155.38	128,149.46	128,149.46
10/01/2009-09/30/2010	\$ 182,641.25	\$ 127,285.00	\$ 73,532.84	\$ 73,532.84

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>Passed Through Steps to a Healthier Alabama</u></b>		
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	N.A.
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	N.A.
Total Centers for Disease Control and Prevention-Investigations and Technical Assistance		
<b><u>Corporation for National and Community Service</u></b>		
<b><u>Direct Program</u></b>		
Retired and Senior Volunteer Program	94.002	
Retired and Senior Volunteer Program	94.002	
Total Retired and Senior Volunteer Program		
<b><u>United States Agency for International Development</u></b>		
<b><u>Passed Through American Council on Education/Office of Higher Education for Development</u></b>		
USAID Foreign Assistance for Programs Overseas	98.001	AEG-A-00-05-00007-00
Total Federal Awards		

(M) = Denotes Major Program  
N.A. = Not Available

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
07/01/2008-07/30/2011	\$ 5,000.00	\$ 5,000.00	\$ 190.37	\$ 190.37
07/01/2008-07/30/2011	3,000.00	3,000.00	18.87	18.87
			<u>209.24</u>	<u>209.24</u>
04/01/2009-03/31/2010	127,266.00	72,970.00	35,287.49	35,287.49
04/01/2010-03/31/2011	146,839.00	75,159.00	40,632.75	40,632.75
			<u>75,920.24</u>	<u>75,920.24</u>
05/28/2009-11/30/2009	\$ 65,168.00	\$ 49,918.00	13,106.87	13,106.87
			<u>\$ 54,928,568.47</u>	<u>\$ 54,928,568.47</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2010***

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Troy University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

**Note 2 – Loans Outstanding or Disbursed**

Information relating to the University’s Federal loan programs is as follows. These amounts are not included in the Schedule of Expenditures of Federal Awards.

**Federal Perkins Loans – Federal Capital Contributions Program (84.038)**

The Federal Perkins Loans – Federal Capital Contributions Program is administered directly by the University and balances and transactions relating to the program are included in the University’s basic financial statements. The University did not disburse any funds under this program during the current award year. The balance of the loans outstanding at September 30, 2010 was \$2,217,578.64.

**Federal Family Education Loans Program (84.032)**

The Federal Family Education Loans Program (“FFELP”) was established under the Higher Education Act of 1965, as amended by the Student Loan Reform Act of 1993. The objective of the FFELP is to encourage lenders such as banks, credit unions, savings and loan associations, pension funds, insurance companies, and schools to make loans to vocational, undergraduate, and graduate students enrolled at eligible postsecondary institutions to help pay for educational expenses. The loans are insured by a State or private nonprofit guaranty agency and reinsured by the Federal government. The University is required to certify the student meets eligibility requirements for FFELP loans. The University is not responsible for the collection of these loans. The amount of disbursements under the FFELP during the current award year was \$188,143,081.30.

**Federal Direct Student Loans Program (84.268)**

The Federal Direct Student Loans Program (“FDSLP”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly from the Federal government rather than through private lenders. The University began participation in the FDSLP on July 1, 2010. The University is required to certify the student meets eligibility requirements for FDSLP loans. The University is not responsible for collection of these loans. The amount of disbursements under the FDSLP during the current award year was \$347,995.00.

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*Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2010*

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**Note 3 – Other**

Troy University is the recipient of Title III Endowment Grants, which are shown on the Schedule of Expenditures of Federal Awards. However, due to the commingling of funds, the cumulative interest earned on the endowment is not shown.

