Report on the

Troy University

Troy, Alabama

October 1, 2004 through September 30, 2005

Filed: August 4, 2006

Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201
P.O. Box 302251
Montgomery, Alabama 36130-2251
Website: www.examiners.state.al.us

Ronald L. Jones, Chief Examiner

06-392

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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

Ronald L. Jones
Chief Examiner

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

Dear Sir:

Under the authority of the ***Code of Alabama 1975***, Section 41-5-14, we submit this report on Troy University (the "University") and its component unit, the Troy University Foundation, for the period October 1, 2004 through September 30, 2005.

SCOPE AND OBJECTIVES

This report encompasses audits of the financial statements of the University and its component unit and a review of compliance by the University with applicable laws and regulations of the State of Alabama and federal financial assistance programs. The audit of the University was conducted in accordance with government auditing standards generally accepted in the United States of America for financial audits. The audit of the component unit was conducted in accordance with financial auditing standards generally accepted in the United States of America for financial audits. The objectives of the audits were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the University has complied with applicable laws and regulations.

CONTENTS OF REPORT

This report includes the following segments:

1. ***Report to the Chief Examiner*** – contains items pertaining to state legal compliance, agency operations and other matters.

2. ***Independent Auditor's Report*** – reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations.

3. ***Management's Discussion and Analysis (MD&A)*** – a component of Required Supplementary Information (RSI) prepared by the 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 is supplementary information required by the Governmental Accounting Standards Board (GASB). This information has not been audited, and as a result, no opinion is provided about the fairness of the information in accordance with generally accepted accounting principles.

4. ***Financial Section*** – includes basic financial statements (Exhibits 1 through 3) of the University and (Exhibits 4 and 5) of the component unit, and Notes to the Financial Statements of the University and the component unit.

5. ***Supplementary Information*** – includes the Schedule of Expenditures of Federal Awards (Exhibit 6), which details federal awards expended during the audit period and Notes to the Schedule of Expenditures of Federal Awards of the University.

6. ***Additional Information*** – contains basic information related to the University (Exhibit 7) and the following 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:

   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 (Exhibit 8) – a report on internal control related to the financial statements and on whether the University has complied with laws and regulations which could have a direct and material effect on the University's financial statements.

   Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (Exhibit 9) – a report on the University's internal control 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.

   Schedule of Findings and Questioned Costs (Exhibit 10) – a report on the University summarizing the results of the audit findings relating to the financial statements as required by ***Government Auditing Standards*** and the University's findings and questioned costs for federal awards as required by OMB Circular A-133.

   Auditee Response (Exhibit 11) – a response by the University on the results of the audit.

AUDIT COMMENTS

Troy University is a state supported institution of higher education operated under the direction of a Board of Trustees composed of the Governor, the State Superintendent of Education, and ten members appointed by the Governor with the advice and consent of the Alabama Senate. It is an educational institution offering associate, bachelors, masters and educational specialists degrees.

AUDIT FINDINGS

- Cash is an account balance highly subject to errors, omissions and misstatements. As a result, strict controls over cash are critical and essential. Monthly reconciliations of bank accounts help to prevent errors and serve to safeguard public assets. A review of the initial year-end reconciled bank balances, prepared by University personnel, to year-end general ledger cash balances reflected numerous reconciling items, which should not have been included. This reconciliation was returned to University personnel. On May 5, 2006, a final revised reconciliation was received. Audit tests revealed that fifteen bank accounts were not reconciled monthly and that fourteen bank accounts were not reconciled prior to being included in the fiscal year-end financial statements of the University. According to the University's final reconcilements, cash is overstated by approximately $540,000 on the Statement of Net Assets.

STATUS OF PRIOR AUDIT FINDINGS

- In order to have an adequate system of internal control over financial reporting and cash, procedures should be in place to investigate and clear reconciling items between the general ledger cash balance and the bank statement balance in a timely manner. Audit tests revealed that several bank account reconciliations prepared by the University contained numerous reconciling items that had not been cleared in more than a year.

RECOMMENDATIONS

It is recommended that:

- University personnel should ensure all cash accounts are reconciled to the appropriate general ledger balances monthly. Reconciliations should be completed accurately and timely.

It is again recommended that:

- The University should implement the necessary procedures to ensure reconciling items are investigated and cleared from their bank account reconciliations in a timely manner.

Sworn to and subscribed before me this the 26th day of July, 2006.

Sandra E Shirley
Notary Public

Sworn to and subscribed before me this the 26th day of July, 2006.

Sandra E Shirley
Notary Public

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Respectfully submitted,

Annette G. Williams

Annette G. Williams
Examiner of Public Accounts

Tanesha Lewis

Tanesha Lewis
Examiner of Public Accounts

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, 2005, as listed in the table of contents as Exhibits 1 through 3. These basic 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 the 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Troy University and Troy University Foundation, as of September 30, 2005, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, Troy University has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 39, "***Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement Number 14***".

In accordance with ***Government Auditing Standards***, we have also issued our report dated June 6, 2006, 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 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

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

June 6, 2006

Management's Discussion and Analysis
(Required Supplementary Information)

Management's Discussion and Analysis (MD&A)

Overview

The following Management Discussion and Analysis and the accompanying financial statements for fiscal year ending September 30, 2005 will show Troy University to be on a sound financial footing. They will also report that fiscal year 2005 was one of great growth. Fiscal year 2005 allows us for the third time to have comparable audited financial statements with a prior year based on our new Governmental Accounting Standards Board (GASB) guidelines. Financial reporting for this year and fiscal year 2004 were in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.

This being the fourth year of implementation for the new reporting standards, and the fact that the prior reporting period has been completely restated, comparability of key financial statements elements is again possible. We will provide as much comparative data as possible for the users of these statements.

The purpose of these new reporting standards is to provide financial information that is meaningful to the three groups of primary users of these statements: (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors).

Troy University is categorized under GASB 34/35 as a special purpose government engaged only in business-type activities (BTA). The required financial reporting for BTA's include: (a) Management's Discussion and Analysis (MD&A), (b) Statement of Net Assets, (c) Statement of Revenues, Expenses, and Changes in Net Assets, (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 University constituents and expenses and liabilities are recognized when the University has procured goods or services, regardless of when cash is exchanged.

This is the first year of including financial data from the Troy University Foundation within the Troy University financial statements. GASB 39 has dictated that state colleges and universities must include in their financial statements information from their related foundations if the net assets of the Foundation are significant. The Troy Foundation's net assets fit the criteria. We have chosen to present the Foundation's financial information in a "discrete" manner. Their financial data (statement of financial position, statement of activities and related notes) will be shown separately from that of Troy University. The financial information of the two entities will not be combined.

Statement of Net Assets

The Statement of Net Assets presents the Assets, Liabilities, and Net Assets of the University at September 30, 2005, the end of the University's fiscal year. Assets represent amounts or property that the University owns or is owed. Liabilities represent amounts owed to others or amounts collected from others that have not been earned since the service has not been provided as of the statement date. Net Assets (Assets minus Liabilities) represent the residual interest in the assets after deducting liabilities. Net assets are divided into three major categories. The first, Invested in Capital Assets, Net of Debt, provides the institution's equity in property, plant, and equipment owned by the University. The Restricted Net Asset category is subdivided into nonexpendable and expendable classifications. Restricted nonexpendable net assets consist solely of the University's permanent endowment funds and are only available for investment purposes. 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 final major category, Unrestricted Net Assets is available to the University for any lawful purpose. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various project needs including deferred maintenance programs. The tight budgetary climate has prevented the University from addressing deferred maintenance items in the annual operating budget process.

Condensed Statement of Net Assets (In Thousands)

	2005	2004	Increase/ (Decrease)
Assets:			
Current assets	$ 72,693	$ 60,300	$ 12,393
Capital assets, net	110,677	103,978	6,699
Other assets	43,758	39,548	4,210
Total Assets	$227,128	$203,826	$ 23,302
Liabilities:			
Current liabilities	$ 44,432	$ 35,528	$ 8,904
Non-current liabilities	53,396	55,066	(1,670)
Total Liabilities	$ 97,828	$ 90,594	$ 7,234
Net Assets			
Invested in capital assets, net of debt	$ 59,479	$ 51,789	$ 7,690
Restricted-expendable	2,574	3,722	(1,148)
Restricted-non-expendable	1,620	1,500	120
Unrestricted	65,627	56,221	9,406
Total Net Assets	**$129,300**	**$113,232**	**$ 16,068**

There are some significant changes in the asset section as reflected by the condensed statement presented above. Current assets for FY 2005 show a strong increase ($12,393,000), with Cash reporting substantial growth ($10,064,000). The rest of the increase was due to a gain for Accounts Receivable ($5,700,000). There was a large decrease in Inventories ($1,402,000) due to the University contracting with Barnes and Noble Corporation to manage all the Troy University Bookstores. Barnes and Noble purchased all inventory at August 1, 2005 at the lower of cost or market.

The increase in Capital assets ($6,699,000) is due to substantial spending for capital projects, most notably the football stadium renovation, the construction of a new classroom at the Troy campus and building the Rosa Parks Museum Children's Annex in Montgomery. The funding sources for most of this construction were the 2003 Bond Issues plus spending from University Reserve Funds. Depreciation expense, which decreases the book value of capital assets, was $4,191,603 for fiscal year 2005.

The change in the Other Assets category results predominately from cash on hand in reserve funds.

