

Report on the

WTSU-FM Radio - Troy University

Troy, Alabama

October 1, 2015 through September 30, 2016

Filed: March 3, 2017



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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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 WTSU-FM Radio, a public telecommunications entity operated by Troy University for the period October 1, 2015 through September 30, 2016.

Sworn to and subscribed before me this
the 23rd day of February, 2017.

Sandra E Shirley
Notary Public

Respectfully submitted,

Rachel Hamm

Rachel Hamm
Examiner of Public Accounts

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Department of
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SUMMARY

**WTSU-FM Radio – Troy University
October 1, 2015 through September 30, 2016**

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.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements of WTSU-FM Radio of Troy University present fairly the financial position and results of financial operations and whether the University complied with applicable laws and regulations. The 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.

An unmodified opinion was issued on the basic financial statements of the WTSU-FM Radio of Troy University which means the financial statements present fairly, in all material respects, the financial position and the results of operations for the fiscal year ended September 30, 2016.

There were no findings in the prior audit.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable laws and regulations.

The following officials/employees were invited to an exit conference to discuss the results of this report: Tara Donaldson, Associate Vice-Chancellor and Controller; and Eugene Johnson, Director of Broadcast and Digital Network/WTSU-FM Radio Station Manager. The following individuals attended the exit conference via teleconferences: James Clower, former WTSU-FM Radio Station Manager and Conni Moseley, Assistant Controller. Representing the Department of Examiners of Public Accounts was: Annette G. Williams, Audit Manager.

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Independent Auditor's Report

Independent Auditor's Report

To: Troy University Board of Trustees
Dr. Jack Hawkins, Jr., Chancellor – Troy University, Troy, Alabama

Report on the Financial Statements

We have audited the accompanying basic financial statements of WTSU-FM Radio of Troy University, as of and for the year ended September 30, 2016 and 2015, as listed in the table of contents as Exhibits 1 through 3.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of WTSU-FM Radio of Troy University as of September 30, 2016 and 2015, and its changes in financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2017, on our consideration of the internal control over financial reporting of WTSU-FM Radio of Troy University and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control over financial reporting and compliance of WTSU-FM Radio of Troy University.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

February 3, 2017

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

Management's Discussion and Analysis (MD&A)

Overview

The following Management's Discussion and Analysis, and the accompanying financial statements represent the radio operations of WTSU-FM (Station) for fiscal year ending September 30, 2016. The reporting format is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 which includes the Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Statement No. 35 which includes the Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.

Troy University is categorized under GASB 34/35 as a special purpose government engaged only in business-type activities (BTA). As a result, the Station operations follow the same categorization. The required financial reporting for BTA's include: (a) Management's Discussion and Analysis (MD&A), (b) Statement of Net Position, (c) Statement of Revenues, Expenses, and Changes in Net Position, (d) Statement of Cash Flows, and (e) Notes to the Financial Statements. The financial statements are prepared under the accrual basis of accounting where revenues and assets are recognized when the service is provided to the Station constituents and expenses and liabilities are recognized when the Station has procured goods or services, regardless of when cash is exchanged.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the Station as of the end of the fiscal year. The Statement of Net Position is a point in time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the Station. The Statement of Net Position presents end-of-year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Position (assets minus liabilities). The difference between current and non-current assets will be discussed in the financial statement disclosures.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Station. They are also able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statement of Net Position provides a picture of the Net Position (assets minus liabilities) and the availability for expenditure by the Station.

Net position is divided into three major categories. The first category, Net Investment in Capital Assets, provides the institution's equity in property, plant, and equipment used by the Station. The next category is restricted net position, which is divided into two categories, expendable and nonexpendable.

Expendable restricted net position is available for expenditure by the institution 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 corpus of nonexpendable restricted resources is only available for investment purposes. The final category is unrestricted net position which is available to the institution for any appropriate purpose of the Station.

