

**CITY OF TROY, ALABAMA**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**



# CITY OF TROY, ALABAMA

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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, 2012, 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, 2012, 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 May 12, 2013, 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 42 through 43, 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.

Members

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Troy, Alabama's financial statements taken as a whole. The additional schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink, appearing to read "S. H. Card", written in a cursive style.

May 12, 2013  
Troy, Alabama

## 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, 2012. 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 \$87,694,146 (*net assets*).
- Net Assets restricted for future growth of \$16,481,431 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 \$3,471,182 or 17 percent of total normal General Fund expenditures for the fiscal year.
- The City of Troy's governmental activities indebtedness increased by \$1,326,000 during the current fiscal year. The key factor in this increase was the new notes payable was finance construction of roads and equipment.
- 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 \$87,694,146. The City's net assets increased by \$5,100,441 for the fiscal year ended September 30, 2012. However, the largest portion (65%) 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 (24%) 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, 2012, and 2011, 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	
	2012	2011	2012	2011	2012	2011
<b>Assets:</b>						
Current and other assets	\$ 25,479,825	\$ 26,965,633	\$ 19,393,588	\$ 21,826,180	\$ 44,873,413	\$ 48,791,813
Capital assets	63,208,006	59,915,537	36,132,962	32,015,200	99,340,968	91,930,737
<b>Total Assets</b>	<b>\$ 88,687,831</b>	<b>\$ 86,881,170</b>	<b>\$ 55,526,550</b>	<b>\$ 53,841,380</b>	<b>\$ 144,214,381</b>	<b>\$ 140,722,550</b>
<b>Liabilities:</b>						
Long-term liabilities outstanding	\$ 27,908,806	\$ 26,066,854	\$ 19,618,082	\$ 19,586,717	\$ 47,526,888	\$ 45,653,571
Other liabilities	4,285,968	4,002,780	4,707,379	5,472,493	8,993,347	9,475,273
<b>Total Liabilities</b>	<b>\$ 32,194,774</b>	<b>\$ 30,069,634</b>	<b>\$ 24,325,461</b>	<b>\$ 25,059,210</b>	<b>\$ 56,520,235</b>	<b>\$ 55,128,844</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 35,299,200	\$ 30,028,683	\$ 21,511,811	\$ 11,113,483	\$ 56,811,011	\$ 41,142,166
Restricted	17,719,058	17,352,360	3,266,237	3,214,337	20,985,295	20,566,697
Unrestricted	3,474,799	6,430,493	6,423,041	14,454,350	9,897,840	20,884,843
<b>Total Net Assets</b>	<b>\$ 56,493,057</b>	<b>\$ 53,811,536</b>	<b>\$ 31,201,089</b>	<b>\$ 28,782,170</b>	<b>\$ 87,694,146</b>	<b>\$ 82,593,706</b>

**Condensed Statement of Activities**

Table 3 presents the City's condensed statement of activities for the fiscal years ended September 30, 2012, and 2011, 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 \$2,681,522 or 5%, and the net assets of the business-type increased by \$2,418,919 or 8%.

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

- Tax revenues increased due to the improving economic conditions in the City
- 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	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 1,558,009	\$ 1,883,307	\$ 18,349,729	\$ 18,811,640	\$ 19,907,738	\$ 20,694,947
Operating grants and contributions	457,049	399,506	-	-	457,049	399,506
Capital grants and contributions	3,619,593	3,234,103	1,458,839	603,491	5,078,432	3,837,594
General Revenues:						
Property taxes	1,360,869	1,342,171	-	-	1,360,869	1,342,171
Sales and other taxes	12,104,434	11,750,465	-	-	12,104,434	11,750,465
Investment earnings	591,928	692,052	95,942	58,931	687,870	750,983
Other	644,671	1,310,078	11,132	(17,712)	655,803	1,292,366
<b>Total Revenues</b>	<b>20,336,553</b>	<b>20,611,682</b>	<b>19,915,642</b>	<b>19,456,350</b>	<b>40,252,195</b>	<b>40,068,032</b>
<b>Expenses:</b>						
General government	3,352,266	2,954,138	-	-	3,352,266	2,954,138
Public safety - police and fire	6,955,415	7,114,357	-	-	6,955,415	7,114,357
Grounds, public works, recycling	3,913,553	3,832,663	-	-	3,913,553	3,832,663
Seniors and nutrition	472,280	452,306	-	-	472,280	452,306
Library and recreation	3,212,004	3,043,225	-	-	3,212,004	3,043,225
Public transportation	470,300	413,358	-	-	470,300	413,358
Municipal courts	370,170	331,747	-	-	370,170	331,747
Healthcare - Hospital Authority	2,833,482	2,713,810	-	-	2,833,482	2,713,810
Economic Dev and other programs	1,655,389	1,486,969	-	-	1,655,389	1,486,969
Interest on long-term debt	1,577,902	1,195,839	-	-	1,577,902	1,195,839
Water, sewer and electric	-	-	10,338,993	9,236,590	10,338,993	9,236,590
<b>Total Expenses</b>	<b>24,812,761</b>	<b>23,538,412</b>	<b>10,338,993</b>	<b>9,236,590</b>	<b>35,151,754</b>	<b>32,775,002</b>
Increase (Decrease) in Net Assets Before Transfers	(4,476,208)	(2,926,730)	9,576,649	10,219,760	5,100,441	7,293,030
Operating Transfers In (Out)	7,157,730	7,283,765	(7,157,730)	(7,283,765)	-	-
<b>Increase (Decrease) in Net Assets</b>	<b>2,681,522</b>	<b>4,357,035</b>	<b>2,418,919</b>	<b>2,935,995</b>	<b>5,100,441</b>	<b>7,293,030</b>
Net Assets, October 1	53,811,535	49,454,500	28,782,170	25,846,175	82,593,705	75,300,675
<b>Net Assets, September 30</b>	<b>\$ 56,493,057</b>	<b>\$ 53,811,535</b>	<b>\$ 31,201,089</b>	<b>\$ 28,782,170</b>	<b>\$ 87,694,146</b>	<b>\$ 82,593,705</b>

### Overall Analysis

Financial highlights for the City as a whole during the fiscal year ended September 30, 2012, include the following:

**Governmental activities.** Governmental activities increased the City's net assets overall by \$2,681,522. Key elements of this increase are as follows:

- Capital and Operating grants were obtained for \$3,619,593 to construct a Senior Nutrition Center, continue the Airport Improvement and Expansion Project, resurface South Brundidge Street, and fund other programs.
- There was an overall uptick in collections for governmental sales and other taxes for 2012 as compared to 2011.

**Business-type activities:** Business-type activities increased the City of Troy's net assets by \$2,418,919. Key elements of this increase are as follows:

- Capital grants were received for \$1,458,839 to fund Water and Sewer System improvements.
- Long term debt of \$1.3 million was retired out of earnings.

## 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 \$3,471,182, while total fund balance of the general fund reached \$3,471,182. Unreserved fund balance represents 17 percent of total normal General Fund expenditures, while total fund balance represents 17 percent of that same amount. The Fund Balance of all governmental funds decreased by \$2,665,015 due to capital outlay expenditures and retirement of debt. 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 \$6,423,041.