The largest change in Current Liabilities is due to an increase in Accounts Payable ($4,277,000). There also was a large increase in Deferred Revenue ($2,897,000) which is caused by timing differences in registering for classes with the end of our fiscal year. Funds Held for Others was another item showing an increase of $1,924,000 due to more cash receipts from students not being identified and applied to their account.

Non-current liabilities did show a decrease ($1,670,000) due to the payment of outstanding bond issues. A new bond offering was issued on May 1, 2005, but its purpose was to refinance the outstanding bonds from the 1999 Bond Issue.

Changes in total net assets as presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets 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 University. 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. State appropriations are considered non-operating revenue. Capital appropriations, grants and gifts, donations, and payments from endowments are considered neither operating nor non-operating revenues. They are reported after "Income before other revenues, expenses, gains, or losses".

Due to this operating/non-operating classification and the fact that state appropriations are classified as non-operating, the University's Statement of Revenues, Expenses, and Changes in Net Assets reports an operating loss. This reported operating loss is typical of all state supported/assisted institutions and demonstrates the reliance on State support. The operating loss for 2005 was $598,000 less than 2004.

Condensed Statement of Revenues, Expenses and Changes in Net Assets (In Thousands)

	2005	2004	Increase/ (Decrease)
Operating revenues	$143,832	$122,784	$ 21,048
Operating expenses	(167,100)	(146,650)	(20,450)
Operating loss	($ 23,268)	($ 23,866)	598
Non-operating revenues and expenses	36,932	34,020	2,912
Income (Loss) before other revenues Expenses, gains or losses	$ 13,664	$ 10,154	$3,510
Other revenues, (expenses), gains or (losses)	2,403	2,657	(254)
Increase in net assets	$ 16,067	$ 12,811	$3,256
Net assets, beginning, restated	113,232	100,421	12,811
Net Assets at End of Year	$129,299	$113,232	$16,067

Tuition and fees represent $16,756,000 of the increase in **Operating Revenue**. Board approved tuition and fee increases as well as increased enrollments are credited for this growth. There was also an increase in Federal Grants and Contracts ($3,829,000) mainly due to increases in Pell Grants. There was a decrease though in the revenue being reported for State and Local Grants and Contracts ($838,000) due to decreases in State spending.

There were increases in **Operating Expenses** that were needed to accommodate the increased number of students, especially for our University College sites. The functional areas that most absorbed these extra costs were Instruction ($8,883,000), Institutional Support ($4,227,000) and Student Aid ($3,020,000). Bookstore costs also increased due to the University selling its bookstore inventory to Barnes and Noble at the lower of cost or market.

The increase for **Non-operating Revenue** came from two areas. State Appropriations did show an increase ($1,325,000) due to extra funding by the Alabama State Legislature. Investments also increased greatly ($1,061,000) mainly from the increase in interest rates given bank accounts and increases in the investment accounts shown for our 1985 and 1987 Endowments ($482,000).

Fiscal year 2005 increase in Net Assets of $16,068,000 is a healthy sign of the economic viability of Troy University. All of the various Troy campuses (Troy, Phenix City, Dothan, Montgomery and University College) are showing nice increases in revenue. This allows Troy University to better withstand economic downturns within Alabama.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the University 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 state appropriation and gift revenues, two sources of revenues relied upon heavily by public universities, 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 income or loss reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Cash Flows
(In Thousands)

	2005
Cash provided (used) by:	
Operating activities	$(13,243)
Non-capital financing activities	39,651
Capital and related financing activities	(13,233)
Investing activities	1,583
Net Change in Cash	14,758
Cash, beginning of year	54,165
Cash, end of year	$68,923

The Condensed statement presented above illustrates the University's significant reliance upon state appropriations to meet its operating demands. Of the $39,651,000 in cash provided by non-capital financing activities, $37,133,000 is attributable to state appropriations. This statement also reflects that $8,666,287 was utilized in capital projects. Also shown is the $2,741,767 for principal paid on capital debt and leases, plus the $1,824,946 spent for the interest expense for those bonds, notes and leases.

The growth in cash of $14,758,000 is expected due to the strong increase in Net Assets of $16,068,000.

Capital Assets

The following major building additions/new facilities projects comprise the majority of the additions to the category "Net Assets-Invested in capital assets, net of related debt" on the Statement of Net Assets. These projects were placed in service during fiscal year 2005:

Land Purchased near Troy Campus	150,000
First two floors Movie Gallery Stadium	2,155,787
Construction of Rosa Parks Children's Annex in Montgomery	3,043,695
Paving Improvements at Baseball Stadium	252,731
Completion of the Renovation of Clements Hall	4,050,487
Renovation of Bibb Graves Hall	350,886
Renovation of Smith Hall at Troy Campus	1,565,927
Construction of new Academic Building at Troy Campus	5,126,847

Other construction renovation projects in process at fiscal year end include the renovation of the Maintenance Facility in Phenix City and Davis Theatre in Montgomery.

Debt Administration
The University's Statement of Net Assets reflects $52,060,000 in bonds payable, $257,280 in capital leases payable, and no notes payable at September 30, 2005.

The University's bonded indebtedness consists entirely of General Student Fee Revenue Bonds payable from general fees of the University. All bonded indebtedness for the University was issued as fixed rate obligations, with the exception of the 2002 Bond Issue. It has an outstanding value on September 30, 2005 of $12,525,000.

Troy University also defeased the 1999 Bond Issue during early May of 2005. The University retired the 1999 Bond Issue with an outstanding balance of $7,485,000, and substituted $8,270,000 of debt at a fixed rate of approximately 3.5 percent.

For additional information on Capital Assets and Debt Administration, see Notes 3 and 8 respectively, in the notes to the financial statements.

Economic Outlook
The University derives approximately 20% of total revenue from State of Alabama appropriations. As a result, the financial condition of the University is closely tied to that of the State of Alabama. These appropriations are funded through the Education Trust Fund (ETF) of which sales tax income is the primary funding source. Economic growth during 2005 has been moderate, and the State of Alabama currently possesses a large budget surplus. We will receive an increase in State Appropriations for fiscal year 2006 of approximately $6,300,000. Since 2006 is also an election year, the possibility of an increase in State Appropriations for 2007 is also promising. This is a turnaround from the past five fiscal years where pro-ration and small increases in state funding were the norm for Higher Education in the state of Alabama.

Troy University's future remains bright through its entrepreneur spirit to increase externally generated revenues. Troy continues to experience revenue growth in non-traditional instruction delivery methods, predominately, web-based delivery, and targeted group instruction (i.e., E-Army University). Initiatives being explored in foreign markets such as Malaysia and Vietnam provide the potential for additional revenue growth. The demand for American degrees remains strong in international markets. One need only look at the growing international presence at the Troy campus for evidence of this international demand.

The growth in these non-traditional methods of instructional delivery and expanding markets will allow the University to continue to grow without the dependency on state appropriations to fund new and expanding University initiatives.

In addition, Troy has seen growth in all of its Alabama campuses for the fall term of 2005. This has been especially true in our Montgomery campus. The Troy Board of Trustees passed a resolution to increase tuition for the 2006 school year by approximately 4%. This increase is in the same range of other State of Alabama public universities.

Troy Foundation
Statements of Financial Position

Assets for the Troy Foundation increased by $1.6 million from fiscal year 2004 ($36.4 million from $34.8 million in 2004). The biggest reason for this increase was a $2.5 million or 16.2% increase in investments. Cash and cash equivalents did show a decrease of $1.1 million. The largest reason for this decrease was approximately $2.5 million of investment purchases.

Liabilities did show a modest increase of $360,000. The largest reason for this increase was a $392,000 increase in the Funds Held by Agent category. This category includes bank accounts being managed by the Foundation for students from China. Those accounts are in the name of the Chinese students, but the Foundation is serving as an agent for those students. Net Assets displayed an increase of $1.2 million or 4% ($33.6 million from $32.4 million in 2004). This increase in assets would be expected with so much of the Foundation's assets showing as investments. Those investments should have grown during fiscal 2005 due to the strong economy and stock market.

Troy Foundation
Statements of Activities

Support and Revenue for the Foundation decreased $1.7 million from 2004. One reason for the decrease was the $375,000 reduction in contributions. Also other income decreased $1.575 million ($630,957 for 2005 versus $2,205,517). This was due to football game guarantees not being deposited in the Foundation during fiscal year 2005. Investment income did increase approximately $150,000 or 8.5%.

Expenses for the Foundation also decreased approximately $1.7 million. The largest decrease was Athletic expenses which was $1.4 million less than 2004. Other grants and allocations decreased $229,440 due to reduced spending in program services. Fund raising costs did increase by $121,963 because of extra expenses paid in anticipation of the University's upcoming capital campaign. Transfers to Troy University for fiscal year 2005 were $123,653 less than fiscal 2004.

