

**CITY OF TROY, ALABAMA**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

# CITY OF TROY, ALABAMA

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SEPTEMBER 30, 2011

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members  
of the City Council  
City of Troy, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Troy, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

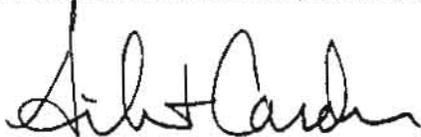
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of September 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2012, on our consideration of the City of Troy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



March 13, 2012

Members

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## Management's Discussion and Analysis

As management of the City of Troy, Alabama, we offer readers of the City of Troy's financial statements this narrative overview and analysis of the financial activities of the City of Troy for the fiscal year ended September 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

The components of the general purpose external financial statements include Management's Discussion and Analysis (MD&A), Basic Financial Statements, and Other Required Supplementary Information (RSI). The MD&A, a component of RSI, introduces the basic financial statements and provides an analytical overview of the City's financial activities.

### Financial Highlights

- The assets of the City of Troy exceeded its liabilities at the close of the fiscal year by \$82,593,707 (*net assets*).
- Net Assets restricted for future growth of \$16,502,141 are investments in government backed securities in a nonexpendable trust account established by City Ordinance No. 123 and Alabama Act 96-459, that was funded from the net proceeds of the sale of the hospital in 1996. The City can only spend ninety percent of the earnings. Ten percent of the earnings are retained in the trust. The nonexpendable trust can only be spent if approved by a vote of two-thirds (2/3) of the qualified electors in the City of Troy who cast a vote in an election in which such a question appears on the ballot.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,263,615 or 14 percent of total normal General Fund expenditures for the fiscal year.
- The City of Troy's governmental activities indebtedness increased by \$13,418,815 during the current fiscal year. The key factor in this increase was the new bonds used to fund economic development projects, construct a new library, public works facilities, a nutrition center, and pay off a bond anticipation loan.
- The City of Troy signed guarantees on \$17,500,000 in general obligation debt on behalf of the Troy Hospital Health Care Authority. In addition to the guarantees, the City has a 1% sales tax in which the proceeds are being utilized to support the operations of the Hospital.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Troy's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Troy.

#### Government-wide Financial Statements

The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales and use taxes, and transfers from business-type activities finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water, sewer and electric services offered by the City of Troy.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

#### Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. The City of Troy, like all other governmental entities in Alabama, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of City of Troy can be divided into two categories: governmental funds and proprietary funds.

The fund financial statements are on Exhibits 3 through 9 of this report.

**Notes to Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Refer to Note 1 to basic financial statements for more detailed information on the elements of the financial statements. Table 1 summarizes the major features of the basic financial statements.

	<b>Government-wide Financial Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire City government (except fiduciary funds) and the City's component units	Activities of the City that are not proprietary or fiduciary	Activities of the City that are operated similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
<b>Required financial statements</b>	- Statement of net assets	- Balance sheet - Statement of revenues, expenditures and changes in fund balance	- Statement of net assets - Statement of revenues, expenses and changes in fund net assets - Statement of cash flows	- Statement of fiduciary net assets - Statement of changes in fiduciary net assets
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
<b>Type of inflow/outflow information</b>	All revenues and expenses during the year, regardless of when cash is received or paid	- Revenues for which cash is received during or soon after the end of the year - Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

The City of Troy adopts an annual budget for its General Fund, as required by the General Statutes. The budget incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Condensed Financial Information**

**Condensed Statement of Net Assets**

The assets of the City of Troy exceeded its liabilities at the close of the fiscal year by \$82,593,706. The City's net assets increased by \$7,293,330 for the fiscal year ended September 30, 2011. However, the largest portion (50%) of total net assets reflects the City's current and future investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Troy uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Troy's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion (25%) of the City of Troy's net assets represents resources that are subject to external restrictions on how they may be used.

Table 2 presents the City's condensed statement of net assets as of September 30, 2011, and 2010, derived from the government-wide Statement of Net Assets.

**Table 2: The City of Troy, Alabama Condensed Statement of Net Assets  
As of September 30**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets:</b>						
Current and other assets	\$ 26,965,633	\$ 21,956,865	\$ 21,826,180	\$ 13,382,027	\$ 48,791,813	\$ 35,338,892
Capital assets	56,915,537	50,053,280	32,015,200	30,001,766	88,930,737	80,055,046
<b>Total Assets</b>	<b>\$ 83,881,170</b>	<b>\$ 72,010,145</b>	<b>\$ 53,841,380</b>	<b>\$ 43,383,793</b>	<b>\$ 137,722,550</b>	<b>\$ 115,393,938</b>
<b>Liabilities:</b>						
Long-term liabilities outstanding	\$ 26,066,854	\$ 19,394,656	\$ 19,586,717	\$ 12,840,100	\$ 45,653,571	\$ 32,234,756
Other liabilities	4,002,780	3,160,988	5,472,493	4,697,517	9,475,273	7,858,505
<b>Total Liabilities</b>	<b>\$ 30,069,634</b>	<b>\$ 22,555,644</b>	<b>\$ 25,059,210</b>	<b>\$ 17,537,617</b>	<b>\$ 55,128,844</b>	<b>\$ 40,093,261</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 30,028,683	\$ 30,658,624	\$ 11,113,483	\$ 17,161,666	\$ 41,142,166	\$ 47,820,290
Restricted	17,352,360	16,771,145	3,214,337	2,380,768	20,566,697	19,151,913
Unrestricted	6,430,493	2,024,732	14,454,350	6,303,742	20,884,843	8,328,474
<b>Total Net Assets</b>	<b>\$ 53,811,536</b>	<b>\$ 49,454,501</b>	<b>\$ 28,782,170</b>	<b>\$ 25,846,176</b>	<b>\$ 82,593,706</b>	<b>\$ 75,300,677</b>

**Condensed Statement of Activities**

Table 3 presents the City's condensed statement of activities for the fiscal years ended September 30, 2011, and 2010, derived from the government-wide Statement of Activities. Over time, increases and decreases in net assets measure whether the City's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$4,357,035 or 11%, and the net assets of the business-type increased by \$2,935,995 or 9%.

Several particular aspects of the City's financial operations influenced the total unrestricted governmental net assets:

- Tax revenues increased due to the additional sales tax levied during the year
- Continued low cost of debt due to the City's high bond rating.
- Capital grants were obtained to finance new capital projects.

**Table 3: City of Troy, Alabama Condensed Statement of Activities  
For the Fiscal Year Ended September 30**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 1,883,307	\$ 1,797,137	\$ 18,811,640	\$ 17,710,966	\$ 20,694,947	\$ 19,508,103
Operating grants and contributions	399,506	506,353	-	-	399,506	506,353
Capital grants and contributions	3,234,103	697,710	603,491	1,080,441	3,837,594	1,778,151
<b>General Revenues:</b>						
Property taxes	1,342,171	1,234,274	-	-	1,342,171	1,234,274
Sales and other taxes	11,750,465	9,377,790	-	-	11,750,465	9,377,790
Investment earnings	692,052	936,998	58,931	52,065	750,983	989,063
Other	1,310,078	1,133,165	(17,712)	347	1,292,366	1,133,512
<b>Total Revenues</b>	<b>20,611,682</b>	<b>15,683,427</b>	<b>19,456,350</b>	<b>18,843,819</b>	<b>40,068,032</b>	<b>34,527,246</b>
<b>Expenses:</b>						
General government	2,954,138	2,596,793	-	-	2,954,138	2,596,793
Public safety - police and fire	7,114,357	6,913,111	-	-	7,114,357	6,913,111
Grounds, public works, recycling	3,832,663	3,659,313	-	-	3,832,663	3,659,313
Seniors and nutrition	452,306	440,633	-	-	452,306	440,633
Library and recreation	3,043,225	3,166,799	-	-	3,043,225	3,166,799
Public transportation	413,358	350,861	-	-	413,358	350,861
Municipal courts	331,747	321,939	-	-	331,747	321,939
Healthcare - Hospital Authority	2,713,810	1,491,080	-	-	2,713,810	1,491,080
Economic Dev and other programs	1,486,969	6,468,836	-	-	1,486,969	6,468,836
Interest on long-term debt	1,195,839	1,044,911	-	-	1,195,839	1,044,911
Water, sewer and electric	-	-	9,236,590	7,779,571	9,236,590	7,779,571
<b>Total Expenses</b>	<b>23,538,412</b>	<b>26,454,276</b>	<b>9,236,590</b>	<b>7,779,571</b>	<b>32,775,002</b>	<b>34,233,847</b>
Increase (Decrease) in Net Assets Before Transfers	(2,926,730)	(10,770,849)	10,219,760	11,064,248	7,293,030	293,399
Operating Transfers In (Out)	7,283,765	6,934,876	(7,283,765)	(6,934,876)	-	-
<b>Increase (Decrease) in Net Assets</b>	<b>4,357,035</b>	<b>(3,835,973)</b>	<b>2,935,995</b>	<b>4,129,372</b>	<b>7,293,030</b>	<b>293,399</b>
Net Assets, October 1	49,454,501	52,407,118	25,846,176	21,346,794	75,300,677	73,753,912
Capital contributed	-	-	-	-	-	-
Prior period adjustment	-	883,356	-	370,010	-	1,253,366
<b>Net Assets, September 30</b>	<b>\$ 53,811,536</b>	<b>\$ 49,454,501</b>	<b>\$ 28,782,171</b>	<b>\$ 25,476,166</b>	<b>\$ 82,593,707</b>	<b>\$ 75,300,677</b>