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## *Additional Information*

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***Board Members and Officials***  
***October 1, 2009 through September 30, 2010***

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<b>Board Members</b>	<b>Term Expires</b>
Hon. Bob Riley, President	Ex-Officio
Hon. Joseph Morton, Ph.D.	Ex-Officio
Hon. R. Douglas Hawkins, D.V.M., President Pro Tempore	2015
Hon. Gerald O. Dial, Vice-President Pro Tempore	2015
Hon. Forrest S. Latta	2015
Hon. John D. Harrison	2019
Hon. Allen E. Owen, III	2011
Hon. Milton E. McGregor	2011
Hon. Roy H. Drinkard	2011
Hon. Lamar P. Higgins	2019
Hon. C. Charles Nailen, Jr.	2021
Hon. Karen E. Carter	2019
Hon. Edward F. Crowell	2021

**Officials**

Dr. Jack Hawkins, Jr.,  
Chancellor

Dr. James Bookout,  
Sr. Vice-Chancellor for Finance  
and Business Affairs

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***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***

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We have audited the financial statements of Troy University as of and for the year ended September 30, 2010, and have issued our report thereon dated July 5, 2011. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of Troy University Foundation as described in our report on Troy University's financial statements. The financial statements of Troy University Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not extend to Troy University Foundation.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Troy University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purposes of expressing an opinion on the effectiveness of Troy University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Troy University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

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***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***

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**Compliance and Other Matters**

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

We noted certain matters that we have reported to the management of Troy University in the Schedule of State Compliance and Other Findings.

Troy University's response to the finding identified in our audit is described in the accompanying Auditee Response. We did not audit Troy University's response and, accordingly, we express no opinion on it.

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

July 5, 2011

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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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**Independent Auditor's Report**

**Compliance**

We have audited Troy University's compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of Troy University's major federal programs for the year ended September 30, 2010. Troy University's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Troy University's management. Our responsibility is to express an opinion on Troy University's compliance based on our audit. The financial statements of Troy University Foundation were not audited in accordance with OMB Circular A-133, accordingly, this report does not extend to Troy University Foundation.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Troy University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Troy University's compliance with those requirements.

In our opinion, Troy University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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**Internal Control Over Compliance**

The management of Troy University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Troy University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Troy University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

July 5, 2011

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2010***

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**Section I – Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: Unqualified

Internal control over financial reporting:  
Material weakness(es) identified?                           Yes      X   No

Significant deficiency(ies) identified?                   Yes      X   None reported

Noncompliance material to financial  
statements noted?                                               Yes      X   No

**Federal Awards**

Internal control over major programs:  
Material weakness(es) identified?                           Yes      X   No

Significant deficiency(ies) identified?                   Yes      X   None reported

Type of auditor's report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Section 510(a) of OMB Circular A-133?                   Yes      X   No

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2010***

**Section I – Summary of Examiner's Results**

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.007	<u>Student Financial Assistance Cluster</u> Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.032	Federal Family Education Loans
84.038	Federal Perkins Loan Program – Federal Capital Contributions
84.375	Academic Competitiveness Grants
84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants
84.268	Federal Direct Student Loans
84.394	<u>State Fiscal Stabilization Fund Cluster</u> ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
84.126	<u>Vocational Rehabilitation Cluster</u> Rehabilitation Services – Vocational Rehabilitation Grants to States
93.178	Nursing Workforce Diversity

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$300,000.00

Auditee qualified as low-risk auditee?

  X   Yes           No

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2010***

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**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		The audit did not disclose any findings or questioned costs required to be reported.	

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			The audit did not disclose any findings or questioned costs required to be reported.	

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# *Auditee Response*

Office of Senior  
Vice Chancellor for  
Finance and  
Business Affairs

241 Adams  
Administration  
Building  
Troy, Alabama  
36082

334-670-3108  
334-670-3920 FAX

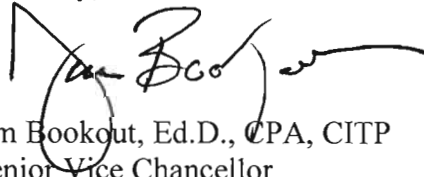
September 6, 2011

Chief Examiner  
Mr. Ronald L. Jones  
State of Alabama  
Department of Examiners of Public Accounts  
P.O. Box 302251  
Montgomery, AL 36130-2251

Dear Mr. Jones:

Please find enclosed Troy University's response to the audit findings for Troy University for the period October 1, 2009 through September 30, 2010. Please contact this office directly if you should have any questions.