## 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 \$1,568,416 in total revenue budgeted. \$1,157,474 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, 2012, totaled \$99,340,968 (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 and public works facility of approximately \$4.5 million
- Street resurfacing projects of \$1.4 million
- Purchase of public safety vehicles of \$800,000

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, 2012, the City of Troy had total bonded debt outstanding of \$47,005,000. Of this, \$26,820,000 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 continued economic recession around the country. 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 2013 and 2014 because of budgetary constraints.

### **Budget Highlights for the Fiscal Year Ending September 30, 2013**

**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 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

STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash	\$ 4,748,342	\$ 4,004,539	\$ 8,752,881
Receivables:			
Taxes	3,270,726	-	3,270,726
Utility bills	-	5,861,734	5,861,734
Grants	49,660	-	49,660
Prepaid expenses	-	-	-
Inventory	-	802,963	802,963
Restricted assets - cash, receivables and investments	16,921,253	8,263,168	25,184,421
Fixed assets (net of accumulated depreciation)	63,208,006	36,132,962	99,340,968
Unamortized bond issuance cost	489,844	461,184	951,028
<b>Total Assets</b>	<b>\$ 88,687,831</b>	<b>\$ 55,526,550</b>	<b>\$ 144,214,381</b>
<b>Liabilities</b>			
Accounts payable	\$ 1,373,248	\$ 3,133,294	\$ 4,506,542
Other payables	495,929	-	495,929
Deferred revenue	400,000	-	400,000
Accrued interest payable	179,125	399,078	578,203
Bonds and notes			
due within one year (net)	1,357,140	1,375,000	2,732,140
Accrued compensated absences	1,837,666	565,145	2,402,811
Customer deposits	-	609,862	609,862
Bonds and notes			
due in more than one year (net)	26,551,666	18,243,082	44,794,748
<b>Total Liabilities</b>	<b>\$ 32,194,774</b>	<b>\$ 24,325,461</b>	<b>\$ 56,520,235</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 35,299,200	\$ 21,511,811	\$ 56,811,011
Restricted for:			
Capital projects	865,254	-	865,254
Debt service	372,373	3,266,237	3,638,610
Future growth	16,481,431	-	16,481,431
Unrestricted net assets	3,474,799	6,423,041	9,897,840
<b>Total Net Assets</b>	<b>\$ 56,493,057</b>	<b>\$ 31,201,089</b>	<b>\$ 87,694,146</b>

**CITY OF TROY, ALABAMA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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		Total
					Governmental Activities	Business-Type Activities	
<b>Primary Government:</b>							
<b>Government Activities:</b>							
General Government - Executive	\$ 3,352,266	\$ 34,384	\$ 39,144	\$ 3,217,172	\$ (61,566)	\$	\$ (61,566)
Police and Fire	6,955,415	258,730	176,913	16,500	(6,503,272)		(6,503,272)
Grounds, Public Works, and Recycling	3,913,553	752,020		2,913	(3,158,620)		(3,158,620)
Seniors and Nutrition	472,280		74,271	206,095	(191,914)		(191,914)
Library and Recreation	3,212,004	491,591	25,543		(2,694,870)		(2,694,870)
Public Transportation	470,300	60,843	278,532		(130,925)		(130,925)
Municipal Courts	370,170	266,954			(103,216)		(103,216)
Healthcare - Transfer to Hospital Authority	2,833,482				(2,833,482)		(2,833,482)
Economic Development and other programs	1,655,389				(1,655,389)		(1,655,389)
Interest on long-term debt	1,577,902				(1,577,902)		(1,577,902)
Total Governmental Activities	24,812,761	1,864,522	594,403	3,442,680	(18,911,156)		(18,911,156)
<b>Business-type Activities:</b>							
Water	1,604,096	2,232,480		1,458,839		2,087,223	2,087,223
Sewer	1,816,933	2,024,105				207,172	207,172
Electric	5,958,122	14,093,144				8,135,022	8,135,022
Interest on bonds	959,842					(959,842)	(959,842)
Total Business-type Activities	10,338,993	18,349,729		1,458,839		9,469,575	9,469,575
<b>Total Primary Government</b>	<b>\$ 35,151,754</b>	<b>\$ 20,214,251</b>	<b>\$ 594,403</b>	<b>\$ 4,901,519</b>	<b>\$ (18,911,156)</b>	<b>\$ 9,469,575</b>	<b>\$ (9,441,581)</b>
<b>General Revenues:</b>							
Property taxes					1,360,869		1,360,869
General sales, use, and gasoline taxes					9,458,178		9,458,178
Utility and franchise taxes					1,236,897		1,236,897
Beer, tobacco and lodging tax					671,552		671,552
Licenses and permits					737,807		737,807
Investment earnings					591,928	95,942	687,870
Special item - gain (loss) on sale of fixed assets					(43,301)	11,132	(32,169)
Other revenues					421,018		421,018
Total General Revenues					14,434,948	107,074	14,542,022
Transfers					7,157,730	(7,157,730)	
<b>Change in Net Assets</b>					<b>2,681,522</b>	<b>2,418,919</b>	<b>5,100,441</b>
Net Assets - Beginning of Year					53,811,535	28,782,170	82,593,705
Net Assets - End of Year					\$ 56,493,057	\$ 31,201,089	\$ 87,694,146

**CITY OF TROY, ALABAMA**  
**FUND BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2012**

	General Fund	Permanent Fund	Capital Projects	Debt Service	Other Governmental Funds	Total
<b>Assets</b>						
Cash	\$ 1,949,706	\$ 1,673,795	\$ 2,198,258	\$ -	\$ 600,378	\$ 6,422,137
Property and other taxes receivable	3,080,988	-	-	-	189,738	3,270,726
Grants receivable	-	-	-	-	49,660	49,660
Restricted cash	-	-	-	380,158	-	380,158
Investments	-	14,867,300	-	-	-	14,867,300
<b>Total Assets</b>	<b>\$ 5,030,694</b>	<b>\$ 16,541,095</b>	<b>\$ 2,198,258</b>	<b>\$ 380,158</b>	<b>\$ 839,776</b>	<b>\$ 24,989,981</b>
<b>Liabilities</b>						
Accounts payable	\$ 920,891	\$ 59,664	\$ 289,051	\$ 7,785	\$ 95,857	\$ 1,373,248
Deferred revenue	400,000	-	-	-	-	400,000
Other payables	238,621	-	-	-	124,758	363,379
<b>Total Liabilities</b>	<b>1,559,512</b>	<b>59,664</b>	<b>289,051</b>	<b>7,785</b>	<b>220,615</b>	<b>2,136,627</b>
<b>Fund Balances</b>						
Restricted:						
Roads and improvements	-	-	485,510	-	352,381	837,891
Corrections	-	-	-	-	-	-
Principal Retained	-	16,481,431	-	-	-	16,481,431
PATS Grant	-	-	-	-	27,363	27,363
Committed:						
Municipal Construction Project	-	-	1,423,697	-	-	1,423,697
Debt Service Funds	-	-	-	372,373	-	372,373
Assigned:						
Library Operations	-	-	-	-	94,092	94,092
Industrial Development	-	-	-	-	142,880	142,880
Unassigned	3,471,182	-	-	-	2,445	3,473,627
<b>Total Fund Balances</b>	<b>3,471,182</b>	<b>16,481,431</b>	<b>1,909,207</b>	<b>372,373</b>	<b>619,161</b>	<b>22,853,354</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,030,694</b>	<b>\$ 16,541,095</b>	<b>\$ 2,198,258</b>	<b>\$ 380,158</b>	<b>\$ 839,776</b>	<b>\$ 24,989,981</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, 2012**


