

CITY OF TROY, ALABAMA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

CITY OF TROY, ALABAMA
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SEPTEMBER 30, 2015

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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2016, on our consideration of the City of Troy, Alabama'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 in considering the City of Troy, Alabama's internal control over financial reporting and compliance.



Troy, Alabama
March 15, 2016

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, 2015. 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 \$71,736,956 (*net position*).
- Net position restricted for future growth of \$16,203,778 is 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 \$2,646,174 or 15 percent of total normal General Fund expenditures for the fiscal year.
- The City of Troy's overall indebtedness increased during the current fiscal year. New notes and bonds were issued to finance new water, electric, and sewer infrastructure projects.
- The City of Troy continued guarantees on \$16,500,000 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.

| Table 1: Major Features of the Basic Financial Statements | | | | |
|--|--|--|---|--|
| | Government-wide Financial Statements | Fund Financial Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | 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 |
| Required financial statements | - Statement of net position | - Balance sheet - Statement of revenues, expenditures and changes in fund balance | - Statement of net position - Statement of revenues, expenses and changes in net position Statement of cash flows | - Statement of fiduciary net assets - Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | 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 |
| Type of asset/liability information | 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 |
| Type of inflow/outflow information | 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 |

Budget

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 \$71,736,956. The City's net position decreased by \$830,949 for the fiscal year ended September 30, 2015. However, the largest portion (68%) of total net position 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 (46%) of the City of Troy's net position 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, 2015, and 2014, 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 | |
|-------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Assets: | | | | | | |
| Current and other assets | \$ 35,418,243 | \$ 23,810,583 | \$ 19,958,395 | \$ 19,743,837 | \$ 55,376,638 | \$ 43,554,420 |
| Capital assets | 68,670,483 | 66,842,599 | 44,159,561 | 40,839,365 | 112,830,044 | 107,681,964 |
| Total Assets | \$104,088,726 | \$90,653,182 | \$ 64,117,956 | \$60,583,202 | \$168,206,682 | \$151,236,384 |
| Deferred Outflows: | | | | | | |
| Deferred loss and bond discounts | \$ 1,686,992 | \$ 548,563 | \$ 834,935 | \$ 481,527 | \$ 2,521,927 | \$ 1,030,090 |
| Liabilities: | | | | | | |
| Long-term liabilities outstanding | \$ 40,542,394 | \$ 27,658,762 | \$ 28,087,437 | \$ 24,465,729 | \$ 68,629,831 | \$ 52,124,491 |
| Other liabilities | 18,576,080 | 4,664,480 | 9,904,423 | 4,680,095 | 28,480,503 | 9,344,575 |
| Total Liabilities | \$ 59,118,474 | \$32,323,242 | \$ 37,991,860 | \$29,145,824 | \$ 97,110,334 | \$ 61,469,066 |
| Deferred Inflows: | | | | | | |
| Deferred benefits and bond premiums | \$ 1,659,817 | \$ - | \$ 221,502 | \$ - | \$ 1,881,319 | \$ - |
| Net Position | | | | | | |
| Net Investment in capital assets | \$ 28,128,089 | \$ 39,183,837 | \$ 20,721,628 | \$ 21,142,109 | \$ 48,849,717 | \$ 60,325,946 |
| Restricted | 30,110,775 | 17,681,137 | 2,806,956 | 2,265,597 | 32,917,731 | 19,946,734 |
| Unrestricted | (13,241,437) | 2,013,529 | 3,210,945 | 8,511,199 | (10,030,492) | 10,524,728 |
| Total Net Position | \$ 44,997,427 | \$58,878,503 | \$ 26,739,529 | \$31,918,905 | \$ 71,736,956 | \$ 90,797,408 |

Condensed Statement of Activities

Table 3 presents the City's condensed statement of activities for the fiscal years ended September 30, 2015, and 2014, derived from the government-wide Statement of Activities. Over time, increases and decreases in net position measures whether the City's financial position is improving or deteriorating. During the fiscal year, the net position of the governmental activities decreased by \$307,802 or 1%, and the net position of the business-type increased by \$523,147 or 2%.