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Statement of Net Assets
September 30, 2005

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 34,459,612.55
Short-Term Investments	335,312.55
Endowment Investments	24,217.89
Deposit with Bond Trustee	1,552,502.55
Accounts Receivable, Net	31,789,129.59
Inventories	112,019.60
Security Deposits	240,310.00
Lease Receivable	6,599.88
Loans Receivable	488,722.14
Prepaid Expenses	3,620,518.60
Bond Issuance Costs	64,103.08
Total Current Assets	72,693,048.43
Noncurrent Assets	
Cash	34,463,737.19
Endowment Investments	4,647,247.51
Investments	1,745,624.45
Lease Receivable	113,939.63
Loans Receivable	1,732,742.13
Bond Issuance Costs	1,054,624.26
Capital Assets:	
Land	4,142,167.22
Improvements Other Than Buildings	4,657,094.22
Buildings	145,140,002.35
Construction in Progress	1,816,336.31
Equipment and Furniture	9,433,011.26
Assets Under Capital Lease	557,252.20
Museum Exhibits	1,685,956.45
Less: Accumulated Depreciation	(56,754,653.37)
Total Capital Assets, Net of Depreciation	110,677,166.64
Total Noncurrent Assets	154,435,081.81
Total Assets	$ 227,128,130.24

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

LIABILITIES	
Current Liabilities	
Funds Held for Others	$ 4,968,729.97
Accounts Payable and Accrued Liabilities	8,379,007.74
Deferred Revenue	28,286,944.93
Lease Obligations	17,736.85
Notes Payable	
Bonds Payable	2,555,000.00
Compensated Absences	224,091.80
Total Current Liabilities	44,431,511.29
Noncurrent Liabilities	
Funds Held for Others	2,332,911.43
Lease Obligations	239,543.06
Bonds Payable	49,505,000.00
Compensated Absences	1,319,240.15
Total Noncurrent Liabilities	53,396,694.64
Total Liabilities	97,828,205.93
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	59,478,614.08
Restricted for:	
Nonexpendable:	
Title III Endowment Challenge Grants	1,620,000.00
Expendable:	
Scholarships and Fellowships	382,245.85
Instructional Department Uses	1,937,231.19
Loans	254,535.41
Unrestricted	65,627,297.78
Total Net Assets	$ 129,299,924.31

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Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2005

OPERATING REVENUES	
Student Tuition and Fees (Net of Scholarship Allowances of $9,281,671.65)	$ 98,181,360.33
Federal Grants and Contracts	23,846,626.25
State and Local Grants and Contracts	4,261,276.78
Nongovernmental Grants and Contracts	684,449.40
Sales and Services of Educational Departments	5,557,810.02
Auxiliary Enterprises:	
Residential Life (Net of Scholarship Allowances of $961,565.89)	5,466,500.92
Bookstore (Net of Scholarship Allowances of $61,759.42)	5,834,415.81
Total Operating Revenues	143,832,439.51
OPERATING EXPENSES	
Instruction	61,690,729.08
Research	377,526.71
Public Service	6,188,116.59
Institutional Support	31,215,076.21
Academic Support	13,130,024.26
Student Services	12,534,335.93
Operation and Maintenance	11,685,777.66
Scholarships and Financial Aid	16,152,578.64
Depreciation	4,191,603.33
Auxiliary Enterprises:	
Residential Life	3,565,698.43
Bookstore	6,369,010.14
Total Operating Expenses	167,100,476.98
Operating Income (Loss)	(23,268,037.47)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	37,132,633.54
Investment Income (Net of Investment Expense of $54,850)	1,994,303.85
Interest on Capital Asset Related Debt	(2,057,235.82)
Other Nonoperating Revenues (Expense)	(136,711.51)
Net Nonoperating Revenues	36,932,990.06
Income Before Other Revenues, Expenses, Gains, or Losses	13,664,952.59
Net Assets Transferred from TSU Foundation	2,402,922.04
Changes in Net Assets	16,067,874.63
Total Net Assets - Beginning of Year, as Restated (Note 15)	113,232,049.68
Total Net Assets - End of Year	$ 129,299,924.31

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

Statement of Cash Flows
For the Year Ended September 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	$ 96,499,336.38
Grants and Contracts	29,525,998.25
Payments to Suppliers	(42,531,142.87)
Payment to Utilities	(4,251,807.63)
Payments to Employees	(79,624,072.61)
Payments for Benefits	(14,947,562.93)
Payments for Scholarships	(16,152,578.64)
Loans Issued to Students and Employees	(594,202.00)
Collection of Loans to Students and Employees	492,507.48
Auxiliary Enterprise Charges:	
Residential Life	6,005,160.37
Bookstore	6,670,286.38
Sales of Educational Services	6,230,125.30
Change in Prepaid Expenses	(567,423.46)
Other Receipts (Payments)	1,639.87
Net Cash Provided (Used) by Operating Activities	(13,243,736.11)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	37,132,633.54
Security Deposits	3,542.99
Donations from Foundation	2,478,042.17
Loans	(220,072.88)
Agency Transactions	375.27
Other Receipts (Payments)	256,975.25
Net Cash Provided (Used) by Noncapital Financing Activities	39,651,496.34
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	286,713.16
Proceeds from Sale of Capital Assets	285,052.55
Purchases of Capital Assets	(11,678,514.38)
Principal Paid on Capital Debt and Leases	(2,741,767.07)
Interest Paid on Capital Debt and Leases	(1,824,946.44)
Bond Issuance Costs	(130,283.70)
Deposit with Trustee	2,571,075.90
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,232,669.98)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	188,992.93
Interest on Investments	1,403,934.19
Purchase of Investments	(10,000.00)
Net Cash Provided (Used) by Investing Activities	1,582,927.12
Net Increase (Decrease) in Cash and Cash Equivalents	14,758,017.37
Cash and Cash Equivalents - Beginning of Year	54,165,332.37
Cash and Cash Equivalents - End of Year	$ 68,923,349.74

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

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	$ (23,268,037.47)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	4,191,603.33
Changes in Assets and Liabilities:	
(Increase)/Decrease in Receivables, Net	(4,594,611.05)
(Increase)/Decrease in Inventories	1,402,252.37
Increase/(Decrease) in Accounts Payable	4,930,901.52
(Increase)/Decrease in Other Assets	(666,832.99)
Increase/(Decrease) in Deferred Revenue	2,896,779.92
Increase/(Decrease) in Compensated Absences	82,836.35
(Increase)/Decrease in Loans to Students and Employees	(101,694.52)
Increase/(Decrease) in Deposits Held for Others	1,883,066.43
Net Cash Provided (Used) by Operating Activities	$ (13,243,736.11)

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Statements of Financial Position
Troy University Foundation
September 30, 2005 and 2004

		2005		2004
ASSETS				
Cash and Cash Equivalents	$	11,784,456	$	12,871,626
Unconditional Promises to Give		594,666		737,290
Investments		18,435,400		15,868,469
Notes Receivables		238,741		480,210
Other Receivables		103,492		41,245
Beneficial Interest in Trusts		841,177		830,599
Operating Assets, Net		2,751,550		2,717,559
Program Cash Held as Agent		1,650,886		1,258,014
TOTAL ASSETS		36,400,368		34,805,012
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable		557,742		486,927
Funds Held as Agent		1,650,886		1,258,014
Due to Troy University		152,252		204,746
Gift Annuity Liability		389,165		441,182
TOTAL LIABILITIES		2,750,045		2,390,869
NET ASSETS				
Unrestricted		7,594,523		7,184,591
Temporarily Restricted		14,094,211		13,297,820
Permanently Restricted		11,961,589		11,931,732
TOTAL NET ASSETS		33,650,323		32,414,143
TOTAL LIABILITIES AND NET ASSETS	$	36,400,368	$	34,805,012

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

Statements of Activities
Troy University Foundation
For the Years Ended September 30, 2005 and 2004

	2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	$ 97,698	$ 2,003,878	$ 29,857	$ 2,131,433
Investment Income	147,659	1,789,854	-	1,937,513
Affinity Card Income	-	41,233	-	41,233
Special Event Revenue	3,013	1,433,159	-	1,436,172
Change in Value of Split Interest Agreement and Perpetual Trusts	-	(29,142)	-	(29,142)
Other Income	17,705	613,252	-	630,957
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	5,055,843	(5,055,843)	-	-
TOTAL SUPPORT AND REVENUE	5,321,918	796,391	29,857	6,148,166
EXPENSES				
Program Services:				
Athletics	1,509,686	-	-	1,509,686
Other Grants and Allocations	646,377	-	-	646,377
Total Program Services	2,156,063	-	-	2,156,063
Supporting Services:				
Management and General	180,382	-	-	180,382
Fund Raising	172,619	-	-	172,619
Total Supporting Services	353,001	-	-	353,001
Transfers to Troy University	2,402,922	-	-	2,402,922
TOTAL EXPENSES	4,911,986	-	-	4,911,986
CHANGE IN NET ASSETS	409,932	796,391	29,857	1,236,180
Transfers	-	-	-	-
Net Assets at Beginning of Year	7,184,591	13,297,820	11,931,732	32,414,143
Net Assets at End of Year	$ 7,594,523	$ 14,094,211	$ 11,961,589	$ 33,650,323

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

2004			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 94,520	$ 1,975,625	$ 435,417	$ 2,505,562
305,835	1,254,615	225,372	1,785,822
-	46,469	-	46,469
5,337	1,263,329	-	1,268,666
-	(22,986)	35,243	12,257
41,237	2,164,280	-	2,205,517
8,049,262	(8,049,262)	-	-
8,496,191	(1,367,930)	696,032	7,824,293
2,944,263	-	-	2,944,263
875,817	-	-	875,817
3,820,080	-	-	3,820,080
167,401	-	-	167,401
50,656	-	-	50,656
218,057	-	-	218,057
2,546,117	-	(19,542)	2,526,575
6,584,254	-	(19,542)	6,564,712
1,911,937	(1,367,930)	715,574	1,259,581
(2,007,013)	2,015,337	(8,324)	-
7,279,667	12,650,413	11,224,482	31,154,562
$ 7,184,591	$ 13,297,820	$ 11,931,732	$ 32,414,143

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 Units

The Governmental Accounting Standards Board (GASB) has issued Statement Number 39, "***Determining Whether Certain Organizations are Component Units***", an amendment to GASB Statement Number 14. Statement Number 39 provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be treated as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of a government 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 and accompanying notes 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.