Sincerely,



Jim Bookout, Ed.D., CPA, CITP  
Senior Vice Chancellor  
Finance & Business Affairs

JB/mib

Enclosure



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## Auditee Response

### For the Year Ended September 30, 2010

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Troy University has prepared and hereby submits the following Auditee Response for the finding in the Schedule of State Compliance and Other Findings for the year ended September 30, 2010.

#### **2010-01 Finding:**

The Code of Alabama 1975, Section 39-2-2 requires awarding authorities to advertise for sealed bids before entering into any contract for a public works involving an amount in excess of fifty thousand dollars (\$50,000). The Attorney General has opined on several occasions that under certain circumstances, changes to an awarded contract are allowable without being rebid. Specifically, in Opinion No. 79-313, the Attorney General set out the types of change orders to be allowed on public works projects as follows:

1. Minor changes for a total monetary value less than required for competitive bidding;
2. Changes for matters relatively minor and incidental to the original contract necessitated by unforeseeable circumstances arising during the course of the work;
3. Emergencies arising during the course of the work on the contract;
4. Changes or alternates provided for in the original bidding where there is no difference in the price of the change order from the original best bid on the alternate;
5. Changes of relatively minor items not contemplated when the plans and specifications were prepared and the project was bid which are in the public interest and which do not exceed 10% of the contract price.

The opinion also required that a signed statement from the architect be attached to each change order containing the following:

1. A statement of what the change order covers and who instituted the change order and why it is necessary or desired;
2. There must be a statement stating the reasons for using the change order method rather than competitive bids;
3. There must be a statement that all prices have been reviewed and found reasonable, fair and equitable and recommending approval of the same;
4. The local owner shall either endorse the architects statement and recommendations or submit a separate statement covering the foregoing items.





Bid specifications for the Fraternity Village Construction Project required contractors to include \$170,000.00 in their bids to cover unforeseen conditions or minor changes that are necessary to correct or supplement the work as detailed in the contract documents as an Owners Contingency. According to the specifications, the \$170,000.00 would be removed from the contract with a deductive change order if not used. The Fraternity Village project was awarded to a General Contractor for \$7,957,000.00 and included the \$170,000.00 Owners Contingency. From September 29, 2009 to August 15, 2010 specification changes were made that decreased the cost for various phases of the project by \$151,705.00. Instead of being treated as deductive change orders, the \$151,705.00 was added to the Owners Contingency, bringing the total available for contingencies to \$321,705.00. By August 15, 2010, \$320,630.00 had been paid to the General Contractor out of the Contingency.

Three change orders were used to add \$300,582.90 to the contract. Change order number three included \$122,277.00 for landscaping to be done by a subcontractor plus an additional 15% markup for the General Contractor. Taking into consideration the markup, the total for the landscaping was \$140,618.60. Landscaping for this particular type of construction contract did not appear to be either an emergency or unforeseeable and the cost exceeded the amount required for competitive bidding. None of the change orders reviewed included a signed statement from the architect as required by Attorney General opinion number 79-313.

### **Recommendation**

The University should comply with the Public Works Law and ensure change orders follow guidelines developed by the Office of the Attorney General.

### **Response:**

Troy University will share the guidelines developed by the Office of the Attorney General with current and future architectural firms hired to oversee major construction projects to ensure change orders comply with Public Works Law. These guidelines will also be shared with key employees within the University to ensure future compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "Jim Bookout". The signature is written in a cursive style with a long horizontal stroke at the end.

Jim Bookout, Ed.D., CPA, CITP  
Senior Vice Chancellor  
Finance & Business Affairs