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

- Decrease in capital grants received in current year.
- Continued low cost of debt due to the City's high bond rating.
- Capital and operating grants were obtained to finance new capital projects and public services.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 2,951,731 | \$ 2,553,580 | \$ 24,251,881 | \$ 23,833,363 | \$ 27,203,612 | \$ 26,386,943 |
| Operating grants and contributions | 416,481 | 350,780 | | | 416,481 | 350,780 |
| Capital grants and contributions | 548,134 | 1,207,284 | 90,000 | 65,343 | 638,134 | 1,272,627 |
| General Revenues: | | | | | | |
| Property taxes | 1,285,631 | 1,366,232 | | | 1,285,631 | 1,366,232 |
| Sales and other taxes | 12,036,690 | 9,446,843 | | | 12,036,690 | 9,446,843 |
| Investment earnings | 496,190 | 454,990 | 37,308 | 47,137 | 533,498 | 502,127 |
| Other | 385,947 | 3,444,216 | 24,325 | 20,652 | 410,272 | 3,464,868 |
| Total Revenues | 18,120,804 | 18,823,925 | 24,403,514 | 23,966,495 | 42,524,318 | 42,790,420 |
| Expenses: | | | | | | |
| General government | 2,518,017 | 2,516,642 | | | 2,518,017 | 2,516,642 |
| Public safety - police and fire | 8,749,660 | 8,364,256 | | | 8,749,660 | 8,364,256 |
| Grounds, public works, recycling | 4,746,052 | 4,686,681 | | | 4,746,052 | 4,686,681 |
| Seniors and nutrition | 623,542 | 583,968 | | | 623,542 | 583,968 |
| Library and recreation | 3,792,228 | 3,599,386 | | | 3,792,228 | 3,599,386 |
| Public transportation | 508,625 | 460,713 | | | 508,625 | 460,713 |
| Municipal courts | 525,986 | 505,602 | | | 525,986 | 505,602 |
| Healthcare - Hospital Authority | 2,839,791 | 2,852,936 | | | 2,839,791 | 2,852,936 |
| Economic Dev. and other programs | 15,419 | 162,373 | | | 15,419 | 162,373 |
| Interest on long-term debt | 1,116,496 | 1,018,809 | | | 1,116,496 | 1,018,809 |
| Water, sewer and electric | | | 17,919,451 | 16,756,412 | 17,919,451 | 16,756,412 |
| Total Expenses | 25,435,816 | 24,751,366 | 17,919,451 | 16,756,412 | 43,355,267 | 41,507,778 |
| Increase (Decrease) in Net Position Before Transfers | (7,315,012) | (5,927,441) | 6,484,063 | 7,210,083 | (830,949) | 1,282,642 |
| Operating Transfers In (Out) | 7,007,210 | 7,033,237 | (7,007,210) | (7,033,237) | - | - |
| Increase (Decrease) Net Position | (307,802) | 1,105,796 | (523,147) | 176,846 | (830,949) | 1,282,642 |
| Net Position, October 1 | 58,878,503 | 57,772,707 | 31,918,905 | 31,742,059 | 90,797,408 | 89,514,766 |
| Restatement - Pension | (13,573,274) | | (4,656,229) | | (18,229,503) | - |
| Net Position, September 30 | \$ 44,997,427 | \$ 58,878,503 | \$ 26,739,529 | \$ 31,918,905 | \$ 71,736,956 | \$ 90,797,408 |

Overall Analysis

Financial highlights for the City as a whole during the fiscal year ended September 30, 2015, include the following:

Governmental activities. Governmental activities decreased the City's net position overall by \$307,802. Key elements of this decrease are as follows:

- A decrease in Capital and Operating grants in current year compared to prior year. Capital and Operating Grants were obtained for \$1,558,064 in prior year to continue the Airport Improvement and Expansion Project and fund other programs.

Business-type activities: Business-type activities decreased the City of Troy's net position by \$523,147. Key elements of this decrease are as follows:

- Revenues did not increase to meet rising costs.

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 \$3,571,378. Unreserved fund balance represents 21 percent of total normal General Fund expenditures. The Fund Balance of all governmental funds increased by \$901,965 due to capital grants and transfers from the utility fund. 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 position of the Electric, Water, and Sewer Fund at the end of the fiscal year amounted to \$3,210,945.

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 negative variance of \$885,664 in total revenue budgeted. \$169,910 of this total was from decrease sales tax revenues that were received below expectations. \$230,363 of this total was from decrease capital and operating grants that were received below expectations. And the remainder is due to transfers to the enterprise fund.
- Expenses were below expectations for the general fund for the year.

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, 2015, totaled \$112,830,044 (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):

- Street resurfacing projects of \$1.5 million.
- Land purchased for \$1.8 million.
- Electric system improvements of \$1.6 million.
- Water and sewer system upgrades of \$3.5 million

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, 2015, the City of Troy had total bonded debt outstanding of \$68,629,831. Of this, \$37,055,000 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. 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 2015 and 2016 because of budgetary constraints.

Budget Highlights for the Fiscal Year Ending September 30, 2016

Governmental Activities: Sales taxes are expected to show continued growth due to overall improving economic conditions. 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. Electric rates were increased in January of 2012 and the Water and Sewer rates were increased in November 2013. 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 POSITION
SEPTEMBER 30, 2015

| | Primary Government | | |
|---|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash | \$ 4,892,532 | \$ 4,700,477 | \$ 9,593,009 |
| Receivables: | | | |
| Taxes | 1,951,926 | | 1,951,926 |
| Utility bills | | 6,082,082 | 6,082,082 |
| Grants | 325,328 | | 325,328 |
| Interest receivable | | | - |
| Inventory | | 1,242,012 | 1,242,012 |
| Restricted assets - cash, receivables and investments | 28,248,457 | 7,933,824 | 36,182,281 |
| Fixed assets (net of accumulated depreciation) | 68,670,483 | 44,159,561 | 112,830,044 |
| Total Assets | \$ 104,088,726 | \$ 64,117,956 | \$ 168,206,682 |
| Deferred Outflows of Resources | | | |
| Contribution to pension plan in current year | \$ 1,230,916 | \$ 357,571 | \$ 1,588,487 |
| Deferred loss and unamortized bond discount | 456,076 | 477,364 | 933,440 |
| Total Deferred Outflows of Resources | \$ 1,686,992 | \$ 834,935 | \$ 2,521,927 |
| Liabilities | | | |
| Accounts payable | \$ 1,542,182 | \$ 3,346,211 | \$ 4,888,393 |
| Other payables | 416,967 | | 416,967 |
| Accrued interest payable | 319,756 | 389,490 | 709,246 |
| Bonds and notes due within one year (net) | 1,534,566 | 1,192,882 | 2,727,448 |
| Accrued compensated absences | 2,050,199 | 571,044 | 2,621,243 |
| Accrued other post employment benefits | 399,466 | 132,905 | 532,371 |
| Net pension liability | 13,847,510 | 4,786,619 | 18,634,129 |
| Customer deposits | - | 678,154 | 678,154 |
| Bonds and notes due in more than one year (net) | 39,007,828 | 26,894,555 | 65,902,383 |
| Total Liabilities | \$ 59,118,474 | \$ 37,991,860 | \$ 97,110,334 |
| Deferred Inflows of Resources | | | |
| Unamortized bond premium | \$ 956,450 | \$ - | \$ 956,450 |
| Net difference between projected and actual earnings on pension plan investments | 703,367 | 221,502 | 924,869 |
| Total Deferred Inflows of Resources | \$ 1,659,817 | \$ 221,502 | \$ 1,881,319 |
| Net Position | | | |
| Net investment in capital assets | \$ 28,128,089 | \$ 20,721,628 | \$ 48,849,717 |
| Restricted for: | | | |
| Capital projects | 13,340,727 | | 13,340,727 |
| Debt service | 566,270 | 2,806,956 | 3,373,226 |
| Future growth | 16,203,778 | | 16,203,778 |
| Unrestricted net position | (13,241,437) | 3,210,945 | (10,030,492) |
| Total Net Position | \$ 44,997,427 | \$ 26,739,529 | \$ 71,736,956 |