### Overall Analysis

Financial highlights for the City as a whole during the fiscal year ended September 30, 2011, include the following:

**Governmental activities.** Governmental activities increased the City's net assets overall by \$4,357,035. Key elements of this increase are as follows:

- The School Board contributed \$1,055,000 to redeem the 2001 G.O. Bonds, additional debt of \$780,000 was paid off, and cash reserves were increased \$1,312,870
- There was an overall uptick in collections for governmental revenues for 2011 as compared to 2010 and expenses were reduced \$2.9 million

**Business-type activities:** Business-type activities increased the City of Troy's net assets by \$2,935,995. Key elements of this increase are as follows:

- Long term debt of \$1,940,000 was paid off during the year
- Cash reserves were increased approximately \$1,000,000

## Fund Analysis

### Governmental Funds

The focus of the City of Troy's governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Such information is useful in assessing the City of Troy's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City of Troy. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,263,615, while total fund balance of the general fund reached \$4,363,885. Unreserved fund balance represents 14 percent of total normal General Fund expenditures, while total fund balance represents 19 percent of that same amount. The Fund Balance of all governmental funds increased by \$4,931,867 due to increases in market value of restricted investments and transfers in from other funds. Total fund balance is made up of approximately \$16.5 million in a restricted trust account.

### Proprietary Funds

The City of Troy's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$7,445,679.

## Budget Variances in the General Fund

Budgeted expenditures are based on the estimated revenue receipts as estimated by the City Council. Original expenditures are budgeted for less than total expected resources available. No variances between the original and final budget or between final and actual budget are expected to significantly affect future services or liquidity. For additional information on the budget variances, refer to the budgetary comparison schedule for the General Fund in the Required Supplementary Information.

The City of Troy does not amend the budget during the year. All expenditures/revenues outside the budget are approved by the Council on an individual basis.

- The City had a positive variance of \$4,942,302 in total revenue budgeted. \$2,844,103 of this total was from operating and capital grants that were received, but they were not budgeted for because their approval was not known at the time the budget was prepared.
- Expenses were within tolerable variances except capital outlay projects and the Economic Development Payments that were not included on the budget as adopted because they were not known at the time.
- Capital outlay and Economic Development variances were offset by grants, operating transfers, and new debt issues.

## Capital Asset and Long-Term Debt Activity

### Capital Assets Activity

The City of Troy's investment in capital assets for its governmental and business-type activities as of September 30, 2011, totaled \$88,930,737 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, electric, water, and sewer distribution systems, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Construction on new Library building \$446,000
- Purchase and renovation of a facility for a new industry of \$3,705,937

Additional information on the City's capital assets can be found in Note 3 to basic financial statements.

### Long-term Debt Activity

As of September 30, 2011, the City of Troy had total bonded debt outstanding of \$48,035,000. Of this, \$17,920,000 is debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

The City's constitutional debt limit as it relates to the incurrence of general obligation debt is twenty percent (20%) of the assessed value of property in the City. However, the following, among other indebtedness, are under existing law not chargeable to the City's constitutional debt limit (a) obligations issued for the purpose of acquiring, providing or constructing schools, water works and sewers; (b) obligations incurred for street or sidewalk improvements where the costs thereof, in whole or in part, are to be assessed against the property abutting such improvements; (c) subject to certain conditions, tax anticipation notes; (d) certain lease obligations; (e) obligations issued to refund other outstanding obligations; and (f) revenue obligations issued for the purpose of extending, enlarging or improving water, electric, gas or sewer systems and payable solely from the revenues of one or more of such systems. By virtue of the exemption granted for the construction of schools, certain debt issues are also not subject to the 20% constitutional debt limit. In addition, pursuant to Section 94.01 of the Constitution of Alabama of 1901 ("Amendment 772"), other general obligation guaranteed bonds and guarantees are also not subject to the 20% constitutional debt limit. However, Amendment 772 imposes a separate constitutional debt limit of 50% for debt issued pursuant to Amendment 772.

Additional information regarding the City of Troy's long-term debt can be found in Note 5 to basic financial statements.

### **Economic Conditions and Outlook**

The local economic outlook for the upcoming years appears very positive, but near-term financial challenges exist because of the recession. City managers already note fairly aggressive growth in the demand for public services, and given this reality, operating and spending requirements will continue to exert significant pressure on budgetary resources. City leaders must continue to be intentional and conservative when planning, and exercise strong prioritization of spending in 2012 and 2013 because of budgetary constraints.

### **Budget Highlights for the Fiscal Year Ending September 30, 2012**

**Governmental Activities:** Property taxes are expected to slow due to overall economic conditions and slow down in the housing market. In addition though, sales taxes are expected to increase as a result of the newly located retail outlets within the City. The City will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to stay the same. Increases in employee compensation, including funding compensation and benefits adjustments, are offset by decreases in other expenditures.

**Business – type Activities:** Water, electric and sewer rates are established by ordinance and were increased in January of 2011 and will be adjusted again in January of 2012. The City will continue to manage higher energy costs through fuel charges and energy cost adjustments.

### **Contact the City's Financial Management**

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the City Clerk/Treasurer, City of Troy, Post Office Box 549, Troy, Alabama 36081.