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<b>Total Fund Balances - Governmental Fund Types:</b>		<b>\$ 22,853,354</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.		63,208,006
Deferred Costs on the issuance of debt are not financial resources and, therefore, are not reported in the funds.		489,844
Other Post Employment Benefit Accrual are not due and payable and are not reported in the funds.		(132,550)
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	(179,125)
	Compensated Absences	(1,837,666)
	Current Debt	(1,357,140)
	Long Term Debt	(27,197,894)
	Deferred Loss and Bond Disc	646,228
		<u>(29,925,597)</u>
<b>Net Assets of Government Activities</b>		<b><u>\$ 56,493,057</u></b>

**CITY OF TROY, ALABAMA**

**EXHIBIT 5**

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	General Fund	Permanent Fund	Capital Projects	Debt Service	Other Governmental	Total
<b>Revenues:</b>						
Taxes	\$ 12,370,038	\$ -	\$ 153,509	\$ -	\$ 203,950	\$ 12,727,497
Charges for services	1,045,134	-	-	-	512,875	1,558,009
Licenses and permits	737,807	-	-	-	-	737,807
Fines and costs	-	-	-	-	266,597	266,597
Investment income	36,791	545,054	7,575	108	2,400	591,928
Operating and capital grants	3,526,474	-	-	-	343,634	3,870,108
Other revenues	30,052	-	1,952	196,021	57,767	285,792
<b>Total Revenues</b>	<b>17,746,296</b>	<b>545,054</b>	<b>163,036</b>	<b>196,129</b>	<b>1,387,223</b>	<b>20,037,738</b>
<b>Expenditures:</b>						
General Government - Executive	2,435,281	-	-	-	140	2,435,421
Police and Fire	6,604,282	-	-	-	-	6,604,282
Grounds, Public Works, and Recycling	2,882,586	-	-	-	-	2,882,586
Seniors and Nutrition	425,496	-	-	-	-	425,496
Library and Recreation	-	-	-	-	2,705,668	2,705,668
Public Transportation	-	-	-	-	433,523	433,523
Municipal Courts	-	-	-	-	386,113	386,113
Health and Welfare - Troy Hospital	2,833,482	-	-	-	-	2,833,482
Economic Development and other programs	474,537	-	-	-	34,168	508,705
Debt Service	-	-	-	10,016,764	-	10,016,764
Capital Outlay	4,208,114	-	3,743,427	-	2,388,037	10,339,578
<b>Total Expenditures</b>	<b>19,863,778</b>	<b>-</b>	<b>3,743,427</b>	<b>10,016,764</b>	<b>5,947,649</b>	<b>39,571,618</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(2,117,482)</b>	<b>545,054</b>	<b>(3,580,391)</b>	<b>(9,820,635)</b>	<b>(4,560,426)</b>	<b>(19,533,880)</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from debt	8,930,624	-	-	-	600,000	9,530,624
Proceeds from sale of assets	28,511	-	-	-	-	28,511
Operating transfers in	7,727,494	-	1,758,127	9,859,146	3,077,692	22,422,459
Contributed capital	152,000	-	-	-	-	152,000
Operating transfers out	(14,698,965)	(565,764)	-	-	-	(15,264,729)
<b>Total Other Financing Sources (Uses)</b>	<b>2,139,664</b>	<b>(565,764)</b>	<b>1,758,127</b>	<b>9,859,146</b>	<b>3,677,692</b>	<b>16,868,865</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>22,182</b>	<b>(20,710)</b>	<b>(1,822,264)</b>	<b>38,511</b>	<b>(882,734)</b>	<b>(2,665,015)</b>
Fund Balance - Beginning of Year	3,449,000	16,502,141	3,731,472	333,862	1,501,895	25,518,370
<b>Fund Balance - End of Year</b>	<b>\$ 3,471,182</b>	<b>\$ 16,481,431</b>	<b>\$ 1,909,208</b>	<b>\$ 372,373</b>	<b>\$ 619,161</b>	<b>\$ 22,853,355</b>

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, 2012**


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**Net Changes in Fund Balances - Total Governmental Funds** \$ (2,665,015)

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	2,828,615	
Capital outlays capitalized	<u>(9,192,894)</u>	6,364,279

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. (71,812)

The change in accrued compensated absences does not require the use of financial resources and therefore is not reported as expenditures in governmental funds. This is the amount the accrual decreased for the current period. 88,265

The change in accrued other postemployment benefits does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This is the amount the accrual increased for the current period. (132,550)

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	(9,340,507)	
Principal paid less amortization of issue costs	<u>8,438,862</u>	(901,645)

**Change in Net Assets of Governmental Activities** \$ 2,681,522

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**CITY OF TROY, ALABAMA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2012**

<b><u>ASSETS</u></b>	
<b>Current Assets:</b>	
Cash - gross revenue and maintenance accounts	\$ 4,004,539
Accounts receivable - customers	5,861,734
Prepaid expenses	-
Inventories	802,963
Total Current Assets	<u>10,669,236</u>
<b>Restricted Assets - Cash and Investments:</b>	
Bond and interest redemptions	1,137,534
Bond proceeds for construction project	4,996,931
Debt service reserve	2,128,703
Total Restricted Assets - Cash and Investments	<u>8,263,168</u>
<b>Net Property, Plant and Equipment:</b>	36,132,962
<b>Other Assets:</b>	
Unamortized bond issuance cost	<u>461,184</u>
<b>Total Assets</b>	<b><u>\$ 55,526,550</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
<b>Current Liabilities (Payable from Current Assets):</b>	
Accounts payable and other accrued expenses	\$ 3,133,294
Accrued compensated absences	565,145
Total Current Liabilities (Payable from Current Assets)	<u>3,698,439</u>
<b>Current Liabilities (Payable from Restricted Assets):</b>	
Water, electric and sewer revenue bonds payable in one year	1,375,000
Accrued interest payable on bonds	399,078
Total Current Liabilities (Payable from Restricted Assets)	<u>1,774,078</u>
<b>Long-term Liabilities:</b>	
Customers' deposits	609,862
Water, electric and sewer revenue bonds not due in one year	18,810,000
Unamortized premium, discount, and deferred loss	(566,918)
Total Long-term Liabilities	<u>18,852,944</u>
<b>Total Liabilities</b>	<b>24,325,461</b>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	21,511,811
Restricted for:	
Debt service	3,266,237
Unrestricted net assets	6,423,041
<b>Total Net Assets</b>	<b><u>31,201,089</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 55,526,550</u></b>

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, 2012**

<b>Operating Revenues:</b>	
Electric tolls	\$ 30,052,315
ECA and fuel charge revenue	4,748,051
Less: electric power purchases	(21,330,601)
Water tolls	2,232,480
Sewer charges	2,024,105
Fees and taps	375,473
Other income	247,906
<b>Total Operating Revenues</b>	<u>18,349,729</u>
<b>Operating Expenses:</b>	
Personnel	3,736,519
Contractual services	1,415,880
Materials and supplies	1,676,180
Depreciation	2,367,849
Other expenses	182,723
<b>Total Operating Expenses</b>	<u>9,379,151</u>
<b>Operating Income</b>	8,970,578
<b>Nonoperating Revenues (Expenses):</b>	
Grant revenue	1,458,839
Interest income	95,942
Interest on bonds	(959,842)
Gain (Loss) on sale of fixed assets	11,132
<b>Total Nonoperating Revenues (Expenses)</b>	<u>606,071</u>
Net Income Before Contributions and Transfers	9,576,649
Transfers to general government	<u>(7,157,730)</u>
Changes in Net Assets	2,418,919
Net Assets - Beginning of Year	<u>28,782,170</u>
<b>Net Assets - End of Year</b>	<u><u>\$ 31,201,089</u></u>