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT 2

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Change in Net Position | | | |
|--|----------------------|----------------------|------------------------------------|--|---|--------------------------|------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants & Contributions | Primary Government Business-Type Activities | | Total |
| | | | | | Governmental Activities | Business-Type Activities | |
| Primary Government: | | | | | | | |
| General Government - Executive | \$ 2,518,017 | \$ 702,102 | \$ 176,838 | \$ 334,186 | \$ (1,304,891) | \$ - | \$ (1,304,891) |
| Police and Fire | 8,749,660 | 269,147 | - | 16,367 | (8,464,146) | - | (8,464,146) |
| Public Works, and Recycling | 4,746,052 | 746,475 | - | 125,000 | (3,874,577) | - | (3,874,577) |
| Seniors and Nutrition | 623,542 | - | - | - | (623,542) | - | (623,542) |
| Library and Recreation | 3,792,228 | 542,508 | 7,293 | 72,581 | (3,169,846) | - | (3,169,846) |
| Public Transportation | 508,825 | 78,245 | 232,350 | - | (198,030) | - | (198,030) |
| Municipal Courts | 525,986 | 582,404 | - | - | 56,418 | - | 56,418 |
| Healthcare - Transfer to Hospital Authority | 2,839,791 | 30,850 | - | - | (2,839,791) | - | (2,839,791) |
| Economic Development and other programs | 15,419 | - | - | - | 15,431 | - | 15,431 |
| Interest on long-term debt | 1,116,496 | - | - | - | (1,116,496) | - | (1,116,496) |
| Total Governmental Activities | 25,435,816 | 2,951,731 | 416,481 | 548,134 | (21,519,470) | - | (21,519,470) |
| Business-type Activities: | | | | | | | |
| Water | 2,593,545 | 2,591,278 | - | 90,000 | - | 87,733 | 87,733 |
| Sewer | 2,437,681 | 2,387,762 | - | - | - | (49,919) | (49,919) |
| Electric | 11,909,177 | 19,272,841 | - | - | - | 7,363,664 | 7,363,664 |
| Interest on bonds | 979,048 | - | - | - | - | (979,048) | (979,048) |
| Total Business-type Activities | 17,919,451 | 24,251,881 | - | 90,000 | - | 6,422,430 | 6,422,430 |
| Total Primary Government | \$ 43,355,267 | \$ 27,203,612 | \$ 416,481 | \$ 638,134 | \$ (21,519,470) | \$ 6,422,430 | \$ (15,097,040) |
| General Revenues: | | | | | | | |
| Property taxes | | | | | 1,285,631 | | 1,285,631 |
| General sales, use, and gasoline taxes | | | | | 9,477,518 | | 9,477,518 |
| Utility and franchise taxes | | | | | 860,396 | | 860,396 |
| Beer, tobacco and lodging tax | | | | | 949,518 | | 949,518 |
| Licenses and permits | | | | | 749,258 | | 749,258 |
| Investment earnings | | | | | 496,190 | 37,308 | 533,498 |
| Special item - gain (loss) on sale of fixed assets | | | | | 112,433 | 24,325 | 136,758 |
| Other revenues | | | | | 273,514 | | 273,514 |
| Total General Revenues | | | | | 14,204,458 | 61,633 | 14,266,091 |
| Transfers | | | | | 7,007,210 | (7,007,210) | - |
| Change in Net Position | | | | | (307,802) | (523,147) | (830,949) |
| Net Position - Beginning of Year | | | | | 58,878,503 | 31,918,905 | 90,797,408 |
| Prior period restatement - GASB 68 Pension Plan Liability | | | | | (13,573,274) | (4,656,229) | (18,229,503) |
| Net Position - End of Year | | | | | \$ 44,997,427 | \$ 26,739,529 | \$ 71,736,956 |