**BASIC FINANCIAL STATEMENTS**

CITY OF TROY, ALABAMA

EXHIBIT 1

STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2011

Assets	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash	\$ 7,937,377	\$ 3,812,786	\$ 11,750,163
Receivables:			
Taxes	1,747,805	-	1,747,805
Utility bills	-	6,392,745	6,392,745
Grants	31,081	-	31,081
Prepaid expenses	-	-	-
Inventory	-	908,762	908,762
Restricted assets - cash, receivables and investments	16,836,003	10,223,008	27,059,011
Fixed assets (net of accumulated depreciation)	56,915,537	32,015,200	88,930,737
Unamortized bond issuance cost	413,367	488,879	902,246
<b>Total Assets</b>	<b>\$ 83,881,170</b>	<b>\$ 53,841,380</b>	<b>\$ 137,722,550</b>
Liabilities			
Accounts payable	\$ 672,054	\$ 2,501,770	\$ 3,173,824
Other payables	361,842	-	361,842
Accrued interest payable	222,953	464,880	687,833
Bonds and notes			
due within one year (net)	820,000	1,315,000	2,135,000
Accrued compensated absences	1,925,931	613,254	2,539,185
Customer deposits	-	577,589	577,589
Bonds and notes			
due in more than one year (net)	26,066,854	19,586,717	45,653,571
<b>Total Liabilities</b>	<b>\$ 30,069,634</b>	<b>\$ 25,059,210</b>	<b>\$ 55,128,844</b>
Net Assets			
Invested in capital assets, net of related debt	\$ 30,028,683	\$ 11,113,483	\$ 41,142,166
Restricted for:			
Capital projects	516,357	-	516,357
Debt service	333,862	3,214,337	3,548,199
Future growth	16,502,141	-	16,502,141
Unrestricted net assets	6,430,493	14,454,350	20,884,843
<b>Total Net Assets</b>	<b>\$ 53,811,536</b>	<b>\$ 28,782,170</b>	<b>\$ 82,593,706</b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Government Activities:</b>							
General Government - Executive	\$ 2,954,138	\$ 1,086,440		\$ 3,087,521	\$ 1,219,823		\$ 1,219,823
Police and Fire	7,114,357			61,976	(7,052,381)		(7,052,381)
Grounds, Public Works, and Recycling	3,832,663			84,606	(3,748,057)		(3,748,057)
Seniors and Nutrition	452,306				(452,306)		(452,306)
Library and Recreation	3,043,225	393,412	29,642		(2,620,171)		(2,620,171)
Public Transportation	413,358	60,397	369,864		16,903		16,903
Municipal Courts	331,747	343,058			11,311		11,311
Healthcare - Transfer to Hospital Authority	2,713,810				(2,713,810)		(2,713,810)
Economic Development and other programs	1,486,969				(1,486,969)		(1,486,969)
Interest on long-term debt	1,195,839				(1,195,839)		(1,195,839)
<b>Total Governmental Activities</b>	<b>23,538,412</b>	<b>1,883,307</b>	<b>399,506</b>	<b>3,234,103</b>	<b>(18,021,496)</b>	<b>-</b>	<b>(18,021,496)</b>
<b>Business-type Activities:</b>							
Water	1,560,878	2,340,118		470,108		1,249,348	1,249,348
Sewer	2,053,720	2,082,591		133,383		162,254	162,254
Electric	4,941,216	14,388,931				9,447,715	9,447,715
Interest on bonds	680,776					(680,776)	(680,776)
<b>Total Business-type Activities</b>	<b>9,236,590</b>	<b>18,811,640</b>	<b>-</b>	<b>603,491</b>	<b>-</b>	<b>10,178,541</b>	<b>10,178,541</b>
<b>Total Primary Government</b>	<b>\$ 32,775,002</b>	<b>\$ 20,694,947</b>	<b>\$ 399,506</b>	<b>\$ 3,837,594</b>	<b>\$ (18,021,496)</b>	<b>\$ 10,178,541</b>	<b>\$ (7,842,955)</b>
<b>General Revenues:</b>							
Property taxes					1,342,171		1,342,171
General sales, use, and gasoline taxes					8,969,357		8,969,357
Utility and franchise taxes					1,449,136		1,449,136
Beer, tobacco and lodging tax					633,820		633,820
Licenses and permits					698,152		698,152
Investment earnings					692,052	58,931	750,983
Special item - gain (loss) on sale of fixed assets					-	(17,712)	(17,712)
Other revenues					1,310,078		1,310,078
<b>Total General Revenues</b>					<b>15,094,766</b>	<b>41,219</b>	<b>15,135,985</b>
Transfers					7,283,765	(7,283,765)	-
<b>Change in Net Assets</b>					<b>4,357,036</b>	<b>2,935,996</b>	<b>7,293,030</b>
Net Assets - Beginning of Year					49,454,501	25,846,176	75,300,677
Prior period adjustment					-	-	-
<b>Net Assets - End of Year</b>					<b>\$ 53,811,536</b>	<b>\$ 28,782,171</b>	<b>\$ 82,593,707</b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**  
**FUND BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2011**

	General Fund	Permanent Fund	Capital Projects	Debt Service	Other Governmental Funds	Total
<b>Assets</b>						
Cash	\$ 3,567,952	\$ 926,248	\$ 3,733,340	\$ -	\$ 636,085	\$ 8,863,625
Property and other taxes receivable	1,634,985	-	-	-	112,820	1,747,805
Grants receivable	-	-	-	-	31,081	31,081
Restricted cash	-	-	-	333,862	-	333,862
Investments	-	15,575,893	-	-	-	15,575,893
<b>Total Assets</b>	<b>\$ 5,202,937</b>	<b>\$ 16,502,141</b>	<b>\$ 3,733,340</b>	<b>\$ 333,862</b>	<b>\$ 779,986</b>	<b>\$ 26,552,266</b>
<b>Liabilities</b>						
Accounts payable	\$ 581,437	\$ -	\$ 1,868	\$ -	\$ 88,749	\$ 672,054
Deferred revenue	-	-	-	-	-	-
Other payables	257,615	-	-	-	104,227	361,842
<b>Total Liabilities</b>	<b>839,052</b>	<b>-</b>	<b>1,868</b>	<b>-</b>	<b>192,976</b>	<b>1,033,896</b>
<b>Fund Balances</b>						
Restricted:						
Roads and improvements	-	-	330,442	-	173,679	504,121
Corrections	-	-	-	-	-	-
Principal Retained	-	16,502,141	-	-	-	16,502,141
PATS Grant	-	-	-	-	12,236	12,236
Committed:						
Municipal Construction Project	-	-	3,401,030	-	-	3,401,030
Debt Service Funds	-	-	-	333,862	-	333,862
Assigned:						
Library Operations	-	-	-	-	401,095	401,095
Industrial Development	1,100,270	-	-	-	-	1,100,270
Unassigned	3,263,615	-	-	-	-	3,263,615
<b>Total Fund Balances</b>	<b>4,363,885</b>	<b>16,502,141</b>	<b>3,731,472</b>	<b>333,862</b>	<b>587,010</b>	<b>25,518,370</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,202,937</b>	<b>\$ 16,502,141</b>	<b>\$ 3,733,340</b>	<b>\$ 333,862</b>	<b>\$ 779,986</b>	<b>\$ 26,552,266</b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2011

<b>Total Fund Balances - Governmental Fund Types:</b>			<b>\$ 25,518,370</b>
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			56,915,537
Deferred Costs on the issuance of debt are not financial resources and, therefore, are not reported in the funds.			413,367
Long-term liabilities, including accrued absences and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			
	Accrued Interest Payable	(222,953)	
	Compensated Absences	(1,925,931)	
	Current Debt	(820,000)	
	Long Term Debt	(26,687,723)	
	Deferred Loss and Bond Disc	620,869	(29,035,738)
<b>Net Assets of Government Activities</b>			<b><u>\$ 53,811,536</u></b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	General Fund	Permanent Fund	Capital Projects	Debt Service	Other Governmental	Total
<b>Revenues:</b>						
Taxes	\$ 12,114,089	\$ -	\$ 88,932	\$ -	\$ 191,463	\$ 12,394,484
Charges for services	1,086,440	-	-	-	453,809	1,540,249
Licenses and permits	698,152	-	-	-	-	698,152
Fines and costs	-	-	-	-	343,058	343,058
Investment income	70,717	611,265	5,505	-	4,565	692,052
Operating and capital grants	3,234,103	-	-	-	399,506	3,633,609
Other revenues	1,144,031	-	65,000	100,094	953	1,310,078
<b>Total Revenues</b>	<b>18,347,532</b>	<b>611,265</b>	<b>159,437</b>	<b>100,094</b>	<b>1,393,354</b>	<b>20,611,682</b>
<b>Expenditures:</b>						
General Government - Executive	2,362,989	-	-	-	-	2,362,989
Police and Fire	6,707,607	-	-	-	-	6,707,607
Grounds, Public Works, and Recycling	3,001,813	-	-	-	-	3,001,813
Seniors and Nutrition	412,078	-	-	-	-	412,078
Library and Recreation	-	-	-	-	2,452,287	2,452,287
Public Transportation	-	-	-	-	380,511	380,511
Municipal Courts	-	-	-	-	330,145	330,145
Health and Welfare - Troy Hospital	2,713,810	-	-	-	-	2,713,810
Economic Development and other programs	288,273	-	115,022	318,575	-	721,870
Debt Service	-	-	-	6,237,688	-	6,237,688
Capital Outlay	7,269,771	-	2,711,237	-	283,925	10,264,933
<b>Total Expenditures</b>	<b>22,756,341</b>	<b>-</b>	<b>2,826,259</b>	<b>6,556,263</b>	<b>3,446,868</b>	<b>35,585,731</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(4,408,809)</b>	<b>611,265</b>	<b>(2,666,822)</b>	<b>(6,456,169)</b>	<b>(2,053,514)</b>	<b>(14,974,049)</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from debt	3,806,463	-	8,815,688	-	-	12,622,151
Operating transfers in	8,057,621	-	214,567	6,538,130	2,331,329	17,141,647
Operating transfers out	(6,109,544)	(607,530)	(3,083,915)	-	(56,893)	(9,857,882)
<b>Total Other Financing Sources (Uses)</b>	<b>5,754,540</b>	<b>(607,530)</b>	<b>5,946,340</b>	<b>6,538,130</b>	<b>2,274,436</b>	<b>19,905,916</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>1,345,731</b>	<b>3,735</b>	<b>3,279,518</b>	<b>81,961</b>	<b>220,922</b>	<b>4,931,867</b>
Fund Balance - Beginning of Year	3,018,154	16,496,406	451,954	251,901	366,088	20,586,503
Fund Balance - End of Year	\$ 4,363,885	\$ 16,502,141	\$ 3,731,472	\$ 333,862	\$ 587,010	\$ 25,518,370