**CITY OF TROY, ALABAMA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 39,963,435
Payments to suppliers	(23,883,897)
Payments to employees for wages and benefits	(3,736,519)
Other receipts (payments)	247,906
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>12,590,925</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Amounts transferred to general government	(7,157,730)
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Proceeds from sale of property and equipment	66,308
Proceeds from capital debt	-
Proceeds from grants	1,458,839
Purchases of capital assets	(6,540,784)
Principal payments on capital debt	(1,315,000)
Interest paid on capital debt	(966,587)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(7,297,224)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest received	<u>95,942</u>
Net Increase (Decrease) in Cash and Equivalents	(1,768,087)
<b>Cash and Equivalents - Beginning of Year</b>	<u>14,035,794</u>
<b>Cash and Equivalents - End of Year</b>	<u>\$ 12,267,707</u>

**SUPPLEMENTARY INFORMATION**

<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income (loss)	\$ 8,970,578
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,367,849
<b>(Increase) decrease in:</b>	
Accounts receivable	531,011
Prepaid expenses	-
Inventories	105,799
<b>Increase (decrease) in:</b>	
Accounts payable and expenses	631,524
Compensated absences	(48,109)
Customer deposits	32,273
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 12,590,925</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, 2012**

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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, 2012

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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.

Capital Projects Fund - This fund is used to account for major capital projects.

Debt Service Fund - This fund is used to account for the general obligation debt service activity.

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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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, 2012

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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, 2012, the carrying amount of the City's deposits with financial institutions in all funds was \$19,070,000. 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, 2012, 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, 2012

**(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, 2012, 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:

<u>Investment Type</u>	Fair Market	Investment Maturities (in Years)			
	Value	Under 1	1 to 5	6 to 10	More than 10
Alabama Municipal Bonds	463,358	-	-	291,570	171,788
U.S. Government Agencies	14,364,484	2,916	2,055,991	4,820,056	7,485,521
Totals	14,827,842	2,916	2,055,991	5,111,626	7,657,309

*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.

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

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**(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:

<u>Asset</u>	<u>Years</u>
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.

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, 2012

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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.

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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**(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, 2012, the City has a debt service reserve of \$3,266,237.

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, 2012, there were no interest costs required to be capitalized.

Accumulated Unpaid Employee Benefits

At September 30, 2012, the Governmental Fund liability amounted to \$1,837,866 and the Enterprise Fund liability amounted to \$565,145. 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, if any.

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, 2012 expenditures over revenues for governmental funds were \$2,665,015. The excess expenditures were mainly due to capital outlay expenditures and debt service payments that were funded by cash reserves on hand from prior year.

**CITY OF TROY, ALABAMA**

## NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

**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, 2012 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	3,446,678	332,000	(51,795)	3,726,883
Right of ways and easements	7,743,986	-	-	7,743,986
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 14,896,601</b>	<b>\$ 332,000</b>	<b>\$ (3,757,732)</b>	<b>\$ 11,470,869</b>
Capital Assets Being Depreciated:				
Autos and trucks	\$ 4,584,684	\$ 803,797	\$ (236,349)	\$ 5,152,132
Furniture and fixtures	131,795	246,584	-	378,379
Buildings and improvements	36,614,043	10,008,398	-	46,622,441
Equipment	3,880,465	131,293	(24,741)	3,987,017
Books	1,893,407	-	-	1,893,407
Street and drainage improvements	41,694,472	1,376,759	-	43,071,231
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 88,798,866</b>	<b>\$ 12,566,831</b>	<b>\$ (261,090)</b>	<b>\$ 101,104,607</b>
Less Accumulated Depreciation for:				
Autos and trucks	\$ 3,260,769	\$ 506,498	\$ (218,162)	\$ 3,549,105
Furniture and fixtures	317,459	41,734	-	359,193
Buildings and improvements	14,690,506	1,474,599	-	16,165,105
Equipment	3,023,282	113,798	(23,215)	3,113,865
Books	1,619,283	133,891	-	1,753,174
Street improvements	23,868,933	558,095	-	24,427,028
<b>Total Accumulated Depreciation</b>	<b>46,780,232</b>	<b>2,828,615</b>	<b>(241,377)</b>	<b>49,367,470</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>42,018,634</b>	<b>9,738,216</b>	<b>(19,713)</b>	<b>51,737,137</b>
<b>Governmental Activities Capital Assets, net</b>	<b>\$ 56,915,235</b>	<b>\$ 10,070,216</b>	<b>\$ (3,777,445)</b>	<b>\$ 63,208,006</b>

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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

	Beginning Balance	Additions	Reclass/ Reductions	Ending Balance
<b>Business-type Activities:</b>				
Capital Assets Not Being Depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Row and easements	382,943	-	-	382,943
Land	198,095	-	-	198,095
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 581,038</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 581,038</b>
Capital Assets Being Depreciated:				
Office equipment	\$ 860,792	\$ 28,049	\$ -	\$ 888,841
Tools and equipment	52,106	9,208	-	61,314
Automotive equipment	2,259,089	552,349	(190,476)	2,620,962
Buildings	2,655,239	25,000	-	2,680,239
Communication equipment	227,748	50,668	(94,125)	184,291
Electric distribution system	21,514,566	2,068,746	-	23,583,312
Water distribution system	13,550,501	2,514,515	-	16,065,016
Sewer distribution system	23,358,390	1,292,249	-	24,650,639
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 64,478,431</b>	<b>\$ 6,540,784</b>	<b>\$ (284,601)</b>	<b>\$ 70,734,614</b>
Less Accumulated Depreciation for:				
Office equipment	\$ 495,488	\$ 193,033	\$ -	\$ 688,521
Tools and equipment	2,372	2,016	-	4,388
Automotive equipment	1,532,006	239,986	(135,300)	1,636,692
Buildings	859,085	58,256	-	917,341
Communication equipment	190,109	14,666	(94,125)	110,650
Electric distribution system	9,899,655	682,163	-	10,581,818
Water distribution system	6,914,430	464,691	-	7,379,121
Sewer distribution system	13,151,124	713,036	-	13,864,160
<b>Total Accumulated Depreciation</b>	<b>33,044,269</b>	<b>2,367,847</b>	<b>(229,425)</b>	<b>35,182,691</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>31,434,162</b>	<b>4,172,937</b>	<b>(55,176)</b>	<b>35,551,923</b>
<b>Business-type Activities Capital Assets, net</b>	<b>\$ 32,015,200</b>	<b>\$ 4,172,937</b>	<b>\$ (55,176)</b>	<b>\$ 36,132,961</b>

**Governmental Activities - Depreciation Expense:**

General Government - Executive	\$ 876,704
Police and Fire	377,025
Grounds, Public Works, and Recycling	892,130
Seniors and Nutrition	42,125
Library and Recreation	605,789
Public Transportation	32,847
Municipal Courts	1,995
Other Programs	-
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 2,828,615</b>