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

| | General Fund | Permanent Fund | Capital Projects | Debt Service | Other Governmental Funds | Total |
|--|---------------------|----------------------|----------------------|-------------------|--------------------------|----------------------|
| Assets | | | | | | |
| Cash | \$ 2,165,805 | \$ 746,040 | \$ 717,965 | \$ 566,536 | \$ 1,442,226 | \$ 5,638,572 |
| Property and other taxes receivable | 1,934,822 | | 153,162 | | 17,104 | 2,105,088 |
| Grants receivable | | | | | 172,166 | 172,166 |
| Restricted cash | | 15,499,295 | 12,003,122 | | | 12,003,122 |
| Investments | | | | | | 15,499,295 |
| Total Assets | \$ 4,100,627 | \$ 16,245,335 | \$ 12,874,249 | \$ 566,536 | \$ 1,631,496 | \$ 35,418,243 |
| Liabilities | | | | | | |
| Accounts payable | \$ 1,001,045 | \$ 41,557 | \$ 218,232 | \$ 266 | \$ 281,082 | \$ 1,542,182 |
| Other payables | 413,863 | | | | 3,104 | 416,967 |
| Total Liabilities | 1,414,908 | 41,557 | 218,232 | 266 | 284,186 | 1,959,149 |
| Fund Balances | | | | | | |
| Restricted: | | | | | | |
| Roads and improvements | | | | | 546,961 | 13,202,978 |
| Principal Retained | | | 12,656,017 | | | 16,203,778 |
| PATS Grant | | 16,203,778 | | | 137,749 | 137,749 |
| Committed: | | | | | | |
| Drug Task Force Capital Improvements | 39,545 | | | | | 39,545 |
| Debt Service Funds | | | | 566,270 | | 566,270 |
| Assigned: | | | | | | |
| Library Operations | | | | | 138,652 | 138,652 |
| Industrial Development | | | | | 291,290 | 291,290 |
| Unassigned | 2,646,174 | | | | 232,658 | 2,878,832 |
| Total Fund Balances | 2,685,719 | 16,203,778 | 12,656,017 | 566,270 | 1,347,310 | 33,459,094 |
| Total Liabilities and Fund Balances | \$ 4,100,627 | \$ 16,245,335 | \$ 12,874,249 | \$ 566,536 | \$ 1,631,496 | \$ 35,418,243 |

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 POSITION
 SEPTEMBER 30, 2015**

| | | |
|---|--|-----------------------------|
| Total Fund Balances - Governmental Fund Types: | | \$ 33,459,094 |
| Amounts reported for governmental activities in the statement of position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 68,670,483 |
| Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position | | 1,230,916 |
| Net pension liability accrual is not due and payable and is not reported in the funds | | (13,847,510) |
| Net difference between projected and actual earnings on pension plan investments are deferred inflows of resources on the Statement of Net Position | | (703,367) |
| Other Post Employment Benefit Accruals are not due and payable and are not reported in the funds. | | (399,466) |
| 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 | (319,756) |
| | Compensated Absences | (2,050,199) |
| | Current Debt | (1,534,566) |
| | Long Term Debt | (39,007,828) |
| | Bond Premium, Deferred Loss, and Bond Discount | (500,374) |
| | | <u>(43,412,723)</u> |
| Net Position of Government Activities | | <u>\$ 44,997,427</u> |

CITY OF TROY, ALABAMA

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

EXHIBIT 5

| | General Fund | Permanent Fund | Capital Projects | Debt Service | Other Governmental | Total |
|--|---------------------|----------------------|----------------------|--------------------|---------------------|----------------------|
| Revenues: | | | | | | |
| Taxes | \$ 12,213,090 | \$ - | \$ 154,875 | \$ - | \$ 205,098 | \$ 12,573,063 |
| Charges for services | 1,049,302 | | | 668,422 | 651,603 | 2,369,327 |
| Licenses and permits | 749,258 | | | | | 749,258 |
| Fines and costs | - | | | | 582,404 | 582,404 |
| Investment income | 34,117 | 456,419 | 2,461 | 111 | 3,082 | 496,190 |
| Operating and capital grants | 270,329 | | 382,062 | | 312,224 | 964,615 |
| Other revenues | 152,789 | | 728 | | 119,998 | 273,515 |
| Total Revenues | 14,468,885 | 456,419 | 540,126 | 668,533 | 1,874,409 | 18,008,372 |
| Expenditures: | | | | | | |
| General Government - Executive | 1,281,041 | | | | | 1,281,041 |
| Police and Fire | 8,403,887 | | | | | 8,403,887 |
| Public Works, and Recycling | 3,721,870 | | | | | 3,721,870 |
| Seniors and Nutrition | 531,092 | | | | | 531,092 |
| Library and Recreation | - | | | | 3,038,259 | 3,038,259 |
| Public Transportation | - | | | | 500,823 | 500,823 |
| Municipal Courts | - | | | | 527,198 | 527,198 |
| Health and Welfare - Troy Hospital | 2,839,791 | | | | | 2,839,791 |
| Economic Development and other programs | - | | | | 15,419 | 15,419 |
| Debt Service | - | | | 7,364,259 | | 7,364,259 |
| Capital Outlay | 1,285,806 | | 3,670,080 | | 498,271 | 5,454,157 |
| Total Expenditures | 18,063,487 | | 3,670,080 | 7,364,259 | 4,579,970 | 33,677,796 |
| Excess of Revenues Over (Under) Expenditures | (3,594,602) | 456,419 | (3,129,954) | (6,695,726) | (2,705,561) | (15,669,424) |
| Other Financing Sources (Uses): | | | | | | |
| Proceeds from debt | 19,317,913 | | 1,015,198 | | | 20,333,111 |
| Proceeds from sale of assets | 13,673 | | | | 102,760 | 116,433 |
| Operating transfers in | 7,306,190 | | 14,006,299 | 6,858,730 | 3,063,809 | 31,235,028 |
| Operating transfers out | (23,928,838) | (298,980) | | | | (24,227,818) |
| Total Other Financing Sources (Uses) | 2,708,938 | (298,980) | 15,021,497 | 6,858,730 | 3,166,569 | 27,456,754 |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (885,664) | 157,439 | 11,891,543 | 163,004 | 461,008 | 11,787,330 |
| Fund Balance - Beginning of Year | 3,571,383 | 16,046,339 | 764,474 | 403,286 | 886,302 | 21,671,764 |
| Fund Balance - End of Year | \$ 2,685,719 | \$ 16,203,778 | \$ 12,656,017 | \$ 566,270 | \$ 1,347,310 | \$ 33,459,094 |