Condensed Statement of Net Position

	2015-2016	2014-2015	Increase/ (Decrease)
Assets:			
Current Assets	\$150,614.91	\$166,768.65	\$(16,153.74)
Capital Assets, Net	617,091.71	689,911.58	(72,819.87)
Total Assets	767,706.62	856,680.23	(88,973.61)
Liabilities:			
Current Liabilities	150,614.91	166,768.65	(16,153.74)
Total Liabilities	150,614.91	166,768.65	(16,153.74)
Net Position			
Net Investment in Capital Assets	617,091.71	689,911.58	(72,819.87)
Total Net Position	\$617,091.71	\$689,911.58	\$(72,819.87)

The decrease in Cash was the result of less remaining unexpended 2016 CPB grant funds. The decrease in Receivables relates to less funds due from the Troy foundation. The overall decrease in Capital assets is due to the net effect of depreciation which is offset by an addition of an asset. For the 2015-16 fiscal year, capital asset depreciation expense was \$80,494 and additions was \$7,674. CPB funding is reported as unearned revenue until expended for its intended purpose. The decrease in Unearned Revenue was the result of a decrease in unexpended CPB grant funds. The decrease in Payables relates to funds borrowed from the University pending receipt of funds due from the Troy Foundation. Total net position decreased by \$72,820 between 2015 and 2016 as a result in capital asset activity.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Revenue and expense activities are categorized as either operating or non-operating. Operating revenues are received for providing goods and services to the various customers and constituencies of the Station. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Non-operating revenues are revenues received for which goods and services are not provided by the Station. University and grant funds received for capital purposes are classified as non-operating revenue.

The Station's Statement of Revenues, Expenses, and Changes in Net Position reports an operating loss of \$85,354. This reported operating loss is typical and is caused largely by depreciation of capital assets. Non-operating transactions such as funding for capital asset purchases, dispositions of capital assets that are not fully depreciated, and revenues resulting from exchange transactions such as tower space and studio rentals also affect net position. There was an overall decrease in Net Position of \$72,820 due to the factors discussed above.

Operating revenues decreased by \$79,715 primarily due to a decrease in direct and indirect support from Troy University. Operating expenses decreased by \$100,481 largely due to a decrease in programming and production expenses and depreciation.

Non-operating revenues and expenses increased by \$8,207 largely due to an increase in tower and studio rental revenues and the absence of any capital asset adjustments.

There was an overall decrease in Net Position and Troy University will remain committed to keep WTSU-FM vital for the coming years.

Condensed Statement of Revenues, Expenses and Changes in Net Position			
	2016	2015	Increase/ (Decrease)
Operating Revenues	\$1,081,887.29	\$1,161,601.81	\$ (79,714.52)
Operating Expenses	1,167,241.24	1,267,722.46	(100,481.22)
Operating Loss	<u>(85,353.95)</u>	<u>(106,120.65)</u>	<u>20,766.70</u>
Non-operating Revenues and Expenses	<u>12,534.08</u>	<u>4,327.27</u>	<u>8,206.81</u>
Change in Net Position	(72,819.87)	(101,793.38)	28,973.51
Net Position, Beginning of Year	689,911.58	791,704.96	(101,793.38)
Net Position, End of Year	<u>\$ 617,091.71</u>	<u>\$ 689,911.58</u>	<u>\$ (72,819.87)</u>

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the Station during the fiscal year. This is a financial statement promulgated by GASB No. 34. This statement is designed to present the sources and uses of cash resources. GASB No. 34 classifies grants and gift revenues, two sources of revenues relied upon heavily by the Station, as non-operating revenues, while classifying the related expenditures of these sources as operating expenses. The statement activity is categorized into five parts: (1) operating activities, (2) non-capital financing activities, (3) capital and related financing activities, (4) investing activities, and (5) a reconciliation of the net cash used to the operating loss reflected in the Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Statement of Cash Flows	
	2016
Cash Provided (Used) By:	
Operating Activities	\$(18,893.66)
Non-capital Financing Activities	4,859.85
Net Change in Cash	<u>14,033.81</u>
Reconciliation:	
Operating Loss	(85,353.95)
Changes in Assets and Liabilities:	
Depreciation	80,494.10
(Increase)/Decrease in Receivables	2,119.93
Increase/(Decrease) in Unearned Revenues	(14,033.81)
Increase/(Decrease) in Payables	(2,119.93)
Cash Used by Operating Activities	<u>\$(18,893.66)</u>

The Station has significant reliance upon grants and gifts to meet its operating demands. Troy University supplied \$519,067 in direct support, \$287,835 in indirect support. The Foundation provided support of \$139,478 which was receivable as of the end of the fiscal year. The Corporation for Public Broadcasting assisted with grants for fiscal years 2015 and 2016 in the amount of \$119,354 of which \$11,137 was not expended in the fiscal year. These amounts are found in our operating activities. Tower rents for users of tower space and studio rental account for an extra \$4,860 in revenue shown in non-capital financing activities.