**Business-type Activities - Depreciation Expense:**

Utility systems and equipment	\$ 2,367,847
<b>Total Depreciation Expense - Business-type Activities</b>	<b>\$ 2,367,847</b>
<b>Total Depreciation Expense</b>	<b>\$ 5,196,462</b>

**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 4 - Long-Term Debt**

Long-term liability activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Bonds and Notes Payable:					
General obligation bonds	\$ 26,535,000	\$ 8,480,000	\$ 8,195,000	\$ 26,820,000	\$ 1,100,000
General obligation notes payable	972,726	1,041,000	278,690	1,735,036	257,139
	27,507,726	9,521,000	8,473,690	28,555,036	1,357,139
Less:    Deferred loss on refunding	43,203	207,383	9,859	240,727	-
Bond discount	577,669	-	172,168	405,501	-
Total Bonds and Notes Payable	26,886,854	9,313,617	8,291,663	27,908,808	1,357,139
Other Liabilities:					
Compensated absences	1,925,431	-	(87,765)	1,837,666	-
Long-term Liabilities	\$ 28,812,285	\$ 9,313,617	\$ 8,203,898	\$ 29,746,474	\$ 1,357,139
<b>Business-type Activities:</b>					
Bonds and Notes Payable:					
Water, electric and sewer bonds	\$ 21,500,000	\$ -	\$ 1,315,000	\$ 20,185,000	\$ 1,375,000
	21,500,000	-	1,315,000	20,185,000	1,375,000
Plus:    Bond premium	5,908	-	2,955	2,953	-
Less:    Deferred loss on refunding	304,049	-	21,814	282,235	-
Bond discount	300,142	-	12,506	287,636	-
Total Bonds and Notes Payable	20,901,717	-	1,283,635	19,618,082	1,375,000
Other Liabilities:					
Customer Deposits	577,589	32,273	-	609,862	-
Long-term Liabilities	\$ 21,479,306	\$ 32,273	\$ 1,283,635	\$ 20,227,944	\$ 1,375,000

Bonds payable at September 30, 2012 are comprised of the following individual issues:

**Primary Government**

*Governmental Activities:*

\$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%	3,700,000
\$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

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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

\$4,005,000 General Obligation Warrants, Series 2011B, due in installments varying from \$135,000 to \$285,000 from 2014 to 2034; interest 2.0% to 5% 4,005,000

\$8,480,000 General Obligation Warrants, Series 2012, due in installments varying from \$530,000 to \$960,000 from 2013 to 2023; interest 1.8% to 2.6% 7,950,000  
\$ 26,820,000

**Business-type Activities**

*Revenue Bonds:*

\$1,620,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2009-CWSRF/ARRA-DL, due in varying installments through 2030; interest at 3.5% 1,505,000

\$205,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2009-DWSRF/ARRA-DL, due in varying installments through 2030; interest at 3.5% 195,000

\$7,885,000 Water, Electric, and Sewer Revenue Bonds, Series 2004, due in varying installments through June 1, 2014; interest at 2.0% to 4.5% 1,050,000

\$17,870,000 Water, Electric, and Sewer Revenue Warrants, Series 2011, due in varying installments through 2029; interest at 2.0% to 4.75% 17,435,000  
\$ 20,185,000

Total General Obligation and Revenue Bonds \$ 47,005,000  
Plus Unamortized bond premium 2,953  
Less Unamortized bond discount and deferred loss (1,216,099)  
Net General Obligation and Revenue Bonds \$ 45,791,854

The annual requirements to amortize all long-term bonded debt outstanding as of September 30, 2012, including interest payments of \$23,545,720 are as follows:

For the Year Ending September 30,	General Obligations			Revenue Obligations		
	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2013	1,100,000	957,036	2,057,036	1,375,000	852,831	2,227,831
2014	1,270,000	929,635	2,199,635	760,000	800,855	1,560,855
2015	1,295,000	895,661	2,190,661	560,000	776,756	1,336,756
2016	1,330,000	860,960	2,190,960	580,000	759,668	1,339,668
2017	1,370,000	825,235	2,195,235	595,000	741,955	1,336,955
2018-2022	7,425,000	3,519,961	10,944,961	3,280,000	3,407,701	6,687,701
2023-2027	6,495,000	2,329,842	8,824,842	3,965,000	2,713,645	6,678,645
2028-2032	5,980,000	934,340	6,914,340	4,710,000	1,724,612	6,434,612
2033-2035	555,000	42,000	597,000	4,360,000	473,027	4,833,027
	<u>\$ 26,820,000</u>	<u>\$ 11,294,670</u>	<u>\$ 38,114,670</u>	<u>\$ 20,185,000</u>	<u>\$ 12,251,050</u>	<u>\$ 32,436,050</u>

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

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

Notes payable at September 30, 2012 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	39,668
First National Bank of Brundidge, due in monthly payment of \$12,777, including interest at 3.25%, collateralized by equipment	394,118
South Alabama Electric Coop, due in June of 2016, interest free collateralized by spec building	600,000
South Alabama Electric Cooperative, due in monthly installments of \$7,083 interest free until 2021	701,250
Total General Fund	<u>\$ 1,735,036</u>

The annual requirements to amortize all long-term note debt outstanding as of September 30, 2012, including interest payments of \$54,101 are as follows:

Maturing September 30,	Principal	Interest	Payments
2013	254,752	23,409	278,161
2014	219,144	19,180	238,324
2015	226,812	11,512	238,324
2016	685,000	-	685,000
2017	85,000	-	85,000
2018-2021	264,328	-	264,328
	<u>\$ 1,735,036</u>	<u>\$ 54,101</u>	<u>\$ 1,789,137</u>

**Other Long-Term Debt Related:**

Revenue Obligations - There is \$1,137,534 on deposit in bond and interest redemption accounts and \$2,128,703 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.

**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.

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

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**NOTE 5 - Interfund Transactions, Continued**

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 7,723,494	\$ 14,033,863
Debt Service	9,859,146	-
Permanent Fund	-	565,764
Capital Improvements	1,754,127	-
Library	583,970	-
Recreation	1,601,935	-
Public Transportation	113,082	-
Municipal Court	121,603	-
<u>Proprietary Funds:</u>		
Water, Electric and Sewer	-	7,157,730
Total Transfers	<u>\$ 21,757,357</u>	<u>\$ 21,757,357</u>

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

No restricted bank account is maintained to hold customers' deposits. The deposits at September 30, 2012, which total \$609,862, 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, 2012. 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.

**NOTE 10 - Guarantees and Commitments**

As of October 1, 2012, 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, 2013.

The City has guaranteed debt in the amount of \$360,500 for Pike County Economic Development Corporation.

The City has guaranteed debt of \$17,500,000 on behalf of the Troy Hospital Health Care Authority.

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

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**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.

**NOTE 12 - Pension and Retirement Plan**

Employees of the City participate in the Employees' Retirement System operated by the State of Alabama (ERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for qualified persons employed by the state, state police, and on an elective basis, cities, counties, towns and quasi-public organizations. The pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for ERS.

Employee participation requires contributions of 5% for non safety employees and 6% for safety employees, of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 14.82% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the ERS.