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, 2015

Net Changes in Fund Balances - Total Governmental Funds **\$ 11,787,330**

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 | (3,622,273) | |
| Capital outlays capitalized | <u>5,454,157</u> | 1,831,884 |

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. (4,000)

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 increased for the current period. (90,982)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 1,230,916

Pension expense reported in the Statement of Activities did not require the use of current financial resources and therefore is not reported as an expenditure in the funds (977,602)

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. -

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 | (20,333,111) | |
| Principal paid less amortization of issue costs | <u>6,247,763</u> | <u>(14,085,348)</u> |

Change in Net Position of Governmental Activities **\$ (307,802)**

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

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CITY OF TROY, ALABAMA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

| | |
|--|-----------------------------|
| Current Assets: | |
| Cash - gross revenue and maintenance accounts | \$ 4,700,477 |
| Accounts receivable - customers | 6,082,082 |
| Inventories | 1,242,012 |
| Total Current Assets | <u>12,024,571</u> |
| Restricted Assets - Cash and Investments: | |
| Bond and interest redemptions | 1,555,153 |
| Bond proceeds for construction project | 5,126,868 |
| Debt service reserve | 1,251,803 |
| Total Restricted Assets - Cash and Investments | <u>7,933,824</u> |
| Net Property, Plant and Equipment: | <u>44,159,561</u> |
| Total Assets | <u><u>\$ 64,117,956</u></u> |
| Deferred Outflows: | |
| Contributions to pension plan in current fiscal year | \$ 357,571 |
| Deferred loss on bond refunding and unamortized bond discount | 477,364 |
| Total Deferred Outflows | <u><u>\$ 834,935</u></u> |
| Current Liabilities (Payable from Current Assets): | |
| Accounts payable and other accrued expenses | \$ 3,346,211 |
| Accrued compensated absences | 571,044 |
| Total Current Liabilities (Payable from Current Assets) | <u>3,917,255</u> |
| Current Liabilities (Payable from Restricted Assets): | |
| Water, electric and sewer revenue bonds payable in one year | 1,192,882 |
| Accrued interest payable on bonds | 389,490 |
| Total Current Liabilities (Payable from Restricted Assets) | <u>1,582,372</u> |
| Long-term Liabilities: | |
| Customers' deposits | 678,154 |
| Accrued other post employment benefits | 132,905 |
| Net pension liability | 4,786,619 |
| Water, electric and sewer revenue bonds not due in one year | 26,894,555 |
| Total Long-term Liabilities | <u>32,492,233</u> |
| Total Liabilities | <u><u>\$ 37,991,860</u></u> |
| Deferred Inflows of Resources: | |
| Net difference between projected and actual earnings on plan investments | <u><u>\$ 221,502</u></u> |
| Net Position: | |
| Net investment in capital assets | 20,721,628 |
| Restricted for: | |
| Debt service | 2,806,956 |
| Unrestricted net position | 3,210,945 |
| Total Net Position | <u><u>\$ 26,739,529</u></u> |

CITY OF TROY, ALABAMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | |
|---|-----------------------------|
| Operating Revenues: | |
| Electric tolls | \$ 33,130,639 |
| ECA and fuel charge revenue | 6,097,730 |
| Less: electric power purchases | (20,627,108) |
| Water tolls | 2,591,278 |
| Sewer charges | 2,387,762 |
| Fees and taps | 52,801 |
| Other income | 618,779 |
| Total Operating Revenues | <u>24,251,881</u> |
| Operating Expenses: | |
| Personnel | 3,842,915 |
| Contractual services | 3,844,950 |
| Materials and supplies | 6,261,579 |
| Depreciation | 2,944,959 |
| Other expenses | 46,000 |
| Total Operating Expenses | <u>16,940,403</u> |
| Operating Income | 7,311,478 |
| Nonoperating Revenues (Expenses): | |
| Grant revenue | 90,000 |
| Interest income | 37,308 |
| Interest on bonds | (979,048) |
| Gain (Loss) on sale of fixed assets | 24,325 |
| Total Nonoperating Revenues (Expenses) | <u>(827,415)</u> |
| Net Income Before Contributions and Transfers | 6,484,063 |
| Transfers to general government | <u>(7,007,210)</u> |
| Changes in Net Position | (523,147) |
| Net Position - Beginning of Year | \$ 31,918,905 |
| Restatement - GASB 68 Pension Liability | <u>(4,656,229)</u> |
| Net Position - End of Year | <u><u>\$ 26,739,529</u></u> |