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

The financial statements of the 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, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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.

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 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 depreciation method 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. Buildings are depreciated over forty years. Improvements involving computers are depreciated over four years. Signs and buildings of a non-permanent nature are depreciated over twenty years. Other building improvements that involve landscaping items are depreciated over forty years.

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, 2005 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.

- ***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 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.

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.	$74,180,780.86
Amount insured by the FDIC or collateralized with securities held by the pledging financial institution's trust department in the University's name.	4,139,287.31
Total Bank Balance	$78,320,068.17

B. Investments

Investments, as shown on the Statement of Net Assets, include non-negotiable certificates of deposit in the amount of $1,209,409; 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 investments categories; that are Operational Fund Investments consisting of relatively short-term investments and Permanent Fund Investments which consists of relatively longer term investments.
>
> Operational Fund Investments are applicable to the following fund groups:
>
> A) Current funds
> B) Loan funds
> C) Agency funds
> D) Plant funds
>
> The Chancellor or his designee shall be responsible for the direct investment and administration of Operational Fund 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 Fund 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.

Permanent Fund Investments are applicable to the following fund groups:

A) Endowment (including funds functioning as endowment).
B) Life income and annuity funds.

The Chancellor or his designee shall be responsible for the direct investment and administration of the several categories of Permanent Fund Investments; however, unless otherwise restricted by the donor, such investments shall be limited to the same marketable securities allowable for Operational Fund 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, 2005, the University had the following investments.

Investment Type	Fair Value	1-5	6-10	11-15	16-20	No Maturity
U. S. Agencies						
Federal National Mortgage Association	$ 3,246	$	$	$3,246	$	$
Federal Home Loan Mortgage Corporation	17,621		17,621			
Federal Home Loan Mortgage Corporation Strips	3,351				3,351	
Annuity Fund	225,290					225,290
Mutual Funds	4,647,248					4,647,248
Stocks	646,238					646,238
Total	$5,542,994	$	$17,621	$3,246	$3,351	$5,518,776

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 does not have a formal investment policy which is limits investment in any one issuer to less than 5%. At September 30, 2005, the University's investment in SunLife Corporation Stock constituted 11.66% 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 $646,238.

For the University Trustee that Holds Bond Funds

At September 30, 2005, the University had $1,552,502.55 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, 2005, 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 maturity of 60 days or less.

Note 3 – Capital Assets

Capital asset activity for the year ended September 30, 2005, was as follows:

	Beginning Balance	Additions	Deductions	Reclassifications and Adjustments	Ending Balance
Land	$ 4,140,255.96	$ 177,575.00	$ 175,663.74	$	$ 4,142,167.22
Buildings	128,626,482.00		42,243.62	16,555,763.97	145,140,002.35
Improvements Other Than Buildings	4,368,027.28			289,066.94	4,657,094.22
Equipment	9,400,657.78	1,114,954.71	1,156,843.51	74,242.28	9,433,011.26
Leased Assets	487,264.60	85,287.60	15,300.00		557,252.20
Museum Exhibits	1,685,956.45				1,685,956.45
Construction in Progress	9,002,940.22	9,658,227.00		(16,844,830.91)	1,816,336.31
Total	157,711,584.29	11,036,044.31	1,390,050.87	74,242.28	167,431,820.01
Less: Accumulated Depreciation					
Buildings	44,974,098.69	3,043,358.64	42,243.62		47,975,213.71
Improvements Other Than Buildings	1,170,633.50	107,015.38			1,277,648.88
Equipment	7,423,681.56	999,080.40	1,151,031.76	(1,758.46)	7,269,971.74
Museum Exhibits	189,670.13	42,148.91			231,819.04
Total Accumulated Depreciation	53,758,083.88	4,191,603.33	1,193.275.38	(1,758.46)	56,754,653.37
Capital Assets, Net	$103,953,500.41	$ 6,844,440.98	$ 196,775.49	$ 76,000.74	$110,677,166.64

Note 4 – Receivables

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

Accounts Receivable	
Federal	$ 1,921,135.89
State	27,823.23
Troy University Foundation	632,128.43
Third Party Sponsors	13,406,882.10
Less: Allowance for Doubtful Accounts	(858,082.92)
Total Accounts Receivable	15,129,886.73
Student Receivables	
Current	23,260,657.60
Less: Allowance for Doubtful Accounts	(6,601,414.74)
Total Receivables	$31,789,129.59

Note 5 – Construction and Other Significant Commitments

The University is in the process of completing improvements on the track on the Troy campus. The costs to complete this project are $445,000. The Montgomery campus has begun renovations on the Davis Theatre. Costs to complete the renovations are $260,000.

Note 6 – Accounts Payable

Accounts payable and accrued liabilities represent amounts due at September 30, 2005 for goods and services received prior to the end of the fiscal year.

Salaries and Wages	$ 193,484.20
Benefits	2,745,112.12
Supplies	3,048,688.94
Sales and Other Taxes	738,306.24
Student and Auxiliary Services	1,496,934.87
Due to Grantor	13,253.57
Other	143,227.80
Total	$8,379,007.74

Note 7 – Lease Obligations

Capital Leases

The University is acquiring equipment under lease agreements, which provides for the University to purchase the 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 Year	Equipment
2005-2006	$ 28,554.72
2006-2007	33,334.76
2007-2008	32,009.76
2008-2009	32,009.76
2009-2010	32,009.76
2010-2011	23,181.84
2011-2012	12,742.80
2012-2013	12,742.80
2013-2014	12,742.80
2014-2015	12,742.80
2015-2016	12,742.80
2016-2017	12,742.80
2017-2018	12,742.80
2018-2019	12,742.80
2019-2020	12,742.80
2020-2021	12,742.80
2021-2022	12,742.80
2022-2023	12,742.80
2023-2024	12,742.80
2024-2025	10,621.08
Minimum Lease Payments	357,378.08
Less: Interest	100,098.17
Present Value of Minimum Lease Payments	$257,279.91

Note 8 – Long-Term Liabilities

Long-term liabilities for the year ended September 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Current Portion
Lease Obligations	$ 207,314.78	$ 85,287.60	$ 35,322.47	$	$ 257,279.91	$ 17,736.85
Notes Payable	286,444.60		286,444.60			
Revenue Bonds	53,695,000.00	8,270,000.00	2,420,000.00	(7,485,000.00)	52,060,000.00	2,555,000.00
Total Leases, Notes and Bonds	54,188,759.38	8,355,287.60	2,741,767.07	(7,485,000.00)	52,317,279.91	2,572,736.85
Other Liabilities						
Compensated Absences	1,460,495.60	82,836.35			1,543,331.95	224,091.80
Total Long-Term Liabilities	$55,649,254.98	$8,438,123.95	$2,741,767.07	$(7,485,000.00)	$53,860,611.86	$2,796,828.65

The Revenue Bonds were issued in 1998, 2001, 2002, 2003, 2004 and 2005 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 the 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
2005-2006	$ 2,555,000.00	$ 1,956,101.26	$ 4,511,101.26
2006-2007	2,675,000.00	1,869,626.26	4,544,626.26
2007-2008	2,770,000.00	1,781,822.01	4,551,822.01
2008-2009	2,715,000.00	1,689,433.76	4,404,433.76
2009-2010	2,915,000.00	1,593,197.63	4,508,197.63
2010-2011	3,010,000.00	1,487,287.00	4,497,287.00
2011-2012	3,135,000.00	1,369,248.50	4,504,248.50
2012-2013	3,285,000.00	1,240,126.25	4,525,126.25
2013-2014	2,635,000.00	1,122,866.00	3,757,866.00
2014-2015	2,755,000.00	1,017,751.00	3,772,751.00
2015-2016	2,895,000.00	903,017.50	3,798,017.50
2016-2017	3,035,000.00	778,634.00	3,813,634.00
2017-2018	2,665,000.00	656,154.00	3,321,154.00
2018-2019	2,805,000.00	537,232.00	3,342,232.00
2019-2020	2,235,000.00	430,278.00	2,665,278.00
2020-2021	1,600,000.00	349,737.00	1,949,737.00
2021-2022	1,705,000.00	279,302.00	1,984,302.00
2022-2023	1,290,000.00	217,264.00	1,507,264.00
2023-2024	1,375,000.00	164,070.00	1,539,070.00
2024-2025	890,000.00	119,764.00	1,009,764.00
2025-2026	960,000.00	84,960.00	1,044,960.00
2026-2027	1,035,000.00	47,434.00	1,082,434.00
2027-2028	1,120,000.00	6,851.00	1,126,851.00
Total	$52,060,000.00	$19,702,157.17	$71,762,157.17

The University incurred bond issuance cost upon issuance of its 1998, 2001, 2002, 2003, 2004 and 2005 Series Tuition Revenue Bonds and Alabama Higher Education Equipment Loan Authority Notes. The issuance cost is being amortized using the straight-line method.