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2011**


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**Net Changes in Fund Balances - Total Governmental Funds** **\$ 4,931,867**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Depreciation expense	2,351,151	
Capital outlays capitalized	<u>(9,499,834)</u>	7,148,683

In the Statement of Activities, only the gain on the sale of the fixed assets is reported while in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost basis of the fixed assets sold.

-

The change in accrued compensated absences does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds. This is the amount the accrual decreased for the current period.

(143,213)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Net proceeds from debt	(12,622,151)	
Principal paid less amortization of issue costs	<u>5,041,849</u>	<u>(7,580,302)</u>

**Change in Net Assets of Governmental Activities**

**\$ 4,357,035**

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SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

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**CITY OF TROY, ALABAMA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2011**

<u>ASSETS</u>	
<b>Current Assets:</b>	
Cash - gross revenue and maintenance accounts	\$ 3,812,786
Accounts receivable - customers	6,392,745
Prepaid expenses	-
Inventories	908,762
Total Current Assets	<u>11,114,293</u>
<b>Restricted Assets - Cash and Investments:</b>	
Bond and interest redemptions	2,435,090
Bond proceeds for construction project	7,008,671
Debt service reserve	779,247
Total Restricted Assets - Cash and Investments	<u>10,223,008</u>
<b>Net Property, Plant and Equipment:</b>	32,015,200
<b>Other Assets:</b>	
Unamortized bond issuance cost	<u>488,879</u>
<b>Total Assets</b>	<u>\$ 53,841,380</u>
<u>LIABILITIES AND NET ASSETS</u>	
<b>Current Liabilities (Payable from Current Assets):</b>	
Accounts payable and other accrued expenses	\$ 2,501,770
Short term note payable	-
Accrued compensated absences	613,254
Total Current Liabilities (Payable from Current Assets)	<u>3,115,024</u>
<b>Current Liabilities (Payable from Restricted Assets):</b>	
Water, electric and sewer revenue bonds payable in one year	1,315,000
Accrued interest payable on bonds	464,880
Total Current Liabilities (Payable from Restricted Assets)	<u>1,779,880</u>
<b>Long-term Liabilities:</b>	
Customers' deposits	577,589
Water, electric and sewer revenue bonds not due in one year	20,185,000
Unamortized premium, discount, and deferred loss	(598,283)
Total Long-term Liabilities	<u>20,164,306</u>
<b>Total Liabilities</b>	25,059,210
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	18,122,154
Restricted for:	
Debt service	3,214,337
Unrestricted net assets	7,445,679
<b>Total Net Assets</b>	<u>28,782,170</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 53,841,380</u>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<b>Operating Revenues:</b>	
Electric tolls	\$ 30,173,250
ECA and fuel charge revenue	4,364,396
Less: electric power purchases	(20,858,337)
Water tolls	2,340,118
Sewer charges	2,082,591
Fees and taps	510,507
Other income	199,115
<b>Total Operating Revenues</b>	<u>18,811,640</u>
<b>Operating Expenses:</b>	
Personnel	3,503,315
Contractual services	1,407,087
Materials and supplies	1,223,011
Depreciation	2,039,719
Other expenses	382,683
<b>Total Operating Expenses</b>	<u>8,555,815</u>
<b>Operating Income</b>	10,255,825
<b>Nonoperating Revenues (Expenses):</b>	
Grant revenue	603,491
Interest income	58,931
Interest on bonds	(680,776)
Gain (Loss) on sale of fixed assets	(17,712)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(36,066)</u>
Net Income Before Contributions and Transfers	10,219,759
Transfers to general government	<u>(7,283,765)</u>
Changes in Net Assets	2,935,994
Net Assets - Beginning of Year	<u>25,846,176</u>
<b>Net Assets - End of Year</b>	<u><u>\$ 28,782,170</u></u>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 38,262,576
Payments to suppliers	(24,398,970)
Payments to employees for wages and benefits	(3,503,315)
Other receipts (payments)	199,115
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>10,559,406</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Amounts transferred to general government	(7,283,765)
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Proceeds from sale of property and equipment	-
Proceeds from capital debt	19,071,337
Proceeds from grants	603,491
Purchases of capital assets	(4,070,730)
Principal payments on capital debt	(11,079,876)
Interest paid on capital debt	(680,776)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>3,843,446</u>
<b>Cash Flows from Investing Activities:</b>	
Interest received	<u>58,931</u>
Net Increase (Decrease) in Cash and Equivalents	7,178,018
Cash and Equivalents - Beginning of Year	<u>6,857,776</u>
Cash and Equivalents - End of Year	<u>\$ 14,035,794</u>

**SUPPLEMENTARY INFORMATION**

<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income (loss)	\$ 10,255,825
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,039,719
<b>(Increase) decrease in:</b>	
Accounts receivable	(1,208,286)
Prepaid expenses	376,914
Inventories	(114,093)
<b>Increase (decrease) in:</b>	
Accounts payable and expenses	(838,226)
Compensated absences	23,234
Customer deposits	24,319
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 10,559,406</u>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

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**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

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The accompanying financial statements of the City of Troy, Alabama (the "City") have been prepared in conformity with United States of America generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The following summary of the City's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying basic financial statements.

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

In 2003, the City implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, *Certain Financial Statement Disclosures*, which changes note disclosure requirements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, entity-wide financial statements, required supplementary information, and the elimination of the effects of the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that entity-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and entity-wide financial reporting as complementary components of a single comprehensive financial reporting model.

**(A) Financial Reporting Entity:**

The City of Troy, Alabama, was incorporated in 1843. The City operates under the Mayor - Council form of government. As required by United States of America generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Troy and its component units. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Component units - In conformity with United States of America generally accepted accounting principles, the financial statement of a component unit has been included in the financial reporting entity as a blended component unit.

Blended Component Unit - The City of Troy Public Library is governed by a separate board appointed by the City Council. For financial reporting purposes, the Library is reported as one of the City's Special Revenue Funds due to its financial reliance on support from the City.

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

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**(B) Basis of Presentation:**

Government-Wide Financial Statements

The Government-wide financial statements (statement of net assets and the statement of activities) display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services, which report fees, fines, and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions, which finance annual operating activities, including restricted investment income; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to the program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. The nonmajor governmental funds consist of the State Gas Tax, Library, Capital Improvements, Public Transportation, Municipal Court, and Recreation special revenue funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

*The City reports the following major governmental funds:*

**General Fund** - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Permanent Fund** - This fund is used to account for the "City of Troy Investment Trust Fund," which has been reserved for future growth of the City. This trust was created on October 1, 1995 by Ordinance No. 123 passed by the City Council and Act 96-459 as passed by the Alabama State Legislature.