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | |
|---|----------------------|
| Cash Flows from Operating Activities: | |
| Receipts from customers | \$ 44,445,424 |
| Payments to suppliers | (30,396,631) |
| Payments to employees for wages and benefits | (3,848,595) |
| Other receipts (payments) | 618,779 |
| Net Cash Provided (Used) by Operating Activities | <u>10,818,977</u> |
| Cash Flows from Noncapital Financing Activities: | |
| Amounts transferred to general government | (7,007,210) |
| Cash Flows from Capital and Related Financing Activities: | |
| Proceeds from sale of property and equipment | 26,326 |
| Proceeds from capital debt | 4,637,649 |
| Proceeds from grants | 90,000 |
| Purchases of capital assets | (6,267,155) |
| Principal payments on capital debt | (1,015,941) |
| Interest paid on capital debt | (972,683) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(3,501,804)</u> |
| Cash Flows from Investing Activities: | |
| Interest received | 37,308 |
| Net Increase (Decrease) in Cash and Equivalents | 347,271 |
| Cash and Equivalents - Beginning of Year | <u>12,287,030</u> |
| Cash and Equivalents - End of Year | <u>\$ 12,634,301</u> |

SUPPLEMENTARY INFORMATION

| | |
|--|----------------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating income (loss) | \$ 7,311,478 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 2,944,959 |
| Pension expense | 316,787 |
| (Increase) decrease in: | |
| Accounts receivable | 185,214 |
| Inventories | (52,501) |
| Contributions to pension plan | (357,571) |
| Increase (decrease) in: | |
| Accounts payable and expenses | 477,794 |
| Compensated absences and other benefits | (60,395) |
| Net difference on projected and actual plan earnings | 35,104 |
| Customer deposits | 18,108 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 10,818,977</u> |

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CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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, 2015

(B) Basis of Presentation:

Government-Wide Financial Statements

The Government-wide financial statements (statement of net position 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 position is 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 position. 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, 2015

(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 governmental 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, 2015

(D) Assets, Liabilities, Net Position 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, 2015, the carrying amount of the City's deposits with financial institutions in all funds was \$18,460,511. 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, 2015, 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, 2015

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

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 than 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, 2015, 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 Value | Investment Maturities (in Years) | | | |
|--------------------------|----------------------|----------------------------------|---------------------|---------------------|---------------------|
| | | Under 1 | 1 to 5 | 6 to 10 | More than 10 |
| Alabama Municipal Bonds | \$ 1,844,502 | \$ - | \$ 104,602 | \$ 781,050 | \$ 958,850 |
| Corporate Obligations | 279,430 | | 279,430 | - | - |
| U.S. Government Agencies | 13,375,363 | 29,084 | 2,541,554 | 3,436,374 | 7,368,351 |
| Totals | <u>\$ 15,499,295</u> | <u>\$ 29,084</u> | <u>\$ 2,925,586</u> | <u>\$ 4,217,424</u> | <u>\$ 8,327,201</u> |

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 collectable.

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, 2015

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

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

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

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

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

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

Compensated Absences

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

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 position. 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.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, 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 position.

Net Position/Fund Equity

The government-wide and business-type activities fund financial statements utilize a net position presentation. Net position is classified as a net investment in capital assets, restricted; and unrestricted.

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. 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 - 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 - This category represents net position 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, 2015

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

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 position represents funds being held by the bond trustee reserved for the payment of revenue bond obligations of the City. At September 30, 2015, the City has a debt service reserve of \$3,373,226.

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.

Accumulated Unpaid Employee Benefits

At September 30, 2015, the Governmental Fund accumulated unpaid employee benefits liability amounted to \$2,050,199 and the Enterprise Fund liability amounted to \$571,044. 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.

(F) Prior Period Adjustment - Change in Accounting Principle:

During the current year, the City adopted GASB Statements No. 68 and 71 which required the recording of the certain accounts and balances related to the City participation in the Alabama Public Employees Retirement System. The net effect of this change has been presented as a prior period adjustment to Net Position. See Note 12 for full disclosure of this change.

NOTE 2 - Stewardship, Compliance, and Accountability

Excess of Appropriations Over Expenditures

For the year ended September 30, 2015 revenues over expenditures for governmental funds was \$11,787,330. The excess revenues were mainly from appropriations and transfers for capital projects that had not yet been expended.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 2 - Stewardship, Compliance, and Accountability, Continued:

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 position, 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, 2015 was as follows:

| Primary Government | Beginning | | | Ending |
|--|----------------------|---------------------|---------------------|-----------------------|
| Governmental Activities: | Balance | Additions | Reductions | Balance |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 3,826,422 | \$ 1,935,205 | \$ - | \$ 5,761,627 |
| Right of ways and easements | 7,804,136 | 50,377 | - | 7,854,513 |
| Total Capital Assets Not Being Depreciated | \$ 11,630,558 | \$ 1,985,582 | \$ - | \$ 13,616,140 |
| Capital Assets Being Depreciated: | | | | |
| Autos and trucks | \$ 6,505,962 | \$ 741,869 | \$ (152,894) | \$ 7,094,937 |
| Furniture and fixtures | 514,967 | 21,127 | - | 536,094 |
| Buildings and improvements | 48,341,523 | 528,764 | - | 48,870,287 |
| Equipment | 6,005,222 | 576,246 | - | 6,581,468 |
| Books | 1,893,407 | - | - | 1,893,407 |
| Street and drainage improvements | 47,236,384 | 1,600,569 | - | 48,836,953 |
| Total Capital Assets Being Depreciated | \$110,497,465 | \$ 3,468,575 | \$ (152,894) | \$ 113,813,146 |
| Less Accumulated Depreciation for: | | | | |
| Autos and trucks | \$ 3,958,070 | \$ 413,205 | \$ (148,894) | \$ 4,222,381 |
| Furniture and fixtures | 224,568 | 50,895 | - | 275,463 |
| Buildings and improvements | 19,406,385 | 1,662,667 | - | 21,069,052 |
| Equipment | 3,974,537 | 651,844 | - | 4,626,381 |
| Books | 1,838,484 | 32,145 | - | 1,870,629 |
| Street improvements | 25,883,380 | 811,517 | - | 26,694,897 |
| Total Accumulated Depreciation | 55,285,424 | 3,622,273 | (148,894) | 58,758,803 |
| Total Capital Assets Being Depreciated, net | 55,212,041 | (153,698) | (4,000) | 55,054,343 |
| Governmental Activities Capital Assets, net | \$ 66,842,599 | \$ 1,831,884 | \$ (4,000) | \$ 68,670,483 |