Capital Assets

Capital assets of the Station include transmission and tower equipment, studio and other broadcasting equipment. Capital assets increased by \$7,674 in 2015-16. Accumulated depreciation increased by \$80,494 for 2016, reducing the net book value of capital assets. The capital asset addition and the current depreciation resulted in the \$72,820 decrease in net position.

Public Radio Outlook

Troy University Public Radio is not aware of any major decisions or conditions that will affect the financial position or the operation of public radio during the next fiscal year. The University continues to provide funding for technical improvements. The microwave system has been refurbished, thereby providing a more reliable signal to all three transmitters. We have employed an experienced Public Radio announcer who is also proficient in the use of social media. We have also employed a full time Media Development Coordinator. On-air and on-line fundraising efforts have generated substantial increases in listener support. The station continues to be recognized both statewide and nationally for its news and public affairs coverage. A residual effect has been awards for outstanding journalism. The University expects to continue to operate public radio with federal, state and private funding.

Basic Financial Statements

Statement of Net Position
As of September 30, 2016 and 2015

	2016	2015
ASSETS		
<u>Current Assets</u>		
Cash from 2016 CPB Grant	\$ 11,137.38	\$ 25,171.19
Receivable from Foundation	139,477.53	141,597.46
Total Current Assets	<u>150,614.91</u>	<u>166,768.65</u>
<u>Noncurrent Assets</u>		
Capital Assets:		
Transmission and Tower Equipment	1,529,334.54	1,529,334.54
Studio and Other Broadcast Equipment	793,000.24	710,050.75
Less: Accumulated Depreciation	(1,705,243.07)	(1,549,473.71)
Total Capital Assets, Net of Depreciation	<u>617,091.71</u>	<u>689,911.58</u>
Total Noncurrent Assets	<u>617,091.71</u>	<u>689,911.58</u>
Total Assets	<u>767,706.62</u>	<u>856,680.23</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Payable to University	139,477.53	141,597.46
Unearned Revenues	11,137.38	25,171.19
Total Current Liabilities	<u>150,614.91</u>	<u>166,768.65</u>
Total Liabilities	<u>150,614.91</u>	<u>166,768.65</u>
<u>Net Position</u>		
Net Investment in Capital Assets	<u>617,091.71</u>	<u>689,911.58</u>
Total Net Position	<u>\$ 617,091.71</u>	<u>\$ 689,911.58</u>

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

***Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2016 and 2015***

	2016	2015
<u>OPERATING REVENUES</u>		
Radio Community Service Grant FY 2016	\$ 108,216.62	\$ 95,479.81
Radio Community Service Grant FY 2015	25,171.19	23,503.79
Support from Troy University Foundation	139,477.53	141,597.46
Indirect Administrative Support from Troy University Provided by Troy University	287,835.00	294,369.00
	521,186.95	606,651.75
Total Operating Revenues	<u>1,081,887.29</u>	<u>1,161,601.81</u>
<u>OPERATING EXPENSES</u>		
Programming and Production	373,865.74	392,315.49
Broadcasting	223,574.04	236,267.68
Program Information and Promotion	21,625.09	38,868.23
Management and General	377,501.97	397,158.36
Fund Raising and Membership Development	90,180.30	101,319.32
Depreciation	80,494.10	101,793.38
Total Operating Expenses	<u>1,167,241.24</u>	<u>1,267,722.46</u>
Operating Income (Loss)	<u>(85,353.95)</u>	<u>(106,120.65)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Capital Assets Donated by Foundation	7,674.23	
Nongovernmental Grants and Contracts	4,859.85	4,327.27
Net Nonoperating Revenues	<u>12,534.08</u>	<u>4,327.27</u>
Change in Net Position	(72,819.87)	(101,793.38)
Total Net Position - Beginning of Year	689,911.58	791,704.96
Total Net Position - End of Year	<u>\$ 617,091.71</u>	<u>\$ 689,911.58</u>