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

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**(B) Basis of Presentation (continued)**

*The City reports the following major proprietary funds:*

Water, Electric and Sewer Systems - This fund accounts for the provision of water, electric and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

**(C) Basis of Accounting:**

In accordance with Alabama General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

As permitted by United States of America generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

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**(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items:**

Cash and Cash Equivalents

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

The enterprise fund, for purposes of the statement of cash flows, considers both restricted and unrestricted cash on deposit in demand deposit accounts and time deposit accounts to be cash equivalents. Time certificates of deposit held in banks are carried at cost, which approximates market value. As of September 30, 2010, the carrying amount of the City's deposits with financial institutions in all funds was \$22,471,183. All of the account balances are covered either by federal depository insurance or the "SAFE" program administered by the Alabama state treasurer or are invested in government backed securities.

*Custodial Credit Risk* - Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of September 30, 2011, none of the City's bank balance was exposed to custodial credit risk.

Investments

Investments of Alabama Municipalities are controlled by Alabama Law sections 11-81-19 and 11-81-21 and these statutes authorize the City to invest in certain obligations. Allowable "direct" investments of excess funds that would be in compliance with current state law would be:

- A. Direct obligations of the Department of the Treasury of the United States such as Treasury Bonds, Notes, and Bills.
- B. Obligations of the Farmers Home Administration, General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing and Urban Development, or Federal Housing Administration. (Does not include Federal National Mortgage Association)
- C. U.S. Dollar denominated deposit accounts and certificates of deposit with banks or savings associations which are qualified under Chapter 14A of Title 41. (These are banks participating in the "SAFE Program" that secures deposits in excess of \$250,000.)
- D. Pre-refunded public obligations which are not callable, which are fully secured as to principal, interest, and redemption premium by direct obligations of the Department of the Treasury. The pre-refunding fund must be verified as sufficient by an independent certified public accountant and also be rated, based on the escrow, in the highest rating category of Standard & Poor's Corporation and Moody's. (These would be State & Local bonds that have been defeased from the issuer's prospective but are still outstanding and all necessary debt service has been provided for in an escrow fund held by a trustee.)

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items, Cont:**

E. Interests in a common or collective trust fund maintained by any national or state chartered bank, trust company, or savings association having trust powers, or in any open-end or closed-end management type investment company or trust registered under the Investment Company Act of 1940 so as long as 65% of these common or collective funds are invested in items approved in items A-D above and not more that 35% is invested solely in obligations issued or guaranteed by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, including participation certificates of these agencies, and also mortgage related securities of FNMA, FHLMC, Federal Land Banks, Student Loan Marketing Association, and Federal Home Loan banks, or repurchase agreements fully collateralized by obligations, securities, or investments otherwise authorized by E as long as the common or collective trust takes possession of the collateral supporting the repurchase agreement.

Investments consist primarily of U.S. Treasury Bonds and U.S. Government Agency Notes and are stated at market. At September 30, 2011, investments consisted of the following investments, all of which were in the Investment Trust Fund, accounted for as a governmental fund type and reported as a permanent fund on the financial statements:

Investment Type	Fair Market Value	Investment Maturities (in Years)			
		Under 1	1 to 5	6 to 10	More than 10
Alabama Municipal Bonds	524,763	80,775	-	277,903	166,085
U.S. Government Agencies	15,022,832	3,261	2,011,733	6,581,304	6,426,534
Totals	15,547,595	84,036	2,011,733	6,859,207	6,592,619

*Interest Rate Risk-* The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk-* State law limits investments as described above, the City does not have a formal investment policy that would further limit its investment choices.

*Concentration of Credit Risk-* The City places no limit on the amount the City may invest in any one issuer.

Interfund Transactions  
 Interfund transactions are reflected as transfers.

Receivables  
 All trade and property tax receivables are shown net of an allowance for uncollectibles of zero. The City considers accounts receivable to be fully collectible.

Inventory  
 Inventory of the Water, Electric and Sewer Systems is valued at the lower of cost or market on the first-in, first-out method. Inventory consisted of materials and supplies necessary for maintenance of the Water, Electric and Sewer Systems.

Capital Assets  
 Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

**(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items, Cont:**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. The City maintains infrastructure asset records with all other capital assets. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Passenger Vehicles	7
Large Vehicles	15
Furniture and Fixtures	10
Buildings and Improvements	30
Streets and Sidewalks	12
Computers	5
Small Equipment	7
Large Equipment	15
Book Inventory	10
Water, Sewer and Electric System	20 - 40

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. Liabilities for all vacation and a portion of sick leave amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF TROY, ALABAMA**

NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

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**(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items, Cont:**

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net assets.

Net Assets/Fund Equity

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are classified as invested in capital assets, net of related debt; restricted; and unrestricted.

*Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

*Restricted Net Assets* - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets* - This category represents net assets of the City not restricted for any project or other purpose.

In 2011 the Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions became effective. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. The City has adopted to follow this Statement and use the following fund balance categories below:

*Nonspendable* fund balance is associated with inventories, prepaids, long-term loans, and notes receivable, these are assets that are not readily available to fund current operational expenditures.

*Restricted* fund balance classification includes amounts that can be spent only for the specific purposes as stipulated by constitution, external resource providers, or through enabling legislation.

*Committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action or resolution of the City Council (the City's highest level of decision-making authority).

*Assigned* fund balance classification includes amounts that are intended to be used by the government for specific purposes as determined by the City Council but do not meet the criteria to be classified as restricted or committed.

**(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items, Cont:**

*Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.*

Debt Service

The restricted for debt service portion of net assets represents funds being held by the bond trustee reserved for the payment of revenue bond obligations of the City. At September 30, 2011, the City has a debt service reserve of \$2,035,167.

Designated for Capital Improvements

Certain appropriations for capital improvements which have not been started or completed have been carried forward as designations of fund balance for completion in subsequent budget years.

Capitalization of Interest Revenue and Expense - Proprietary Funds

It is the policy of the City to capitalize, during the period of significant construction only, interest on projects of the Water, Electric and Sewer Systems proprietary fund. During the fiscal year ended September 30, 2011, there were no interest costs required to be capitalized.

Accumulated Unpaid Employee Benefits

At September 30, 2011, the General Fund liability amounted to \$1,925,931 and the Enterprise Fund liability amounted to \$613,254. Compensated absences are reported as accrued in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

Restricted Assets

Restricted assets are liquid assets that have third party limitations on their use. The City would typically use restricted assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project.

The governmental and enterprise funds, because of certain bond covenants, are required to establish and maintain prescribed amounts of resources (consisting of cash and cash equivalents) that can be used only to service outstanding debt. The City also considers cash proceeds from bonds issued designated for construction projects to be restricted assets.

**(E) Use of Estimates:**

The preparation of financial statements in conformity with United States of America generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 - Stewardship, Compliance, and Accountability**

Excess of Expenditures Over Appropriations

For the year ended September 30, 2011 revenues over appropriations for governmental funds were \$1,345,731. The excess expenditures were mainly due to capital outlay expenditures and debt service payments that were funded by transfers from the City's business-type activity.

**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 2 - Stewardship, Compliance, and Accountability, Cont:**

**Reclassifications and Eliminations**

Internal balances - amounts reported in the fund financial statements as interfund receivables and payable are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once - in the function in which they are allocated.

Internal activities - amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities, except for the net amount of transfers between governmental and business-type activities, which are reported as transfers - internal activities.

The effect of interfund services between funds is not eliminated in the statement of activities.