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 - Capital Assets, Continued:

| Business-type Activities: | Beginning Balance | Additions | Reclass/ Reductions | Ending Balance |
|--|----------------------|---------------------|------------------------|----------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Row and easements | \$ 382,943 | \$ - | \$ - | \$ 382,943 |
| Land | 198,095 | - | - | 198,095 |
| Total Capital Assets Not Being Depreciated | \$ 581,038 | \$ - | \$ - | \$ 581,038 |
| Capital Assets Being Depreciated: | | | | |
| Automotive equipment | \$ 3,388,442 | \$ 275,525 | \$ (109,172) | \$ 3,554,795 |
| Furniture and fixtures | 1,556,170 | 117,157 | | 1,673,327 |
| Buildings | 3,264,667 | 336,393 | | 3,601,060 |
| Equipment | 465,536 | 1,167,403 | | 1,632,939 |
| Electric distribution system | 29,624,122 | 672,508 | | 30,296,630 |
| Water distribution system | 16,552,636 | 170,058 | | 16,722,694 |
| Sewer distribution system | 25,830,417 | 3,528,111 | | 29,358,528 |
| Total Capital Assets Being Depreciated | \$ 80,681,990 | \$ 6,267,155 | \$ (109,172) | \$ 86,839,973 |
| Less Accumulated Depreciation for: | | | | |
| Automotive equipment | \$ 1,121,152 | \$ 331,572 | \$ (107,172) | \$ 1,345,552 |
| Furniture and fixtures | 1,140,677 | 177,189 | | 1,317,866 |
| Buildings | 1,083,436 | 91,052 | | 1,174,488 |
| Equipment | 826,683 | 147,079 | | 973,762 |
| Electric distribution system | 12,187,197 | 871,086 | | 13,058,283 |
| Water distribution system | 8,667,675 | 685,990 | | 9,353,665 |
| Sewer distribution system | 15,396,843 | 640,991 | | 16,037,834 |
| Total Accumulated Depreciation | 40,423,663 | 2,944,959 | (107,172) | 43,261,450 |
| Total Capital Assets Being Depreciated, net | 40,258,327 | 3,322,196 | (2,000) | 43,578,523 |
| Business-type Activities Capital Assets, net | \$ 40,839,365 | \$ 3,322,196 | \$ (2,000) | \$ 44,159,561 |
| Governmental Activities - Depreciation Expense: | | | | |
| General Government - Executive | | | \$ 1,231,786 | |
| Police and Fire | | | 477,433 | |
| Grounds, Public Works, and Recycling | | | 1,042,209 | |
| Seniors and Nutrition | | | 101,597 | |
| Library and Recreation | | | 749,063 | |
| Public Transportation | | | 13,127 | |
| Municipal Courts | | | 2,727 | |
| Other Programs | | | 4,331 | |
| Total Depreciation Expense - Governmental Activities | | | \$ 3,622,273 | |
| Business-type Activities - Depreciation Expense: | | | | |
| Utility systems and equipment | | | \$ 2,944,959 | |
| Total Depreciation Expense - Business-type Activities | | | \$ 2,944,959 | |
| Total Depreciation Expense | | | \$ 6,567,232 | |

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4 - Long-Term Debt

Long-term liability activity for the year ended September 30, 2015 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------------|----------------------|---------------|--------------|-------------------|------------------------|
| Governmental Activities: | | | | | |
| Bonds and Notes Payable: | | | | | |
| General obligation bonds | \$ 24,450,000 | \$ 16,480,000 | \$ 3,875,000 | \$ 37,055,000 | \$ 1,375,000 |
| General obligation notes payable | 3,208,762 | 2,853,074 | 2,574,441 | 3,487,395 | 159,566 |
| | 27,658,762 | 19,333,074 | 6,449,441 | 40,542,395 | 1,534,566 |
| Less: Deferred loss on refunding | 192,233 | - | 22,584 | 169,649 | |
| Bond discounts (premiums) | 356,330 | (1,000,036) | 26,315 | (670,021) | |
| Total Bonds and Notes Payable | 27,110,199 | 20,333,110 | 6,400,542 | 41,042,767 | 1,534,566 |
| Business-type Activities: | | | | | |
| Bonds and Notes Payable: | | | | | |
| Water, electric and sewer bonds | \$ 24,465,729 | \$ 5,767,055 | \$ 2,145,347 | \$ 28,087,437 | \$ 1,192,882 |
| | 24,465,729 | 5,767,055 | 2,145,347 | 28,087,437 | 1,192,882 |
| Less: Deferred loss on refunding | 238,607 | - | 11,361 | 227,246 | |
| Bond discount | 242,920 | 10,199 | 3,002 | 250,117 | |
| Total Bonds and Notes Payable | 23,984,202 | 5,756,856 | 2,130,984 | 27,610,074 | 1,192,882 |