For 2012 the City's annual pension cost of \$1,260,238 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2011 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 3.75 - 7.25% per year, and (c) no cost of living adjustment. Both (a) and (b) included an inflation component of 3.0%. 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)
9/30/2006	\$ 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%	\$ -
9/30/2011	\$ 1,470,408	100%	\$ -

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

**NOTE 12 - Pension and Retirement Plan, Continued**

<b>Schedule of Funding Progress</b>						
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)
9/30/2006	\$ 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%
9/30/2011	\$ 28,009,265	\$ 47,323,140	\$ 19,913,875	59.20%	\$ 9,964,586	193.80%

**NOTE 13 - Other Post Employment Benefits**

*Plan Description:* The City of Troy provides medical/dental benefits to eligible retirees. All active employees who retire directly from the City and meet the eligibility criteria of 10 years of service and attainment of age 60 or 25 years of service at any age, may continue to remain under the current health coverage until age 65. The retiree is required to pay the full active participant contribution rate for the coverage elected and the City does not directly subsidize the cost of coverage for any retirees. The OPEB cost to the City consists solely of an "Implicit Rate Subsidy".

*Funding Policy:* The contribution requirements of plan members and the City is based on a "pay-as-you-go" financing requirement and may be amended by the Mayor and City Council at any time. Retirees currently pay 100% of the single coverage and/or family coverage. There is no direct subsidy by the City for retirees.

*Annual OPEB Cost:* The City's postemployment benefits accrual, the Annual Required Contribution (ARC), include both the value of the benefits earned during the year (Service Cost) and an amortization of the Unfunded Actuarial Accrued Liability (UAAL). The City's Service Cost for the year was determined to be \$108,654 and the UAAL based on a 30 year amortization was \$147,191 for a total ARC of \$255,845. The annual OPEB Cost reflects an adjustment for the obligation including both an interest adjustment and amortization of the prior year OPEB obligation. For 2012 these were both \$0 so the total annual OPEB Cost is equal to the ARC of \$255,845.

*Net Other Post-employment Benefit Obligation (NOO):* The table below shows the City's NOO for the fiscal year ending September 30, 2012:

Annual OPEB Cost (AOC)	\$ 255,845
Net OPEB Payments*	(79,262)
Change in Net OPEB Obligation	<u>\$ 176,583</u>
Beginning Net OPEB Obligation	-
Ending Net OPEB Obligation	<u><u>\$ 176,583</u></u>

\* - The net OPEB payments include the implicit rate subsidy of \$79,262 and actual employer contributions of \$0

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

**NOTE 13 - Other Post Employment Benefits, Continued**

The following table shows the City's annual post employment benefits cost, percentage of the cost contributed, and the net unfunded post employment benefits liability.

<u>Fiscal Year</u>	<u>Annual Cost</u>	<u>Contributed Percentage</u>	<u>Net OPEB Obligation</u>
9/30/2012	\$ 255,845	30.98%	\$ 176,583

*Funded Status and Funding Progress:* In the fiscal year September 30, 2012 the City made no contributions to its post employment benefits plan. This plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of October 1, 2011, the most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was \$2,557,694, which is defined as that portion, as determined by a particular actuarial cost method (the City used the Projected Unit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. Since the plan has not been funded, the entire AAL of \$2,557,694 is unfunded. The covered payroll was \$9,749,860 and the unfunded AAL as a percentage of covered payroll was 26.23%.

*Actuarial Methods and Assumptions:* Actuarial valuation of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. These actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the City and the employees) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility consistent with the long-term perspective of the calculations.

The ARC for the plan was determined as part of the November 15, 2012 actuarial valuation using the projected unit cost method. The actuarial assumptions included a level dollar, open basis amortization of the UAAL over a 30 year period, a discount rate of 4%, and a healthcare cost trend rate of 7.5% for FY 2012 grading to 5% for FY 2016.

There is no separate, audited GAAP-basis postemployment benefit report available.

**NOTE 14 - 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 changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

Proprietary fund cash and equivalents consist of the following:

Petty cash	\$ 980
Revenue and maintenance accounts	4,003,559
Reserved for principal and interest redemption	1,137,534
Reserved for debt service	2,128,703
Reserved for capital projects	4,996,931
Total Proprietary Fund Cash and Equivalents	<u>\$ 12,267,707</u>

**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 15 - Discretely Presented Component Unit (Troy Hospital Healthcare Authority)**

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 Hwy 231 South, Troy, Alabama 36081

<b>TROY HOSPITAL HEALTH CARE AUTHORITY</b>	
<b>STATEMENT OF NET ASSETS - DECEMBER 31, 2011</b>	
<b><u>ASSETS</u></b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 92,832
Patient accounts receivable, net of allowance for contractual and bad debt	1,747,894
Accounts receivable - other	373,789
Supplies inventory	849,900
Prepaid expenses	577,061
<b>Total current assets</b>	<u>3,641,476</u>
<b>Capital assets:</b>	
Land	950,000
Depreciable capital assets, net of accumulated depreciation	12,912,124
<b>Total Capital assets, net of accumulated depreciation</b>	<u>13,862,124</u>
<b>Total assets</b>	<u><u>\$ 17,503,600</u></u>
<b><u>LIABILITIES</u></b>	
<b>Current liabilities (payable from current assets):</b>	
Accounts payable and accrued expenses	2,501,916
Current maturities of long-term debt	185,332
Current portion of long-term capital lease obligations	476,235
<b>Total current liabilities (payable from current assets)</b>	<u>3,163,483</u>
<b>Long-term liabilities:</b>	
Long-term debt, net of current maturities	15,847,049
Capital lease obligations, net of current portion	498,010
<b>Total long-term liabilities</b>	<u>16,345,059</u>
<b>Total liabilities</b>	<u>19,508,542</u>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	1,387,878
Unrestricted net assets	(3,392,820)
<b>Total net assets</b>	<u>(2,004,942)</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 17,503,600</u></u>

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

**NOTE 15 - 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, 2011	
<b>Operating revenues:</b>	
Net patient service revenue, net of provision for bad debts and contractals	\$ 23,129,017
Other operating revenues	1,937,408
<b>Total operating revenues</b>	<u>25,066,425</u>
<b>Operating expenses:</b>	
Salaries and wages	12,850,200
Employee benefits	2,665,334
Supplies	3,569,401
Purchased services and physician fees	4,558,280
Repairs and maintenance	592,414
Physician recruiting	208,894
Leases and rentals	589,504
Other operating expenses	1,558,729
Depreciation and amortization	1,215,283
<b>Total operating expenses</b>	<u>27,808,039</u>
<b>Operating income (loss)</b>	<u>(2,741,614)</u>
<b>Nonoperating revenues (expenses):</b>	
Gain/(Loss) on sale of fixed asset	-
Interest income	3,812
Interest expense	(622,492)
<b>Total nonoperating revenues (expenses)</b>	<u>(618,680)</u>
Excess of expenses over revenues before transfers	<u>(3,360,294)</u>
<b>Other financing sources:</b>	
Transfers in from City of Troy	2,711,570
<b>Net increase (decrease) in net assets</b>	<u>(648,724)</u>
Net assets at beginning of year	(1,356,218)
<b>Net assets at end of year</b>	<u><u>\$ (2,004,942)</u></u>