**NOTE 3 - Capital Assets**

Capital asset activity for the year ended September 30, 2011 was as follows:

<b>Primary Government</b>	<b>Beginning</b>			<b>Ending</b>
<b>Governmental Activities:</b>	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>
Capital Assets Not Being Depreciated:				
Construction in progress	\$ -	\$ 3,705,937	\$ -	\$ 3,705,937
Land	3,330,784	116,204	(310)	3,446,678
Right of ways and easements	7,743,986	-	-	7,743,986
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 11,074,770</b>	<b>\$ 3,822,141</b>	<b>\$ (310)</b>	<b>\$ 14,896,601</b>
Capital Assets Being Depreciated:				
Autos and trucks	\$ 4,481,814	\$ 292,508	\$ (189,638)	\$ 4,584,684
Furniture and fixtures	349,924	-	(218,129)	131,795
Buildings and improvements	32,002,171	4,636,195	(24,323)	36,614,043
Equipment	4,596,675	115,662	(831,872)	3,880,465
Books	1,893,407	-	-	1,893,407
Street and drainage improvements	41,061,147	633,325	-	41,694,472
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 84,385,138</b>	<b>\$ 5,677,690</b>	<b>\$ (1,263,962)</b>	<b>\$ 88,798,866</b>
Less Accumulated Depreciation for:				
Autos and trucks	\$ 2,871,568	\$ 567,839	\$ (178,638)	\$ 3,260,769
Furniture and fixtures	316,651	310,878	(310,070)	317,459
Buildings and improvements	13,578,731	1,114,567	(2,792)	14,690,506
Equipment	3,356,514	307,723	(640,955)	3,023,282
Books	1,619,283	-	-	1,619,283
Street improvements	23,663,881	205,656	(906)	23,868,631
<b>Total Accumulated Depreciation</b>	<b>45,406,628</b>	<b>2,506,683</b>	<b>(1,133,361)</b>	<b>46,779,930</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>38,978,510</b>	<b>3,171,027</b>	<b>(130,601)</b>	<b>42,018,936</b>
<b>Governmental Activities Capital Assets, net</b>	<b>\$ 50,053,280</b>	<b>\$ 6,993,168</b>	<b>\$ (130,911)</b>	<b>\$ 56,915,537</b>

**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 3 - Capital Assets, Cont:**

	Beginning Balance	Additions	Reclass/ Reductions	Ending Balance
<b>Business-type Activities:</b>				
<b>Capital Assets Not Being Depreciated:</b>				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Row and easements	374,338	8,605	-	382,943
Land	198,095	-	-	198,095
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 572,433</b>	<b>\$ 8,605</b>	<b>\$ -</b>	<b>\$ 581,038</b>
<b>Capital Assets Being Depreciated:</b>				
Office equipment	\$ 860,557	\$ 66,705	\$ (66,470)	\$ 860,792
Tools and equipment	37,274	16,785	(1,953)	52,106
Automotive equipment	1,960,072	344,189	(45,172)	2,259,089
Buildings	2,655,793	2,156	(2,710)	2,655,239
Communication equipment	230,512	31,986	(34,750)	227,748
Electric distribution system	20,177,438	1,340,655	(3,527)	21,514,566
Water distribution system	12,393,177	1,160,956	(3,632)	13,550,501
Sewer distribution system	22,259,795	1,098,695	(100)	23,358,390
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 60,574,618</b>	<b>\$ 4,062,127</b>	<b>\$ (158,314)</b>	<b>\$ 64,478,431</b>
<b>Less Accumulated Depreciation for:</b>				
Office equipment	\$ 293,538	\$ 255,445	\$ (53,495)	\$ 495,488
Tools and equipment	2,534	1,791	(1,953)	2,372
Automotive equipment	1,420,133	156,337	(44,464)	1,532,006
Buildings	801,333	60,462	(2,710)	859,085
Communication equipment	208,107	14,579	(32,577)	190,109
Electric distribution system	9,363,270	539,075	(2,690)	9,899,655
Water distribution system	6,577,675	339,525	(2,770)	6,914,430
Sewer distribution system	12,478,695	672,505	(76)	13,151,124
<b>Total Accumulated Depreciation</b>	<b>31,145,285</b>	<b>2,039,719</b>	<b>(140,735)</b>	<b>33,044,269</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>29,429,333</b>	<b>2,022,408</b>	<b>(17,579)</b>	<b>31,434,162</b>
<b>Business-type Activities Capital Assets, net</b>	<b>\$ 30,001,766</b>	<b>\$ 2,031,013</b>	<b>\$ (17,579)</b>	<b>\$ 32,015,200</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
General Government - Executive	\$ 562,736
Police and Fire	406,750
Grounds, Public Works, and Recycling	830,850
Seniors and Nutrition	40,228
Library and Recreation	590,938
Public Transportation	32,847
Municipal Courts	1,602
Other Programs	40,712
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 2,506,663</b>
<b>Business-type Activities:</b>	
Utility systems and equipment	\$ 2,039,719
<b>Total Depreciation Expense - Business-type Activities</b>	<b>\$ 2,039,719</b>
<b>Total Depreciation Expense</b>	<b>\$ 4,546,382</b>

**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 4 - Long-Term Debt**

Long-term liability activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
<b>Bonds and Notes Payable:</b>					
General obligation bonds	\$ 19,045,000	\$ 9,320,000	\$ 1,830,000	\$ 26,535,000	\$ 735,000
General obligation notes payable	591,091	3,880,591	3,498,956	972,726	85,000
	19,636,091	13,200,591	5,328,956	27,507,726	820,000
Less: Deferred loss on refunding	55,533	-	12,330	43,203	-
Bond discount	185,902	450,263	58,496	577,669	-
<b>Total Bonds and Notes Payable</b>	<b>19,394,656</b>	<b>12,750,328</b>	<b>5,258,130</b>	<b>26,886,854</b>	<b>820,000</b>
<b>Other Liabilities:</b>					
Compensated absences	2,069,144	(143,713)	-	1,925,431	-
<b>Long-term Liabilities</b>	<b>\$ 21,463,800</b>	<b>\$ 12,606,615</b>	<b>\$ 5,258,130</b>	<b>\$ 28,812,285</b>	<b>\$ 820,000</b>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities:</b>					
<b>Bonds and Notes Payable:</b>					
Water, electric and sewer bonds	\$ 12,651,562	\$ 18,598,438	\$ 9,750,000	\$ 21,500,000	\$ 1,315,000
Note payable line of credit	1,407,720	-	1,407,720	-	-
	14,059,282	18,598,438	11,157,720	21,500,000	1,315,000
Plus: Bond premium	8,861	-	2,953	5,908	-
Less: Deferred loss on refunding	48,838	284,057	28,846	304,049	-
Bond discount	142,645	312,647	155,150	300,142	-
<b>Total Bonds and Notes Payable</b>	<b>13,876,660</b>	<b>18,001,734</b>	<b>10,976,677</b>	<b>20,901,717</b>	<b>1,315,000</b>
<b>Other Liabilities:</b>					
Customer Deposits	553,270	24,319	-	577,589	-
<b>Long-term Liabilities</b>	<b>\$ 14,429,930</b>	<b>\$ 18,026,053</b>	<b>\$ 10,976,677</b>	<b>\$ 21,479,306</b>	<b>\$ 1,315,000</b>

Bonds payable at September 30, 2011 are comprised of the following individual issues:

**Primary Government**

*Governmental Activities:*

\$10,000,000 General Obligation Warrants, Series 2003, due in installments varying from \$315,000 to \$945,000 from August 1, 2003 through August 1, 2023; interest at 1.00% to 4.75% 7,310,000

\$5,940,000 General Obligation Warrants, Series 2005, due in installments varying from \$165,000 to \$450,000 from August 1, 2006 through August 1, 2025; interest 3.20% to 5.00% 4,055,000

**CITY OF TROY, ALABAMA**

NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**NOTE 4 - Long-Term Debt, Continued**

\$5,850,000 General Obligation Warrants, Series 2010, due in installments varying from \$210,000 to \$415,000 from 2013 to 2032; interest 2% to 4.5%.	5,850,000
\$5,315,000 General Obligation Warrants, Series 2011A, due in installments varying from \$565,000 to \$1,520,000 from 2024 to 2031; interest 4.25% to 5.0%.	5,315,000
\$4,005,000 General Obligation Warrants, Series 2011B, due in installments varying from \$135,000 to	4,005,000
	<u>\$ 26,535,000</u>