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

Statement of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Grants from the Corporation for Public Broadcasting	\$ 119,354.00	\$ 120,651.00
Direct Support from Troy University	519,067.02	615,387.67
Indirect Support from Troy University	287,835.00	294,369.00
Support from Troy University Foundation	141,597.46	132,861.54
Payments to Suppliers	(705,942.59)	(707,678.65)
Payments to Employees	(380,804.55)	(458,250.43)
Net Cash Provided (Used) by Operating Activities	<u>(18,893.66)</u>	<u>(2,659.87)</u>
<u>CASH FLOWS NONCAPITAL FINANCING ACTIVITIES</u>		
Private Contracts	4,859.85	4,327.27
Net Cash Provided (Used) by Noncapital Financing Activities	<u>4,859.85</u>	<u>4,327.27</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(14,033.81)	1,667.40
Cash and Cash Equivalents - Beginning of Year	<u>25,171.19</u>	<u>23,503.79</u>
Cash and Cash Equivalents - End of Year	<u>11,137.38</u>	<u>25,171.19</u>
<u>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</u>		
Operating Income (Loss)	(85,353.95)	(106,120.65)
<u>Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>		
Depreciation Expense	80,494.10	101,793.38
(Increase)/Decrease in Receivables	2,119.93	(8,735.92)
Increase/(Decrease) in Accounts Payable	(2,119.93)	8,735.92
Increase/(Decrease) in Unearned Revenue	<u>(14,033.81)</u>	<u>1,667.40</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (18,893.66)</u>	<u>\$ (2,659.87)</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 1 – Summary of Significant Accounting Policies

WTSU-FM Radio (the “Station”) is operated by Troy University in Troy, Alabama (the “Licensee”). The financial statements of the Station 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 Licensee are described below.

A. Reporting Entity

The 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. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Station 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.

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

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and nonoperating revenues. Operating revenues result from exchange transactions associated with the principal activities of the Station. 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 Station’s principal activities, such as all nonexchange transactions, provided by the University and the University’s Foundation.

Notes to the Financial Statements

For the Year Ended September 30, 2016

C. Assets, Liabilities, and Net Position

1. Cash

The Station has defined cash to include currency on hand and demand deposits with financial institutions. At year-end, the Station had unexpended CPB grant funds on hand.

2. Receivables

Receivables relate to amounts due from the Troy University Foundation.

3. Capital Assets

Capital assets, other than intangibles, 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. Donated capital assets are recorded at acquisition value (an entry price) at the date of donation. Land and Construction in Progress are the only capital assets that are not depreciated. 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 when projects are completed. 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 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 and useful lives of the capital assets are as follows:

The depreciation method used by the Station is the straight-line basis. Equipment items except for vehicles are being depreciated over four years. Vehicles are depreciated over eight years. Tower facilities are depreciated over twenty years.

4. Payables

Payables relate to short-term borrowing from the University pending receipt of pledged funds from the Troy University Foundation.

Notes to the Financial Statements

For the Year Ended September 30, 2016

5. Unearned Revenue

Revenues received but related to the period after September 30, 2016, have been deferred. Recognition of revenues relating to unexpended CPB funds has been recorded as unearned revenue.

6. Net Position

Net position is required to be classified for accounting and reporting purposes into the following categories:

- ◆ **Net Investment in Capital Assets** – Capital assets, including restricted capital assets, reduced by accumulated depreciation.

- ◆ **Restricted:**
 - ✓ **Nonexpendable** – Net position subject to externally imposed stipulations that they be maintained permanently by the Station.

 - ✓ **Expendable** – Net position whose use by the Station is subject to externally imposed stipulations that can be fulfilled by actions of the Station pursuant to those stipulations or that expire by the passage of time.

- ◆ **Unrestricted** – Net Position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees.

Note 2 – Deposits

The University's deposits at year-end were held by financial institutions participating 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 Deposit 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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 3 – Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

Classification	Beginning Balance	Additions	Deletions	Adjustment	Ending Balance
Transmission and Tower Facilities	\$1,529,334.54	\$	\$	\$	\$1,529,334.54
Studio and Other Broadcast Equipment	710,050.75	7,674.23		75,275.26	793,000.24
Total Capital Assets	2,239,385.29	7,674.23		75,275.26	2,322,334.78
Less Accumulated Depreciation:					
Transmission and Tower Facilities	848,021.13	71,895.91			919,917.04
Studio and Other Broadcast Equipment	701,452.58	8,598.19		75,275.26	785,326.03
Total Accumulated Depreciation	1,549,473.71	80,494.10		75,275.26	1,705,243.07
Capital Assets, Net	\$ 689,911.58	\$(72,819.87)	\$	\$	\$ 617,091.71

The above adjustment relates to fully depreciated equipment determined to be in use by the Station.

Note 4 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act Number 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Act Number 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

C. Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$10,770,530.99 for the year ended September 30, 2016.