Total Bond Issuance Cost	$1,577,488.43
Amount Amortized-Prior Years	(410,791.22)
Sub-Total Issuance Costs	1,166,697.21
Amount Amortized - Current	(60,296.88)
Removed for 1999 Bonds	(167,649.71)
Added for 2005 bonds	179,976.72
Balance Bond Issuance Costs 9/30/2005	$1,118,727.34

Defeased Debt

On May 1, 2005, the University issued revenue bonds with an interest rate varying from 3% to 4% to advance refund the 1999 revenue bonds with an interest rate varying from 3.75% to 5.5%. The net proceeds from the issuance of the 2005 revenue bonds 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 revenue bonds were considered to be defeased and the liability for these bonds has been removed.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of old debt of $389,058. The difference is being netted against the new debt and amortized over the remaining life of the old debt which is shorter than the life of the new debt issued. As a result of advance refunding, the University reduced its total debt service requirements by $44,975.00, which resulted in an economic gain of $350,373.23.

Prior Year Defeasance of Debt

In prior years, the University defeased certain revenue bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payment of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the University's financial statements. At September 30, 2005, a total of $4,705,000 of bonds outstanding is considered defeased.

Note 9 – Conduit Debt Obligations

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. The bonds do not constitute a debt or pledge of the 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 $4,400,000.00 Troy State University Special Limited Obligation Revenue Bonds, Series 1997 from MBIA Insurance Corporation. The total amount of outstanding conduit debt as of September 30, 2005, was $3,785,000.00.

In addition, the City of Troy refinanced the 1997 Bond Issue on December 1, 2005. The new amount of bonds outstanding is $4,820,000. Troy University received $600,000 that will be used to renovate the University's baseball stadium.

Note 10 – Defined Benefit Pension Plan

A. Plan Description

Troy 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.

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. The 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 the University and its employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2005	2004	2003
Total Percentage of Covered Payroll	12.03%	11.56%	10.02%
Contributions:			
Percentage Contributed by Troy University	7.03%	6.56%	5.02%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by Troy University	$4,306,141.52	$3,690,502.58	$2,684,568.83
Contributed by Employees	3,065,980.11	2,816,931.40	2,661,254.61
Total Contributions	$7,372,121.63	$6,507,433.98	$5,345,823.44

Note 11 – Additional Benefit Plan

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 3% 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.

Note 12 – Income Tax Status

The University is considered a political subdivision of the State of Alabama. Accordingly, it is exempt from federal income taxes under Section 115 of the Internal Revenue Code.

Note 13 – Component Unit

As of September 30, 2005, the University's Statement of Net Assets included receivables of $632,128.43 from the Troy University Foundation. The Foundation owes the University for matching Eminent Scholar program funds and for other expenses related to Troy campus renovation projects.

Note 14 – 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, Vice Chancellor for Financial Affairs and Controller as well as on all other University personnel who handle funds.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The University contributes a specified amount monthly to the PEEHIF for each employee and this amount is applied against the employee's premiums for the coverage selected and the employee pays any remaining premium.

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

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 15 – Net Asset Restatement

Prior period adjustments have been made as enumerated below:

Beginning Net Assets, September 30, 2004	$112,139,055.93
Prior Period Adjustments	
3rd Party University College Receivable Adjustment	870,281.00
Capital Asset Previously Expensed, Not Recorded	22,440.00
Correct Prior Year Receivable	146,699.00
Adjust Sponsored Programs Balances	82,387.56
Correct Prior Year Payables	(48,770.52)
Close Petty Cash Account	(2,612.59)
Receipt Prior Year Revenue	9,891.31
Prior Year Interest Expense	10,919.53
Correct Dothan Campus Depreciation	1,758.46
Total Adjustments	1,092,993.75
Net Assets, October 1, 2004, as Restated	$113,232,049.68

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Troy University Foundation (the "Foundation") was incorporated as an Alabama nonprofit corporation on July 16, 1968, for the purpose of promoting broader educational opportunities for, and services to, the students and alumni of Troy University. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of Alabama law.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) Number 117, ***Financial Statements of Not-for-Profit Organizations***. Under SFAS Number 117, the Foundation is required to report information regarding its financial position and activities according to the following classes of net assets:

- ***Unrestricted Net Assets*** – Net assets that are not subject to donor-imposed stipulations.

- ***Temporarily Restricted Net Assets*** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

- ***Permanently Restricted Net Assets*** – Net assets subject to donor-imposed stipulations that require the assets to be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Management determines the allowance for uncollectible promises to give based upon historical losses and current economic conditions. On a continuing basis, management analyzes delinquent promises and, once these promises are determined to be uncollectible, they are written off through a charge against the allowance and then to the change in net assets.

Investments

The Foundation carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Real estate investments which were received by gift are carried at fair value (at the date of the gift). Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Other investments are carried at cost. Income from pooled investments is allocated quarterly in proportion to the balance of accounts with funds invested in the investment pool.

Beneficial Interest in Trusts

The Foundation follows the provisions of Statement of Financial Accounting Standards (SFAS) Number 136, ***Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others***. Under SFAS Number 136, the Foundation is required to recognize its right to financial and non-financial assets held by the recipient organization (trustee) as a beneficial interest. The beneficial interest is measured at the fair value of the underlying trust assets since the Foundation has an unconditional right to receive all or a portion of the cash flows from a charitable trust or other asset pool.

Operating Assets

Operating assets, consisting of real estate, educational facilities and vehicles, are recorded at cost if purchased and fair value at the date of the gift if donated. Depreciation is provided on the straight-line basis over the estimated useful lives of assets as follows:

Buildings and Improvements	40 years
Vehicles	5 years

The cost and accumulated depreciation of assets sold or retired are removed from their respective accounts. Any gain or loss resulting from the disposal of operating assets is recorded in the current period. Depreciation expense for the years ended September 30, 2005 and 2004, totaled $24,414 and $52,571, respectively.

Donated Equipment

Donated property and equipment is recorded as support at its estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Unrelated Business Income Tax

Unrelated business income tax is imposed on not-for-profit organizations who conduct certain activities unrelated to their exempt purpose. At times, the Foundation receives royalty and other income that may be taxable. However, no unrelated business income tax liability existed as of September 30, 2005 and 2004.

Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2005	2004
Program Services:		
Scholarships	$ 3,267,582	$ 2,661,830
Professorships	1,475,643	1,260,736
Athletics	1,132,974	1,060,610
Other Grants and Allocations	8,218,012	8,314,644
Total	$14,094,211	$13,297,820

3. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are available for investment in perpetuity, the income from which is expendable to support the following:

	2005	2004
Program Services:		
Scholarships	$ 4,884,975	$ 4,857,324
Professorships	5,697,815	5,712,815
Other Grants and Allocations	1,378,799	1,361,593
Total	$11,961,589	$11,931,732

4. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors as follows:

	2005	2004
Program Services:		
Athletics	$1,507,190	$2,943,538
Other Grants and Allocations	1,008,714	805,742
Supporting Services	169,191	50,500
Transfers to Troy University		
Scholarships	226,512	149,463
Professorships	246,322	295,530
Athletics	1,016,024	3,092,970
Other Grants and Allocations	881,890	711,519
Total	$5,055,843	$8,049,262

5. PROMISES TO GIVE

Unconditional promises to give as of September 30, 2005 and 2004, consisted of the following:

	2005	2004
Receivable in Less than One Year	$ 893,608	$ 387,095
Receivable in One to Five Years	111,814	917,587
Total Unconditional Promises to Give	1,005,422	1,304,682
Less Discounts to Net Present Value	53,001	62,148
Less Allowance for Uncollectible Promises	357,755	505,244
Net Unconditional Promises to Give	$ 594,666	$ 737,290

A risk-free discount rate was used to calculate present values of future cash flows.

The Foundation has a $200,000 conditional promise to give from a donor with stipulations based on certain individuals continuing their involvement with Troy University.

6. INVESTMENTS

The Foundation's investments as of September 30, 2005 and 2004, consisted of the following:

	2005	2004
Common and Preferred Stocks	$ 96,399	$ 226,723
Government Bonds	67,748	64,947
Mutual Funds	17,759,321	14,857,982
Securities at Fair Value	17,923,468	15,149,652
Partnership Interest (20%) – Equity Method	47,434	250,000
Real Estate – Acreage and Residential Lots in Alabama and Florida	195,098	195,098
Certificates of Deposit	269,400	273,719
Total	$18,435,400	$15,868,469

The components of investment income and expenses for the years ended September 30, 2005 and 2004, are reflected in the following schedule.

	2005	2004
Net Realized Gains from the Sale of Securities	$ 46,497	$ 87,584
Net Unrealized Appreciation in Value of Securities	1,333,040	968,159
Interest and Dividends	557,976	730,079
Investment Income	$1,937,513	$1,785,822

Separate investment accounts are maintained for all endowments with donor or grantor prohibitions against pooling. Other endowments are maintained in pooled accounts for general permanent endowments. Separate investment accounts are also maintained for certain restricted accounts with significant net assets available for investment. As of September 30, 2005, one investment company holds approximately 97% of the Foundation's investments.

The Foundation owns a 20% interest in a Limited Liability Company which operates a hotel in Troy, Alabama. The investment is accounted for using the equity method. The financial position and results of operations of the LLC as of December 31, 2004 are summarized below:

Current Assets	$ 212,479
Fixed Assets	3,851,588
Other Assets	63,034
Total Assets	4,127,101
Current Liabilities	42,011
Long-Term Liabilities	3,679,518
Members' Equity	405,572
Total Liabilities and Members' Equity	4,127,101
Total Income	1,091,980
Operating Loss	(226,564)
Net Loss	$ (638,364)

7. LEASES RECEIVABLE

The Foundation's leasing activities consist of direct financing leases receivable from Troy University for various vehicles. The vehicles are in use by administrative personnel. All taxes, licenses, insurance and other executory costs are paid by the lessee. The Foundation retains title to the vehicles upon expiration of the lease.