**Business-type Activities**

*Revenue Bonds:*

\$1,620,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2009-CWSRF/ARRA-DL,	1,565,000
\$205,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2009-DWSRF/ARRA-DL, due	200,000
\$7,885,000 Water, Electric, and Sewer Revenue Bonds, Series 2004, due in varying installments	1,865,000
\$17,870,000 Water, Electric, and Sewer Revenue Warrants, Series 2011, due in varying installments	17,870,000
	<u>\$ 21,500,000</u>
Total General Obligation and Revenue Bonds	\$ 48,035,000
Plus Unamortized bond premium at September 30, 2011	5,908
Less Unamortized bond discount and deferred loss at September 30, 2011	(1,225,063)
Net General Obligation and Revenue Bonds	<u>\$ 46,815,845</u>

The annual requirements to amortize all long-term bonded debt outstanding as of September 30, 2011, including interest

For the Year Ending September 30,	General Obligations			Revenue Obligations		
	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2012	735,000	1,122,430	1,857,430	1,315,000	966,585	2,281,585
2013	965,000	1,096,680	2,061,680	1,375,000	852,831	2,227,831
2014	1,135,000	1,065,066	2,200,066	760,000	800,855	1,560,855
2015	1,165,000	1,026,003	2,191,003	560,000	776,756	1,336,756
2016	1,210,000	985,402	2,195,402	580,000	759,668	1,339,668
2017-2021	6,780,000	4,184,928	10,964,928	3,170,000	3,514,909	6,684,909
2022-2026	6,825,000	2,650,236	9,475,236	3,810,000	2,874,567	6,684,567
2027-2031	6,495,000	1,234,878	7,729,878	4,615,000	1,945,662	6,560,662
2032-2034	1,225,000	101,175	1,326,175	5,315,000	725,801	6,040,801
	<u>\$ 26,535,000</u>	<u>\$ 13,466,798</u>	<u>\$ 40,001,798</u>	<u>\$ 21,500,000</u>	<u>\$ 13,217,634</u>	<u>\$ 34,717,634</u>

**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 4 - Long-Term Debt, Continued**

Notes payable at September 30, 2011 are comprised of the following individual issues:

**Primary Government**  
*Governmental Activities:*

Troy Bank & Trust, due in 48 monthly payments of \$13,279, including interest at a rate of 4.35%, collateralized by equipment	193,559
South Alabama Electric Cooperative, due in yearly installments interest free until 2021	779,167
Total General Fund	<u>\$ 972,726</u>

The annual requirements to amortize all long-term note debt outstanding as of September 30, 2011, including interest

Maturing September 30,	Principal	Interest	Payments
2012	77,917	5,659	83,576
2013	278,559	287	278,846
2014	85,000	-	85,000
2015	85,000	-	85,000
2016	85,000	-	85,000
2017-2021	361,250	-	361,250
	<u>\$ 972,726</u>	<u>\$ 5,946</u>	<u>\$ 978,672</u>

**Other Long-Term Debt Related:**

Revenue Obligations - There is \$1,179,170 on deposit in bond and interest redemption accounts and \$2,035,167 on deposit in debt service reserve accounts to service the revenue bonds of the Water, Electric and Sewer System. All requirements of the revenue bond indentures have been complied with.

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**NOTE 5 - Interfund Transactions**

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 8,057,621	\$ 6,109,544
Debt Service	6,538,130	-
Permanent Fund	-	607,530
Capital Improvements	214,567	3,083,915
Library	664,627	-
Recreation	1,589,804	-
Public Transportation	-	56,893
Municipal Court	76,898	-
<u>Proprietary Funds:</u>		
Water, Electric and Sewer	-	7,283,765
Total Transfers	<u>\$ 17,141,647</u>	<u>\$ 17,141,647</u>

**NOTE 6 - Customers' Deposits - Proprietary Fund**

No restricted bank account is maintained to hold customers' deposits. The deposits at September 30, 2011, which total \$577,589, are included in the operating cash and constitute a portion of the current assets shown in these statements.

**NOTE 7 - Accumulated Patronage Capital Credits**

The City has accumulated patronage capital credits on the books of the Alabama Electric Cooperative, Andalusia, Alabama, totaling \$238,449 at September 30, 2011. This amount is not included in these statements because the eventual redemption of these capital credits is unknown. The City accumulated these patronage capital credits by purchasing electricity from the South Alabama Electric Cooperative. The City began purchasing power from the South Alabama Electric Cooperative in 1965.

**NOTE 8 - Risk Management**

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained commercial insurance coverage to effectively manage risk.

**NOTE 9 - Litigation**

There are no claims that have been determined to have a possible unfavorable outcome that would require payment by, or result in a loss to, the City of Troy. Therefore, no disclosure of ongoing litigation is required.

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

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**NOTE 10 - Guarantees and Commitments**

As of October 1, 2011, the City is obligated under an agreement with Troy University to provide a debt service payment of \$325,000 on their behalf, on June 1, 2012.

The City has a commitment to the Troy City School Board to provide the amount to make the principal payment on bonds issued for improvements on an annually renewable basis. For the year ended September 30, 2011, the City's commitment is \$65,000 to be paid on December 1, 2011.

The City has guaranteed debt in the amount of \$388,000 for Pike County Economic Development Corporation.

**NOTE 11 - Property Taxes**

Pike County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation on the behalf of the cities in its jurisdiction. The following dates are applicable to property taxes:

Lien date	Oct. 1
Levy date	Oct. 1
Due date	Dec. 31
Collection date	Oct. 1 - Dec. 31

All property taxes are recognized in compliance with National Council on Governmental Accounting Interpretation No. 3, which states that such revenue should be recorded when it becomes measurable and available. Available means due, past due, and receivable within the current period and collected no longer than 60 days after the close of the current period.

**CITY OF TROY, ALABAMA**

NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**NOTE 12 - Pension and Retirement Plan**

Employees of the City participate in the Employees' Retirement System operated by the State of Alabama (ERS), an Employee participation requires contributions of 5% for non safety employees and 6% for safety employees, of their

For 2011 the City's annual pension cost of \$1,442,248 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2010 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included: (a) 8.00% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.61 - 7.75% per year, and (c) no cost of living adjustment. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of the City's assets was determined using the 5-year smoothed market value of investments.

**Six Year Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/2005	\$ 915,295	100%	\$ -
9/30/2006	\$ 967,226	100%	\$ -
9/30/2007	\$ 1,087,820	100%	\$ -
9/30/2008	\$ 1,185,806	100%	\$ -
9/30/2009	\$ 1,385,856	100%	\$ -
9/30/2010	\$ 1,408,849	100%	\$ -

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded (Assets in Excess of AAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2005	\$ 24,334,330	\$ 34,493,452	\$ 10,159,122	70.50%	\$ 8,449,511	114.30%
9/30/2006	\$ 26,025,017	\$ 37,491,928	\$ 11,466,911	69.40%	\$ 8,973,474	127.80%
9/30/2007	\$ 27,816,463	\$ 39,789,372	\$ 11,972,909	69.90%	\$ 8,977,326	133.40%
9/30/2008	\$ 28,502,786	\$ 41,844,377	\$ 13,341,591	68.10%	\$ 9,502,454	140.40%
9/30/2009	\$ 28,867,382	\$ 44,453,375	\$ 15,585,993	64.90%	\$ 9,611,424	162.20%
9/30/2010	\$ 28,653,159	\$ 45,743,284	\$ 17,090,125	62.60%	\$ 9,910,199	172.40%

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

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**NOTE 13 - Cash and Equivalents, Cash Flow Statement**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, deposits, short-term investments and cash and investments with fiscal agents. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of

Proprietary fund cash and equivalents consist of the following:

Petty cash	\$	980
Revenue and maintenance accounts		1,918,643
Reserved for principal and interest redemption		1,179,170
Reserved for debt service		2,035,167
Reserved for capital projects		<u>8,901,834</u>
Total Proprietary Fund Cash and Equivalents	\$	<u>14,035,794</u>

**NOTE 14 - Subsequent Events**

The City has evaluated events subsequent to the balance sheet date through the date of the auditors' report, which is the date through which the report was available to be issued.