**NOTE 16 - 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.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF TROY, ALABAMA**  
**BUDGET TO ACTUAL COMPARISON STATEMENT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Taxes	\$ 12,007,900	\$ 12,007,900	\$ 12,370,038	\$ 362,138
Charges for services	1,062,580	1,062,580	1,045,134	(17,446)
Licenses and permits	670,700	670,700	737,807	67,107
Investment income	50,000	50,000	36,791	(13,209)
Operating and capital grants	2,369,000	2,369,000	3,526,474	1,157,474
Other	17,700	17,700	30,052	12,352
<b>Total Revenues</b>	<b>16,177,880</b>	<b>16,177,880</b>	<b>17,746,296</b>	<b>1,568,416</b>
<b>Expenditures:</b>				
General Government - Executive	2,124,200	2,124,200	2,435,281	(311,081)
Police and Fire	7,043,900	7,043,900	6,604,282	439,618
Grounds, Public Works, and Recycling	3,080,050	3,080,050	2,882,586	197,464
Seniors and Nutrition	414,098	414,098	425,496	(11,398)
Library and Recreation	-	-	-	-
Public Transportation	-	-	-	-
Municipal Courts	-	-	-	-
Health and welfare payment to Troy Regional Medical Center	2,700,000	2,700,000	2,833,482	(133,482)
Economic development and other programs	250,631	250,631	474,537	(223,906)
Debt Service	-	-	-	-
Capital Outlay	2,455,000	2,455,000	4,208,114	(1,753,114)
<b>Total Expenditures</b>	<b>18,067,879</b>	<b>18,067,879</b>	<b>19,863,778</b>	<b>(1,795,899)</b>
Excess (Deficiency) of Revenues Over Expenditures	(1,889,999)	(1,889,999)	(2,117,482)	(227,483)
<b>Other Financing Sources (Uses):</b>				
Proceeds from debt	-	-	8,930,624	8,930,624
Proceeds from sale of assets	20,000	20,000	28,511	8,511
Operating transfers in	6,422,282	6,422,282	7,727,494	1,305,212
Contributed capital	-	-	152,000	152,000
Operating transfers out	(4,552,283)	(4,552,283)	(14,698,965)	(10,146,682)
<b>Total Other Financing Sources (Uses)</b>	<b>1,889,999</b>	<b>1,889,999</b>	<b>2,139,664</b>	<b>97,665</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	-	-	22,182	22,182
Fund Balance - Beginning of Year	3,449,000	3,449,000	3,449,000	-
<b>Fund Balance - End of Year</b>	<b>\$ 3,449,000</b>	<b>\$ 3,449,000</b>	<b>\$ 3,471,182</b>	<b>\$ 22,182</b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**  
 REQUIRED SUPPLEMENTARY INFORMATION - PENSION AND OTHER POST EMPLOYMENT BENEFITS  
 SEPTEMBER 30, 2012

**1. SCHEDULE OF FUNDING PROGRESS - EMPLOYEES RETIREMENT SYSTEM OF ALABAMA - CITY OF TROY:**

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)
9/30/2006	\$ 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	\$ 45,640,347	\$ 16,987,188	62.80%	\$ 9,910,199	171.40%
9/30/2010	\$ 28,653,159	\$ 45,743,284	\$ 17,090,125	62.60%	\$ 9,910,199	172.40%
9/30/2011	\$ 28,009,265	\$ 47,231,749	\$ 19,222,484	59.30%	\$ 9,964,586	192.90%
9/30/2011	\$ 28,009,265	\$ 47,323,140	\$ 19,913,875	59.20%	\$ 9,964,586	193.80%

1 - Reflects changes in actuarial assumptions

2 - Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011

3 - Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning 10/1/2011 and by an additional 0.25% beginning 10/1/2012

4 - Reflects changes in actuarial assumptions

**2. SCHEDULE OF FUNDING PROGRESS OTHER POST EMPLOYMENT BENEFITS:**

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)
10/1/2011	\$ -	\$ 2,557,694	\$ 2,557,694	0.00%	\$ 9,749,860	26.23%

**CITY OF TROY, ALABAMA**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2012

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A. 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.

B. Pension Plan Information and Actuarial Assumptions

Valuation Date	9/30/2011
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Open
Remaining amortization period	30 Years
Asset Valuation method	5-year smoothed market
Actuarial Assumptions:	
Net investment rate of return	8.00%
Projected Salary Increases	3.75 -7.25%
Inflation	3.00%
Cost of Living Adjustments	None

C. Other Post Employment Benefits Information and Actuarial Assumptions

Valuation Date	10/1/2011
Actuarial Cost Method	Projected Unit Cost
Amortization Method	Level Dollar, Open
Remaining amortization period	30 Years
Discount Rate	4.00% (1% real rate of return plus 3% inflation)
Healthcare Cost Trend Rate	7.5% for FY 2012 grading to 5% level in FY 2016



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the 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, 2012, which collectively comprise the City of Troy, Alabama's basic financial statements and have issued our report thereon dated May 12, 2013. 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.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the organization, the City Council of Troy, Alabama, the Alabama Department of Economic and Community Affairs, and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May 12, 2013  
Troy, Alabama

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH A-133

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

### Compliance

We have audited the compliance of the City of Troy, Alabama with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2012. The City of Troy, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Troy, Alabama's management. Our responsibility is to express an opinion on the City of Troy, Alabama's compliance based on our audit.

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

In our opinion, the City of Troy, Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2012.

### Internal Controls over Compliance

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

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

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ALABAMA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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

This report is intended solely for the information and use of the audit committee, management, and others within the organization, City Council, the Alabama Department of Economic and Community Affairs, and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "A. H. Card", written in a cursive style.

May 12, 2013  
Troy, Alabama

**CITY OF TROY, ALABAMA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**EXHIBIT 12**

Federal Grantor/Pass-Through Agency Program Title	Federal CFDA Number	Grantor's Number	Expenditures
U.S. Dept of Transportation/Federal Aviation Admin/ Airport Improvement Program	20.106	AIP 3-01-0071-011-2009 & AIP 3-01-0071-011-2010	<u>1,767,944</u>
U.S. Dept of Transportation/AL Dept of Transportation Formula Grants for Other than Urbanized Areas	20.509		<u>215,044</u>
<b>Total U.S. Dept of Transportation</b>			<b><u>1,982,988</u></b>
U.S. Department of Agriculture/SCADC and AL Dept of Educ Title III Summer Food Service	10.559		<u>113,415</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>113,415</u></b>
U.S. Department of Commerce/Economic Development Administration Investments for Public Works and Economic Development	11.300	EDA #04-01-06433	<u>1,103,084</u>
<b>Total Dept of Commerce/Econ Development Administration</b>			<b><u>1,103,084</u></b>
U.S. Department of Homeland Security/ Staffing for Adequate Fire and Emergency Response	97.083	EMW 2008 FF 0387	<u>135,924</u>
<b>Total U.S. Dept of Homeland Security</b>			<b><u>135,924</u></b>
U.S. Department of Justice/ Bulletproof Vest Partnership Program	16.607		<u>8,838</u>
U.S. Department of Housing and Urban Development/ADECA CDBG Small Cities Program	14.228	LR ED PF 09 007	727,784
U.S. Department of Housing and Urban Development/ADECA CDBG Small Cities Program	14.228	LR CE PF 10 029	206,095
U.S. Department of Housing and Urban Development/ADECA CDBG Small Cities Program	14.228	LR ED PF 11 001	<u>49,248</u>
<b>Total U.S. Dept of Housing and Urban Development</b>			<b><u>983,127</u></b>
<b>Grand Total - All Federal Programs</b>			<b><u>4,327,376</u></b>

Note: This schedule was prepared on the modified accrual basis of accounting.