The components of the net investment in direct financing leases as of September 30, 2005 and 2004, are reflected in the following schedule.

	2005	2004
Total Minimum Lease Payments to be Received	$ 96,382	$ -
Estimated Residual Values of Leased Property (Unguaranteed)	31,126	7,495
Unearned Income	(40,251)	(1,675)
Net Investment in Leases	$ 87,257	$ 5,820

Minimum lease rentals to be received under direct financing leases as of September 30, 2005, for each of the next five years are $19,276 per year.

8. NOTES RECEIVABLE

Notes receivable as of September 30, 2005 and 2004, consisted of the following:

	2005	2004
Individual, bearing interest at 8.25%, receivable in annual installments of $1,000, maturing November 2006, secured by real estate	$ 115	$ 1,182
Troy University (Atlantic Region), bearing interest at 9%, receivable in annual installments of $14,847, maturing August 2006, unsecured	37,583	37,583
Troy University (Sigma Chi), bearing interest at 7.5%, receivable in monthly installments of $1,888, maturing May 2010, secured by property	94,220	109,194
Troy University (Lambdi Chi), bearing interest at 7.5%, receivable in monthly installments of $1,276, maturing July 2015, secured by property	106,823	128,265
Troy University (Telecommunications), no stated interest rate or maturity, unsecured	-	14,890
Troy University (Children's Home), no stated interest rate or maturity, unsecured	-	189,096
Total	$238,741	$480,210

9. BENEFICIAL INTEREST IN TRUSTS

The Foundation is named as the specified beneficiary in two charitable trusts where the trustee of the charitable trust has not been granted variance power. Consequently, the Foundation has recognized its unconditional right to receive all or a portion of the specified cash flows from these charitable trusts. These beneficial interests are valued using fresh start accounting and totaled $841,177 and $830,599 as of September 30, 2005 and 2004, respectively.

10. OPERATING ASSETS

Operating assets as of September 30, 2005 and 2004, consisted of the following:

	2005	2004
Land	$2,153,932	$2,122,622
Buildings	587,070	587,070
Vehicles	51,134	55,991
Sub-Total	2,792,136	2,765,683
Accumulated Depreciation	(76,828)	(61,124)
Sub-Total	2,715,308	2,704,559
Construction in Progress	23,242	-
Art Collection	13,000	13,000
Total Operating Assets	$2,751,550	$2,717,559

Land

The Foundation holds title to approximately 18 acres of land located in an area referred to as the Pocosin Basin in Pike County. The property is restricted by the donor for use as an environmental research and preserve area. The Foundation also holds title to several lots located in the Moulton and Catoma Street area of downtown Montgomery, Alabama. This property was purchased from various land owners to be used by Troy University Montgomery for classroom and administrative facilities.

Vehicles

Vehicles purchased by the Foundation are provided for official use by Troy University personnel. All vehicles were originally leased to the University and upon expiration of leases continue to be used by University personnel.

11. FUNDS HELD AS AGENT

The Foundation administers funds for international students. These funds are deposited into separate bank accounts in the name of the Foundation and the individual student, and are available to pay tuition, room and board, and other expenses while the student is enrolled at Troy University. If a student leaves the University, the funds are withdrawn and returned to the student, their parents or sponsor. The balance of funds on deposit is reflected in the statements of financial position as program cash held as agent and funds held as agent, respectively.

12. SPLIT INTEREST AGREEMENT

During 2004, the Foundation entered into a charitable gift annuity agreement providing for payment of distributions to the grantor over the grantor's lifetime. The agreement calls for an annual sum of $90,000 payable quarterly. Assets held to satisfy the terms of the agreement totaled $908,754 and $983,270 as of September 30, 2005 and 2004, respectively. The present value of the estimated future payments, $389,165 and $441,182 as of September 30, 2005 and 2004, respectively is calculated using a discount rate of 9% and applicable mortality tables.

13. CUSTODIAN FUNDS

The Troy University Foundation serves as custodian for two federal endowment grants provided to Troy University under the U. S. Department of Education's Endowment Challenge Grant Program and a Title III grant for Troy University Dothan campus. The program required the University to match the endowment grant with certain qualified matching funds. Under the terms of the grant agreements, one-half of the earnings on the endowment corpus is available for qualified purposes and is disbursed at the direction of the University. The activity of these endowments and their balances as of September 30, 2005, which are not included in the financial statements of the Foundation, are summarized in the following schedule:

	1985 Endowment Grant	1987 Endowment Grant	Title III Grant	Total
Net Assets at Beginning of Year	$1,588,667	$2,421,583	$129,577	$4,139,827
Additions	-	-	10,000	10,000
Investment Income	186,953	294,817	15,650	497,420
Net Assets at End of Year	$1,775,620	$2,716,400	$155,227	$4,647,247

These net assets are available for expenditure as of September 30, 2005, as follows:

	1985 Endowment Grant	1987 Endowment Grant	Title III Grant	Total
Available for Expenditure	$ 406,402	$ 636,246	$ 17,614	$1,060,262
Permanently Endowed	1,369,218	2,080,154	137,613	3,586,985
Total	$1,775,620	$2,716,400	$155,227	$4,647,247

14. STATE EMINENT SCHOLAR GRANTS

The Troy University Foundation received, in prior years, five $400,000 grants from the State of Alabama through the Alabama Endowment Trust Fund for Eminent Scholars. The grants were awarded to create endowments for selected eminent scholars to occupy chairs within Troy University's faculty. The program required the Foundation to match each grant with $600,000 in contributions. Earnings from these endowments are available to supplement salaries for holders and certain other expenses of the chairs and are recognized as temporarily restricted net assets.

The Foundation has received two additional gifts which are eligible for matching grants under the Eminent Scholar program. The matching State of Alabama grants for these two endowments are pending legislative approval as of September 30, 2005.

15. TRANSFERS OF NET ASSETS

Net assets may be transferred between accounts within a particular net asset class under certain circumstances. When donor restrictions are retroactively changed by the donor, net assets may be moved between net asset classes based on newly established restrictions, if any. Endowments established in prior years that do not meet minimum funding requirements are, at times, reclassified to restricted or unrestricted amounts in accordance with applicable federal and state regulations.

16. RELATED PARTIES

The Chancellor, Senior Vice Chancellor for Advancement and External Affairs, Vice Chancellor for Financial Affairs and Associate Vice Chancellor for Development of Troy University serve as ex-officio members of the Foundation's board with full voting powers. Troy University is the primary recipient of Foundation expenditures. The Foundation occupies office space on the University campus and also utilizes time and effort of University personnel. The Foundation has reimbursed the University for these services in the form of scholarships and professorships.

Amounts due to Troy University as of September 30, 2005 and 2004, consisted of reimbursements for professorships, grants and allocations and supporting services totaling $152,252 and $204,746, respectively.

17. CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk associated with these deposits.

18. RECLASSIFICATIONS

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Student Financial Assistance Cluster		
U. S. Department of Education		
Direct Programs		
Federal Pell Grant Program	84.063	
Federal Pell Grant Program	84.063	
Federal Pell Grant Program	84.063	
Federal Pell Grant Program	84.063	
Federal Pell Grant Program Administrative Allowance	84.063	
Federal Pell Grant Program Administrative Allowance	84.063	
Federal Supplemental Educational Opportunity Grants	84.007	
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	
Federal Work-Study Program	84.033	
Total Student Financial Assistance Cluster (M)		
TRIO Cluster		
U. S. Department of Education		
Direct Programs		
TRIO - Student Support Services	84.042	
TRIO - Student Support Services	84.042	
TRIO - Student Support Services	84.042	
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	
Total TRIO Cluster		
WIA Cluster		
U. S. Department of Labor		
Passed Through Alabama Department of Rehabilitation Services		
WIA Youth Activities	17.259	AE4087MS28
WIA Youth Activities	17.259	AE4087MS28
WIA Youth Activities	17.259	C50870030
Total WIA Youth Activities		
Highway Safety Cluster		
U. S. Department of Transportation		
Passed Through Southeast Alabama Medical Center		
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	05-DT-163-006

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
07/01/2005-06/30/2006	$ 6,223,771.00	$ 6,223,771.00	$ 6,154,881.00	$ 6,154,881.00
07/01/2004-06/30/2005	17,768,623.73	17,768,623.73	11,527,951.73	11,527,951.73
07/01/2003-09/30/2004	14,483,790.51	14,483,790.51	(1,012.00)	(1,012.00)
07/01/2002-06/30/2003	11,482,918.50	11,482,918.50	(1,767.00)	(1,767.00)
07/01/2004-06/30/2005	35,705.00	35,705.00	35,705.00	35,705.00
07/01/2003-06/30/2004	610.00	610.00	610.00	610.00
07/01/2005-06/30/2006	480,263.00	480,263.00	247,850.00	247,850.00
07/01/2004-06/30/2005	350,585.00	350,585.00	162,747.00	162,747.00
07/01/2003-06/30/2004	374,818.00	374,818.00	(139,734.00)	(139,734.00)
07/01/2005-06/30/2006	932,647.00	932,647.00	14,944.27	14,944.27
07/01/2004-06/30/2005	789,812.00	789,812.00	679,432.83	679,432.83
07/01/2003-06/30/2004	633,880.00	633,880.00	110,944.03	110,944.03
			18,792,552.86	18,792,552.86
09/01/2005-08/31/2006	768,805.00	768,805.00	38,838.24	38,838.24
09/01/2004-08/31/2005	532,942.00	532,942.00	486,100.59	486,100.59
09/01/2003-08/31/2004	532,942.00	532,942.00	22,636.23	22,636.23
09/01/2002-08/31/2003	285,304.00	285,304.00	(13,823.06)	(13,823.06)
09/01/2001-08/31/2002	468,586.00	468,586.00	18,241.91	18,241.91
09/01/2000-08/31/2001	216,755.00	216,755.00	(635.87)	(635.87)
09/01/2005-08/31/2006	387,702.00	387,702.00	13,584.57	13,584.57
09/01/2004-08/31/2005	387,702.00	387,702.00	363,393.22	363,393.22
			928,335.83	928,335.83
07/01/2004-06/30/2005	156,556.04	55,316.64	83,336.55	83,336.55
07/01/2005-09/30/2005	20,000.00	20,000.00	20,000.00	20,000.00
10/01/2004-09/30/2005	316,291.93	316,291.93	271,431.46	271,431.46
			374,768.01	374,768.01
07/25/2005-09/30/2005	$ 500.00	$ 500.00	$ 334.90	$ 334.90