**NOTE 14 - Discretely Presented Component Unit (Troy Hospital Healthcare Authority)**

In the financial statements, the Troy Hospital Health Care Authority (Hospital) is a legally separate organization whose board was appointed by the City. The City is not able to impose its will on the component unit because the City cannot remove member's of the Hospital's governing board at will, does not modify the budget of the Hospital, or overrule the decisions made by the Hospital's board. In addition, the Hospital's board not the City, makes decisions about the day-to-day operations of the organization. However, a financial burden relationship exists because the City has guaranteed loans and appropriates sales tax funds to the Hospital. These payments are reflected as Health and Welfare expenditures from the primary government to the component unit. Because the Hospital has a December 31 fiscal year-end, which is different from the City's fiscal year-end, transfers between the primary government and the component unit are different on each unit's financial statements.

The following presentation includes summarized financial statements of the Troy Hospital Healthcare Authority. Complete audited financial statements from the component unit can be obtained from the administrative office at the following address:

The Troy Hospital Healthcare Authority  
1330 Highway 231 South  
Troy, Alabama 36081

CITY OF TROY, ALABAMA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**NOTE 14 - Discretely Presented Component Unit (Troy Hospital Healthcare Authority) Continued**

<b>TROY HOSPITAL HEALTH CARE AUTHORITY</b>	
<b>STATEMENT OF NET ASSETS</b>	
<b>DECEMBER 31, 2010</b>	
<b><u>ASSETS</u></b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 336,277
Patient accounts receivable, net of estimated uncollectible of \$14,641,207	3,209,263
Accounts receivable - other	44,706
Supplies inventory	765,283
Prepaid expenses	410,003
<b>Total current assets</b>	<b>4,765,532</b>
<b>Capital assets:</b>	
Land	950,000
Depreciable capital assets, net of accumulated depreciation	12,842,838
<b>Total Capital assets, net of accumulated depreciation</b>	<b>13,792,838</b>
<b>Total assets</b>	<b>\$ 18,558,370</b>
<b><u>LIABILITIES</u></b>	
<b>Current liabilities (payable from current assets):</b>	
Accounts payable and accrued expenses	1,030,926
Accrued salaries and benefits payable	1,165,749
Current maturities of long-term debt	85,113
Current portion of long-term capital lease obligations	240,952
<b>Total current liabilities (payable from current assets)</b>	<b>2,522,740</b>
<b>Long-term liabilities:</b>	
Long-term debt, net of current maturities	16,661,474
Capital lease obligations, net of current portion	730,374
<b>Total long-term liabilities</b>	<b>17,391,848</b>
<b>Total liabilities</b>	<b>19,914,588</b>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	1,321,511
Restricted for debt service	-
Unrestricted net assets	(2,677,729)
<b>Total net assets</b>	<b>(1,356,218)</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,558,370</b>

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**NOTE 14 - Discretely Presented Component Unit (Troy Hospital Healthcare Authority) Continued**

TROY HOSPITAL HEALTH CARE AUTHORITY	
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS	
FOR THE YEAR ENDED DECEMBER 31, 2010	
<b>Operating revenues:</b>	
Net patient service revenue, net of provision for bad debts of \$14,658,699	\$ 19,730,300
Other operating revenues	2,797,253
<b>Total operating revenues</b>	<b>22,527,553</b>
<b>Operating expenses:</b>	
Salaries and wages	10,649,855
Employee benefits	2,165,566
Contract labor	244,892
Supplies	2,959,725
Purchased services and physician fees	4,431,343
Repairs and maintenance	527,591
Physician recruiting	172,196
Leases and rentals	422,364
Other operating expenses	2,558,027
Depreciation and amortization	1,105,994
<b>Total operating expenses</b>	<b>25,237,553</b>
<b>Operating income (loss)</b>	<b>(2,710,000)</b>
<b>Nonoperating revenues (expenses):</b>	
Gain/(Loss) on sale of fixed asset	32,250
Interest income	540
Interest expense	(885,545)
<b>Total nonoperating revenues (expenses)</b>	<b>(852,755)</b>
Excess of expenses over revenues before transfers	(3,562,755)
<b>Other financing sources:</b>	
Transfers in from City of Troy	2,206,537
<b>Net increase (decrease) in net assets</b>	<b>(1,356,218)</b>
Net assets at beginning of year	-
<b>Net assets at end of year</b>	<b>\$ (1,356,218)</b>

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TROY, ALABAMA**  
**BUDGET TO ACTUAL COMPARISON STATEMENT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Taxes	\$ 11,330,850	\$ 11,330,850	\$ 12,114,089	\$ 783,239
Charges for services	961,280	961,280	1,086,440	125,160
Licenses and permits	609,000	609,000	698,152	89,152
Fines and costs	-	-	-	-
Investment income	48,000	48,000	70,717	22,717
Operating and capital grants	390,000	390,000	3,234,103	2,844,103
Other	66,100	66,100	1,144,031	1,077,931
<b>Total Revenues</b>	<b>13,405,230</b>	<b>13,405,230</b>	<b>18,347,532</b>	<b>4,942,302</b>
<b>Expenditures:</b>				
General Government - Executive	1,913,752	1,913,752	2,362,989	(449,237)
Police and Fire	6,837,718	6,837,718	6,707,607	130,111
Grounds, Public Works, and Recycling	2,969,909	2,969,909	3,001,813	(31,904)
Seniors and Nutrition	383,250	383,250	412,078	(28,828)
Library and Recreation	-	-	-	-
Public Transportation	-	-	-	-
Municipal Courts	-	-	-	-
Health and welfare				
payment to Troy Regional Medical Center	2,554,000	2,554,000	2,713,810	(159,810)
Economic development and other programs	222,231	222,231	288,273	(66,042)
Debt Service	-	-	-	-
Capital Outlay	988,000	988,000	7,269,771	(6,281,771)
<b>Total Expenditures</b>	<b>15,868,860</b>	<b>15,868,860</b>	<b>22,756,341</b>	<b>(6,887,481)</b>
Excess (Deficiency) of Revenues Over Expenditures	(2,463,630)	(2,463,630)	(4,408,809)	(1,945,179)
<b>Other Financing Sources (Uses):</b>				
Proceeds from debt	-	-	3,806,463	3,806,463
Proceeds from sale of assets	-	-	-	-
Operating transfers in	5,858,978	5,858,978	8,057,621	2,198,643
Operating transfers out	(4,061,395)	(2,066,287)	(6,109,544)	(2,048,149)
<b>Total Other Financing Sources (Uses)</b>	<b>1,797,583</b>	<b>3,792,691</b>	<b>5,754,540</b>	<b>3,956,957</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	(666,047)	1,329,061	1,345,731	2,011,778
Fund Balance - Beginning of Year	3,270,055	3,270,055	3,270,055	-
Fund Balance - End of Year	\$ 2,604,008	\$ 4,599,116	\$ 4,615,786	\$ 2,011,778

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

## CITY OF TROY, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2011

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### Budgets and Budgetary Accounting

The procedures established by the City Council in adopting the budgetary data reflected in the financial statements are as follows:

1. Prior to September 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.

The Mayor is authorized to transfer budgeted amounts between departments within any fund and approve reductions of budgeted amounts. All other unencumbered appropriations lapse at year-end. Encumbered amounts are re-appropriated in the ensuing fiscal year budget.

Budgets are adopted for all governmental fund types and are prepared on a basis consistent with United States of America generally accepted accounting principles. Budget amounts are as originally adopted.

### Basis of Accounting

The City's budget is prepared on the modified accrual basis for all budgeted funds, including the major fund, General, as presented in the Budget to Actual Comparison Statement - General Fund of the Required Supplemental Information.

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