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

At September 30, 2016, the University reported a liability of \$152,272,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015, the University's proportion was 1.454966%, which was an increase of 0.008881% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the University recognized pension expense of \$11,455,000.00. At September 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 825,000.00
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments	9,969,000.00	
Changes in proportion and differences between Employer contributions and proportionate share of contributions	703,000.00	1,602,000.00
Employer contributions subsequent to the measurement date	10,770,530.99	
Total	<u>\$21,442,530.99</u>	<u>\$2,427,000.00</u>

Notes to the Financial Statements
For the Year Ended September 30, 2016

\$10,770,530.99 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
September 30, 2017	\$1,359,000.00
2018	\$1,359,000.00
2019	\$1,359,000.00
2020	\$4,174,000.00
2021	\$ (6,000.00)
Thereafter	\$

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment Rate of Return (*)	8.00%
Projected Salary Increases	3.5%-8.25%
(*) Net of Pension Plan Investment Expense	

The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

Notes to the Financial Statements

For the Year Ended September 30, 2016

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	25.00%	5.00%
U. S. Large Stocks	34.00%	9.00%
U. S. Mid Stocks	8.00%	12.00%
U. S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	

(*) Includes assumed rate of inflation of 2.50%.

F. Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to the Financial Statements
For the Year Ended September 30, 2016

G. Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
University's proportionate share of the collective net pension liability	\$201,445,000	\$152,272,000	\$110,567,000

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2015. The auditor's report dated October 17, 2016 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 5 – 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> under the Employers' Financial Reports section. The Plan's financial report for fiscal year 2016 will be available at the end of January 2017. 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 Acts of Alabama Act Number 255 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.

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$50.00 per month retired members who use tobacco products.

Notes to the Financial Statements

For the Year Ended September 30, 2016

The University only pays premiums for retired employee's health insurance. Each year PEEHIB certifies to the Governor and 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 6 – Additional Benefit Plan

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.

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 per participant after meeting a \$200,000.00 individual deductible. Claims are processed and paid by an outside servicer.

C. Life Insurance

The University provides life insurance for regular full-time employees (included AD&D coverage). Employees hired before September 1, 1991 were given a "buy-out" option and may have opted to forfeit their University policy. The University also provides life insurance coverage for some University retirees. The University pays up to \$0.55 per \$1,000 of the premium for retirees. Premiums that exceed this amount are paid by retirees. The University secured a rate of \$0.45 in 2014 that is effective through July 2017. These remittances are made monthly.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 7 – Related Parties

Troy University Foundation, Inc., (the “Foundation”) was incorporated as a permanent, non-profit corporation established to receive, manage, and disburse funds and other assets given for the benefit of Troy University by individuals, foundations, corporations, and other private organizations. It also provides a central office for coordinating programs of private support. This report contains no financial statements of Troy University Foundation, Inc.

The Chairman of the Board of Trustees for the Foundation also sits as the President Pro tempore on the Board of Trustees of Troy University. During fiscal year 2016, the Foundation provided \$139,477.53 in support to the Station.

Note 8 – Risk Management

The Station 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, Senior Vice-Chancellor for Finance and Business Affairs, and Associate Vice-Chancellor/Controller, as well as on all other University personnel who handle funds.

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.

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

Additional Information

Board Members and Officials
October 1, 2015 through September 30, 2016

Board Members	Term Expires
Hon. Robert Bentley, President	Ex-Officio
Hon. Gerald O. Dial, President Pro Tempore	2027
Hon. John D. Harrison, Vice-President Pro Tempore	2019
Hon. Forrest S. Latta	2027
Hon. Earl V. Johnson	2027
Hon. Allen E. Owen, III	2023
Hon. Lamar P. Higgins	2019
Hon. C. Gibson Vance	2023
Hon. Karen E. Carter	2019
Hon. Roy H. Drinkard	2023
Hon. C. Charles Nailen, Jr.	2021
Hon. Edward F. Crowell	2021

Officials

Dr. Jack Hawkins, Jr.,
Chancellor

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

***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***

Independent Auditor's Report

To: Troy University Board of Trustees
Dr. Jack Hawkins, Jr., Chancellor – Troy University, Troy, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States, the financial statements of WTSU-FM Radio of Troy University as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of WTSU-FM Radio of Troy University, and have issued our report thereon dated February 3, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting (internal control) of WTSU-FM Radio of Troy University to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control of WTSU-FM Radio of Troy University. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting of WTSU-FM Radio of Troy University.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***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***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of WTSU-FM Radio of Troy University 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*.

Purpose of this Report

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

February 3, 2017

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued:	<u>Unmodified</u>	
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

Section II – Financial Statement Findings (GAGAS)

There were no internal control or compliance related matters noted during the audit.