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Other Federal Awards		
U. S. Department of Education		
Direct Programs		
Higher Education-Institutional Aid	84.031	
Higher Education-Institutional Aid	84.031	
Higher Education-Institutional Aid	84.031	
Higher Education-Institutional Aid	84.031	
Higher Education-Institutional Aid	84.031	
Higher Education-Institutional Aid	84.031	
Higher Education-Institutional Aid	84.031	
Higher Education-Institutional Aid	84.031	
Total Higher Education-Institutional Aid		
Teacher Quality Enhancement Grants	84.336	
Teacher Quality Enhancement Grants	84.336	
Teacher Quality Enhancement Grants	84.336	
Total Teacher Quality Enhancement Grants		
Rehabilitation Long-Term Training	84.129	
Rehabilitation Long-Term Training	84.129	
Total Rehabilitation Long-Term Training		
Fund for the Improvement of Postsecondary Education	84.116	
Passed Through Florida State University		
Fund for the Improvement of Postsecondary Education	84.116	R00151
Total Fund for the Improvement of Postsecondary Education		
Passed Through Alabama Commission on Higher Education		
Improving Teacher Quality State Grants	84.367	
Improving Teacher Quality State Grants	84.367	
Improving Teacher Quality State Grants	84.367	
Improving Teacher Quality State Grants	84.367	
Improving Teacher Quality State Grants	84.367	
Passed Through Alabama State Department of Education		
Improving Teacher Quality State Grants	84.367	C500195
Total Improving Teacher Quality State Grants		
Special Education-State Personnel Development	84.323	
Special Education-State Personnel Development	84.323	
Total Special Education-State Personnel Development		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
10/01/2004-09/30/2005	$ 345,034.00	$ 345,034.00	$ 245,127.17	$ 245,127.17
10/01/2003-09/30/2004	349,980.00	349,980.00	163,097.43	163,097.43
10/01/2002-09/30/2003	349,160.00	349,160.00	26,113.10	26,113.10
10/01/2001-09/30/2002	349,172.00	349,172.00	5,000.00	5,000.00
09/01/1987-08/31/2007	1,000,000.00	500,000.00	500,000.00	500,000.00
09/05/2002-09/05/2022	40,000.00	20,000.00	20,000.00	20,000.00
05/14/2003-05/14/2023	60,000.00	30,000.00	30,000.00	30,000.00
03/01/2005-03/01/2025	20,000.00	10,000.00	10,000.00	10,000.00
			999,337.70	999,337.70
10/01/2004-09/30/2006	263,181.00	172,467.00	58,869.97	58,869.97
10/01/2003-09/30/2004	308,673.00	220,339.00	85,726.84	85,726.84
10/01/2002-09/30/2003	255,000.00	173,948.00	6,623.29	6,623.29
			151,220.10	151,220.10
10/01/2004-09/30/2005	235,684.00	75,000.00	75,000.00	75,000.00
10/01/2005-09/30/2005	235,684.00	75,000.00	20,139.14	20,139.14
			95,139.14	95,139.14
05/01/2004-12/30/2005	497,050.00	497,050.00	328,681.21	328,681.21
01/01/2004-08/31/2005	9,136.00	9,136.00	9,136.00	9,136.00
			337,817.21	337,817.21
01/22/2004-06/01/2005	155,462.50	85,000.00	15,568.09	15,568.09
01/18/2005-06/01/2006	155,462.50	85,000.00	31,564.00	31,564.00
01/30/2004-06/01/2005	158,527.00	123,577.00	71,027.71	71,027.71
01/01/2005-05/31/2006	176,131.00	133,728.00	40,846.36	40,846.36
02/04/2004-06/01/2005	88,805.00	38,844.00	24,271.04	24,271.04
10/01/2004-01/31/2005	13,205.32	13,205.32	8,737.83	8,737.83
			192,015.03	192,015.03
10/01/2004-09/30/2005	100,000.00	100,000.00	95,884.39	95,884.39
10/01/2004-09/30/2005	$ 50,000.00	$ 50,000.00	47,985.07	47,985.07
			$ 143,869.46	$ 143,869.46

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Passed Through Alabama Department of Rehabilitation Services		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	C50870030
Passed Through University of California		
National Writing Project	84.928	92-AL04
Passed Through Alabama Department of Mental Health and Mental Retardation		
Special Education-Grants for Infants and Families with Disabilities	84.181	
U. S. Department of Health and Human Services Direct Program		
Advanced Education Nursing Traineeships	93.358	
Passed Through Alabama Department of Human Resources		
Chafee Foster Care Independence Program	93.674	4149
Children's Justice Grants to States	93.643	4132
Adoption Incentive Payments	93.603	4169
Passed Through Alabama Department of Mental Health and Mental Retardation		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	G44159-51E
Passed Through Alabama Department of Rehabilitation Services		
Maternal and Child Health Federal Consolidated Programs	93.110	AE5087MS21
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	C50870030
Corporation for National and Community Service Direct Programs		
Retired and Senior Volunteer Program	94.002	05SR049258
Retired and Senior Volunteer Program	94.002	02SRSAL153
Total Retired and Senior Volunteer Program		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
10/01/2004-09/30/2005	$ 297,643.77	$ 297,643.77	$ 256,532.00	$ 256,532.00
03/01/2004-06/30/2005	104,601.43	43,000.00	26,685.75	26,685.75
10/01/2004-09/30/2005	164,819.98	34,147.49	28,409.99	28,409.99
07/01/2004-06/30/2005	45,255.00	45,255.00	45,254.94	45,254.94
01/01/2004-09/30/2005	28,500.00	28,500.00	9,723.97	9,723.97
10/01/2004-12/30/2005	25,000.00	25,000.00	21,165.46	21,165.46
07/01/2005-09/30/2005	45,507.00	45,507.00	37,586.97	37,586.97
01/01/2003-09/30/2004	144,679.00	108,509.00	20,012.53	20,012.53
01/01/2005-09/30/2005	16,500.00	16,500.00	14,179.37	14,179.37
10/01/2004-09/30/2005	52,757.03	52,757.03	41,686.68	41,686.68
04/01/2005-03/31/2006	93,443.00	73,278.00	37,780.41	37,780.41
04/01/2004-03/31/2005	$ 109,222.00	$ 72,765.00	32,920.44	32,920.44
			$ 70,700.85	$ 70,700.85

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Social Security Administration		
Passed Through Alabama Department of Rehabilitation Services		
Social Security-Benefits Planning, Assistance and Outreach Program	96.008	C50870030
U. S. Department of Justice		
Direct Program		
Community Prosecution and Project Safe Neighborhoods	16.609	2003-GP-CX-0059
Passed Through Alabama Department of Economic and Community Affairs		
Crime Victim Assistance	16.575	04-VA-SA-003
Passed Through City of Montgomery		
Community Capacity Development Office	16.595	
U. S. Department of Labor		
Passed Through Alabama Department of Rehabilitation Services		
Disability Employment Policy Development	17.720	C50870030
U. S. Department of Transportation		
Passed Through Alabama Department of Transportation		
Job Access-Reverse Commute	20.516	FTA3C 100042077
Job Access-Reverse Commute	20.516	
Total Job Access-Reverse Commute (M)		
National Science Foundation		
Direct Program		
Biological Sciences	47.074	
Passed Through the Mathematical Association of America		
Education and Human Resources	47.076	DMS-0241090
U. S. Small Business Administration		
Passed Through University of Alabama-Birmingham		
Small Business Development Center		
Small Business Development Center	59.037	SBA 2004-2005
Small Business Development Center	59.037	SBAHQ-03-C-0005
Total Small Business Development Center		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
10/01/2004-09/30/2005	$ 169,972.46	$ 169,972.46	$ 158,329.10	$ 158,329.10
10/01/2002-03/31/2006	50,000.00	50,000.00	51,688.11	51,688.11
10/01/2004-09/30/2005	41,040.00	41,040.00	38,153.34	38,153.34
10/01/2004-09/30/2005	3,800.00	3,800.00	3,800.00	3,800.00
10/01/2004-09/30/2005	87,415.70	87,415.70	71,936.08	71,936.08
10/01/2002-09/30/2005	4,192,000.00	1,995,600.00	927,472.17	927,472.17
05/01/2005-08/31/2008	3,528,195.00	2,931,829.00	14,745.48	14,745.48
			942,217.65	942,217.65
03/01/2003-02/28/2007	118,138.00	103,138.00	39,575.57	39,575.57
01/10/2005-03/03/2005	1,500.00	1,500.00	1,500.00	1,500.00
10/01/2004-09/30/2005	150,314.00	69,036.00	69,035.83	69,035.83
05/01/2003-09/30/2005	$ 108,491.00	$ 108,491.00	44,597.42	44,597.42
			$ 113,633.25	$ 113,633.25