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**CITY OF TROY, ALABAMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended September 30, 2012**

**EXHIBIT 13**

**Section I - Summary of Auditors' Results**

**Financial Statements:**

We have issued a report with an unqualified opinion on the financial statements.

**Internal Control Over Financial Reporting:**

• Material weaknesses identified?	yes	<u>          </u>	no	<u>      X      </u>
• Reportable conditions identified that are not considered to be material weaknesses?	yes	<u>          </u>	none reported	<u>      X      </u>
Noncompliance material to financial statements noted?	yes	<u>          </u>	no	<u>      X      </u>

**Federal Awards:**

Internal control over major programs:

• Material weaknesses identified?	yes	<u>          </u>	no	<u>      X      </u>
• Reportable conditions identified that are not considered to be material weaknesses?	yes	<u>          </u>	none reported	<u>      X      </u>

We have issued a report with an unqualified opinion on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with .510(a) of Circular A-133?

yes	<u>          </u>	no	<u>      X      </u>
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The City of Troy, Alabama's major programs are as follows:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
11.300	Investments for Public Works and Economic Development
14.228	CDBG Small Cities Program

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

      \$ 300,000      

Auditee qualified as low-risk auditee?	yes	<u>      X      </u>	no	<u>          </u>
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**Section II - Financial Statement Findings**

There were no matters reported

**Section III - Federal Award Findings and Questioned Costs**

There were no matters reported

See Auditors' Report

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**CITY OF TROY, ALABAMA**  
**AUDITED EXPENDITURES AND REVENUES BUDGET AND ACTUAL**  
**ADECA CONTRACT NUMBER**  
**LR ED PF 09-007**  
**AS OF SEPTEMBER 30, 2012**

	Total Budget		Current Year Activity		Prior Year Totals		Cumulative Totals		Over (Under)
	Grant Funds	Local Match	Grant Funds	Local Match	Grant Funds	Local Match	Actual	Budget	
State of Alabama	\$ 1,040,000		\$ 727,784	\$ -	\$ 275,199	\$ -	\$ 1,002,983	\$ 1,040,000	\$ (37,017)
Local Contributions	-	260,000	-	236,782	-	23,218	260,000	260,000	-
<b>Totals</b>	<b>\$ 1,040,000</b>	<b>\$ 260,000</b>	<b>\$ 727,784</b>	<b>\$ 236,782</b>	<b>\$ 275,199</b>	<b>\$ 23,218</b>	<b>\$ 1,262,983</b>	<b>\$ 1,300,000</b>	<b>\$ (37,017)</b>

REVENUES:

EXPENDITURES BY  
BUDGET COST CATEGORY

Administration	\$ 50,000	\$ -	\$ 11,000	\$ -	\$ 16,000	\$ -	\$ 27,000	\$ 50,000	\$ (23,000)
Engineering	121,888	-	26,693	-	81,178	-	107,871	121,888	(14,017)
Construction/Water	\$ 868,112	\$ 260,000	\$ 690,091	\$ 236,782	\$ 178,021	\$ 23,218	\$ 1,128,112	\$ 1,128,112	\$ -
<b>Totals</b>	<b>\$ 1,040,000</b>	<b>\$ 260,000</b>	<b>\$ 727,784</b>	<b>\$ 236,782</b>	<b>\$ 275,199</b>	<b>\$ 23,218</b>	<b>\$ 1,262,983</b>	<b>\$ 1,300,000</b>	<b>\$ (37,017)</b>

**CITY OF TROY, ALABAMA**  
**AUDITED EXPENDITURES AND REVENUES BUDGET AND ACTUAL**  
**ADECA CONTRACT NUMBER**  
**LR CE PF 10 029**  
**AS OF SEPTEMBER 30, 2012**

	Total Budget		Current Year Activity		Prior Year Totals		Cumulative Totals		Over (Under)
	Grant Funds	Local Match	Grant Funds	Local Match	Grant Funds	Local Match	Actual	Budget	
State of Alabama	\$ 250,000	\$ -	\$ 206,095	\$ -	\$ -	\$ -	\$ 206,095	\$ 250,000	\$ (43,905)
Local Contributions	-	260,930	-	258,527	-	-	258,527	260,930	(2,403)
<b>Totals</b>	<b>\$ 250,000</b>	<b>\$ 260,930</b>	<b>\$ 206,095</b>	<b>\$ 258,527</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 464,622</b>	<b>\$ 510,930</b>	<b>\$ (46,308)</b>

REVENUES:

EXPENDITURES BY  
BUDGET COST CATEGORY

Administration	\$ 37,000	\$ -	\$ 18,870	\$ -	\$ -	\$ -	\$ 18,870	\$ 37,000	\$ (18,130)
Construction/Senior Center	213,000	260,930	187,225	258,527	-	-	445,752	473,930	(28,178)
<b>Totals</b>	<b>\$ 250,000</b>	<b>\$ 260,930</b>	<b>\$ 206,095</b>	<b>\$ 258,527</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 464,622</b>	<b>\$ 510,930</b>	<b>\$ (46,308)</b>

**CITY OF TROY, ALABAMA**  
**AUDITED EXPENDITURES AND REVENUES BUDGET AND ACTUAL**  
**ADECA CONTRACT NUMBER**  
**LR ED PF 11 001**  
**AS OF SEPTEMBER 30, 2012**

	Total Budget		Current Year Activity		Prior Year Totals		Cumulative Totals		Over (Under)
	Grant Funds	Local Match	Grant Funds	Local Match	Grant Funds	Local Match	Actual	Budget	
<b>REVENUES:</b>									
State of Alabama	\$ 700,000	\$ -	\$ 49,248	\$ -	\$ -	\$ -	\$ 49,248	\$ 700,000	\$ (650,752)
Local Contributions	-	175,000	-	-	-	-	-	175,000	(175,000)
<b>Totals</b>	<b>\$ 700,000</b>	<b>\$ 175,000</b>	<b>\$ 49,248</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 49,248</b>	<b>\$ 875,000</b>	<b>\$ (825,752)</b>
<b>EXPENDITURES BY</b>									
<b>BUDGET COST CATEGORY</b>									
Administration	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ (50,000)
Engineering	91,890	-	49,248	-	-	-	-	91,890	(91,890)
Construction - Sewer	558,110	175,000	-	-	-	-	-	733,110	(733,110)
<b>Totals</b>	<b>\$ 700,000</b>	<b>\$ 175,000</b>	<b>\$ 49,248</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 875,000</b>	<b>\$ (875,000)</b>

**STATEMENT OF INDEPENDENT AUDITORS'  
QUALIFICATIONS PURSUANT TO  
YELLOW BOOK STANDARDS**

Gibson & Carden, L.L.C., Certified Public Accountants hereby affirms that it meets the auditing standards generally accepted in the United States of America regarding continuing professional education and peer review as defined by *Government Auditing Standards* (the Yellow Book). We affirm that all staff assigned to the audit of the City of Troy for the year ended September 30, 2012 met both the 2-year, 80 hour continuing professional education requirement and the 2-year, 24 hour governmental auditing and accounting continuing professional education requirement.

In addition, our firm has met the requirement to have an on-site peer review once every three years. Our review was conducted on September 8, 2012 and we received a *pass* report.