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
U. S. Department of the Interior		
Direct Programs		
Conservation Grants Private Stewardship for Imperiled Species	15.632	
Historic Preservation Fund Grants-In-Aid	15.904	
Passed Through South Dakota State University		
Genetic Analysis of Sauger, Walleye and Their Hybrids	15	Q097618
Passed Through Montana Department of Fish, Wildlife and Parks		
State Wildlife Grants	15.634	30208
U. S. Department of Defense		
Passed Through University of Alabama at Birmingham		
Procurement Technical Assistance for Business Firms	12.002	DOD 05-61
U. S. Department of Energy		
Direct Programs		
Office of Science Financial Assistance Program	81.049	DE-FG02-04ER54792
Office of Science Financial Assistance Program	81.049	DE-FG02-04ER54792
Total Office of Science Financial Assistance Program		
Total Federal Awards		

(M) = Denotes Major Program

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

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
05/01/2004-05/01/2005	$ 36,000.00	$ 36,000.00	$ 21,348.00	$ 21,348.00
10/01/2001-08/31/2005	808,000.00	404,000.00	288,566.65	288,566.65
07/01/2002-Indefinite	20,000.00	20,000.00	1,849.59	1,849.59
06/01/2003-06/30/2006	45,000.00	45,000.00	5,582.76	5,582.76
10/01/2004-09/30/2005	41,185.00	19,442.00	19,432.16	19,432.16
08/01/2005-07/31/2006	150,000.00	150,000.00	15,364.82	15,364.82
08/01/2004-07/31/2005	$ 150,000.00	$ 150,000.00	147,913.20	147,913.20
			163,278.02	163,278.02
			$ 24,508,219.03	$ 24,508,219.03

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

Troy University had the following loan balances outstanding at September 30, 2005. These loan balances outstanding are not included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Amount Outstanding
Federal Perkins Loan Program-Federal Capital Contributions	84.038	$ 2,369,426.14
Federal Family Education Loans	84.032	$113,738,718.98

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.

Additional Information

Board Members and Officials
October 1, 2004 through September 30, 2005

Board Members		**Term Expires**
Hon. Bob Riley, President	Alabama State House Montgomery, Alabama 36130	Ex-Officio
Hon. Joseph Morton, Ph.D.	State Superintendent of Education Gordon Persons Building 50 North Ripley Street Montgomery, Alabama 36130	Ex-Officio
Hon. R. Douglas Hawkins, D.V.M., President Pro tempore	1209 South Brundidge Street Troy, Alabama 36081	2015
Hon. Gerald O. Dial, Vice-President Pro tempore	Post Office Box 248 Lineville, Alabama 36266	2003*
Hon. Forrest S. Latta	Post Office Box 16046 Mobile, Alabama 36616	2015
Hon. John D. Harrison	Post Office Box 386 Luverne, Alabama 36049	2007
Hon. Allen E. Owen, III	377 Lee Road 354 Valley, Alabama 36854	2011
Hon. Milton McGregor	400 South Union Street, Suite 415 Montgomery, Alabama 36104	2011
Hon. James R. Andrews, M.D.	Alabama Sports Medicine and Orthopedic Center 806 Saint Vincent Drive Birmingham, Alabama 35205	2007

Board Members and Officials

October 1, 2004 through September 30, 2005

Board Members		**Term Expires**
Hon. Roy H. Drinkard	Post Office Box 996 Cullman, Alabama 35056	2011
Hon. Lamar P. Higgins	Post Office Box 138 Montgomery, Alabama 36101	2007
Hon. C. Charles Nailen	1676 Whatley Drive Dothan, Alabama 36303	2009

Officials

Dr. Jack Hawkins, Jr., Chancellor	Troy University Troy, Alabama 36082
Dr. Douglas C. Patterson, Sr. Vice Chancellor for Administration	Troy University Troy, Alabama 36082
Mr. Jim Bookout, Vice Chancellor for Financial Affairs	Troy University Troy, Alabama 36082

* New board member has not been appointed to this position as of this date.

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

We have audited the financial statements of Troy University as of and for the year ended September 30, 2005, and have issued our report thereon dated June 6, 2006. We did not audit the financial statements of Troy University Foundation, as described in our opinion on the financial statements dated June 6, 2006. The financial statements of Troy University Foundation, were audited by other auditors whose reports have been furnished to us, and this report, insofar as it relates to the amounts included for those financial statements, is based solely on the reports of the 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. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Troy University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-2 and 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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 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***.

This report is intended solely for the information and use of management, other state officials, 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

June 6, 2006

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Troy University with the types of compliance requirements described in the ***U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*** that are applicable to each of its major federal programs for the year ended September 30, 2005. 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. We did not audit the compliance of the Troy University Foundation, and, 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, the Troy University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

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 requirements that could have a direct and material effect on a major federal program in order to determine our 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. We did not consider Troy University Foundation's, internal control over compliance and accordingly, this report does not extend to Troy University Foundation.

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, other state officials, 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

June 6, 2006

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
Reportable condition(s) identified that are not considered to be material weakness(es)?	__X__ Yes	______ 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
Reportable condition(s) identified that are not considered to be material weakness(es)?	______ Yes	__X__ None reported
Type of opinion issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	______ Yes	__X__ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Assistance Cluster
84.007	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
20.516	Job Access-Reverse Commute

Dollar threshold used to distinguish between Type A and Type B programs:	$718,447	
Auditee qualified as low-risk auditee?	__X__ Yes	______ No

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
04-2	Internal Control	**Finding** In order to have an adequate system of internal control over financial reporting and cash, procedures should be in place to investigate and clear reconciling items between the general ledger cash balance and the bank statement balance in a timely manner. Audit tests revealed that several bank account reconciliations prepared by the University contained numerous reconciling items that had not been cleared in more than a year. **Recommendation** The University should implement the necessary procedures to ensure reconciling items are investigated and cleared from their bank account reconciliations in a timely manner.	N/A
05-1	Internal Control	**Finding** Cash is an account balance highly subject to errors, omissions and misstatements. As a result, strict controls over cash are critical and essential. Monthly reconciliations of bank accounts help to prevent errors and serve to safeguard public assets. A review of the initial year-end reconciled bank balances, prepared by University personnel, to year-end general ledger cash balances reflected numerous reconciling items, which should not have been included. This reconciliation was returned to University personnel. On May 5, 2006, a final revised reconciliation was received. Audit tests revealed that fifteen bank accounts were not reconciled monthly and that fourteen bank accounts were not reconciled prior to being included in the fiscal year-end financial statements of the University. According to the University's final reconcilements, cash is overstated by approximately $540,000 on the Statement of Net Assets. **Recommendation** University personnel should ensure all cash accounts are reconciled to the appropriate general ledger balances monthly. Reconciliations should be completed accurately and timely.	N/A

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.	

Auditee Response

Corrective Action Plan
For the Year Ended September 30, 2005

As required by the Office of Management and Budget (OMB) Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section .315(c), Troy University has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2005.

Finding Ref.	Corrective Action Plan Details
04-2	In order to have an adequate system of internal control over financial reporting and cash, procedures should be in place to investigate and clear reconciling items between the general ledger cash balance and the bank statement balance in a timely manner. Audit tests revealed that several bank account reconciliations prepared by the University contained numerous reconciling items that had not been cleared in more than a year.

Recommendation:

The University should implement the necessary procedures to ensure reconciling items are investigated and cleared from their bank account reconciliations in a timely manner.

Response:

The number of bank accounts, the volume of transactions received in those accounts from worldwide sites and the limited staff make timely reconciliations difficult to complete. However, the University recognizes the need to improve performance with its reconciling items in order to maintain adequate levels of internal control and will work diligently to reduce the number of bank accounts and increase the staff's effort to clear all reconciling items within a timely manner.

05-1 Cash is an account balance highly subject to errors, omissions and misstatements. As a result, strict controls over cash are critical and essential. Monthly reconciliations of bank accounts help to prevent errors and serve to safeguard public assets. A review of the initial year-end reconciled bank balances, prepared by University personnel, to year-end general ledger cash balances reflected numerous reconciling items, which should not have been included. This reconciliation was returned to the University personnel. On May 5, 2006, a final revised reconciliation was received. Audit tests revealed that fifteen bank accounts were not reconciled monthly and that fourteen bank accounts were not reconciled prior to being included in the fiscal year-end financial statements of the University. According to the University's final reconcilements, cash is overstated by approximately $540,000 on the Statement of Net Assets.

Recommendation:

University personnel should ensure all cash accounts are reconciled to the appropriate general ledger balances monthly. Reconciliations should be completed accurately and timely.

Response:

TROY UNIVERSITY

The University recognizes the need to perform timely reconciliations in order to maintain adequate internal controls over cash. Procedures have been put into place, appropriate staff training will be conducted to ensure that all bank accounts are promptly reconciled to the general ledger and management oversight has been increased in order to prevent a repeat finding of this nature.

Respectfully submitted,

Jim Bookout, Vice Chancellor for Financial Affairs