Bonds payable at September 30, 2015 are comprised of the following individual issues:

Primary Government

Governmental Activities:

| | |
|---|----------------------|
| \$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%. | 5,205,000 |
| \$5,315,000 General Obligation Warrants, Series 2011A, due in installments varying from \$565,000 to \$1,520,000 from 2024 to 2031; interest 4.25% to 5.0%. | 5,315,000 |
| \$4,005,000 General Obligation Warrants, Series 2011B, due in installments varying from \$135,000 to \$285,000 from 2014 to 2034; interest 2.0% to 5.0%. | 3,735,000 |
| \$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%. | 6,320,000 |
| \$16,480,000 General Obligation Warrants, Series 2015, due in installments varying from \$445,000 to \$2,400,000 from 2016 to 2035; interest 2.0% to 5.0%. | 16,480,000 |
| | <u>\$ 37,055,000</u> |

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4 - Long-Term Debt, Continued

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%. | 1,315,000 |
| \$205,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2009-DWSRF/ARRA-DL, due in varying installments through 2030; interest at 3.5%. | 165,000 |
| \$17,870,000 Water, Electric, and Sewer Revenue Warrants, Series 2011, due in varying installments through 2029; interest at 2.0% to 4.75%. | 16,010,000 |
| \$1,300,000 Troy Bank and Trust Warrant Anticipation Bond Series 2014, due in monthly installments of \$22,731 including interest at 1.9%. | 903,388 |
| \$5,260,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2014-CWSRF-DL, due in varying installments through 2034; interest at 2.45%. | 5,055,000 |
| \$3,585,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2015-CWSRF, due in varying installments through 2034; interest at 2.45%. | 3,585,000 |
| | <u>\$ 27,033,388</u> |
| Total General Obligation and Revenue Bonds | \$ 64,088,388 |
| Less Unamortized bond discount (premiums) and deferred loss | 23,009 |
| Net General Obligation and Revenue Bonds | <u>\$ 64,111,397</u> |

The annual requirements to amortize all long-term bonded debt outstanding as of September 30, 2015, including interest payments of \$30,591,596 are as follows:

| For the Year Ending September 30, | General Obligations | | | Revenue Obligations | | |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Principal | Interest | Total Payments | Principal | Interest | Total Payments |
| 2016 | 1,375,000 | 1,422,933 | 2,797,933 | 1,194,631 | 977,433 | 2,172,064 |
| 2017 | 1,360,000 | 1,431,643 | 2,791,643 | 1,217,796 | 946,398 | 2,164,194 |
| 2018 | 1,400,000 | 1,396,519 | 2,796,519 | 1,247,861 | 914,272 | 2,162,133 |
| 2019 | 1,435,000 | 1,359,300 | 2,794,300 | 1,133,100 | 882,083 | 2,015,183 |
| 2020 | 1,470,000 | 1,323,670 | 2,793,670 | 1,045,000 | 852,015 | 1,897,015 |
| 2021-2025 | 8,025,000 | 5,947,443 | 13,972,443 | 5,755,000 | 3,720,248 | 9,475,248 |
| 2026-2030 | 9,870,000 | 4,105,689 | 13,975,689 | 6,895,000 | 2,591,175 | 6,895,000 |
| 2031-2035 | 12,120,000 | 1,556,619 | 13,676,619 | 7,365,000 | 1,133,181 | 8,498,181 |
| 2036 | - | - | - | 1,180,000 | 30,975 | 1,210,975 |
| | <u>\$ 37,055,000</u> | <u>\$ 18,543,816</u> | <u>\$ 55,598,816</u> | <u>\$ 27,033,388</u> | <u>\$ 12,047,780</u> | <u>\$ 36,489,993</u> |

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4 - Long-Term Debt, Continued

Notes payable at September 30, 2015 are comprised of the following individual issues:

Primary Government
Governmental Activities:

| | |
|---|---------------------|
| Troy Bank & Trust, due in 120 monthly payments of \$7,269, including interest at a rate of 2.25%, collateralized by equipment. | 595,300 |
| First National Bank of Brundidge, due in five interest only payments of \$55,136 due annually, interest at 3.0%, principal due at maturity, maturity date June 1, 2020. | 1,837,877 |
| South Alabama Electric Cooperative, due in monthly installments of \$7,083 interest free until 2021 | 439,167 |
| Total General Fund | <u>\$ 2,872,344</u> |

The annual requirements to amortize all long-term note debt outstanding as of September 30, 2015, including interest payments of \$327,305 are as follows:

| Maturing September 30, | Principal | Interest | Payments |
|------------------------|---------------------|-------------------|---------------------|
| 2016 | 159,566 | 67,796 | 227,362 |
| 2017 | 161,296 | 66,066 | 227,362 |
| 2018 | 163,030 | 64,332 | 227,362 |
| 2019 | 164,804 | 62,558 | 227,362 |
| 2020 | 2,004,495 | 60,744 | 2,065,239 |
| 2021-2023 | 219,153 | 5,810 | 224,963 |
| | <u>\$ 2,872,344</u> | <u>\$ 327,306</u> | <u>\$ 3,199,650</u> |

Other Long-Term Debt Related:

Revenue Obligations - There is \$1,555,163 on deposit in bond and interest redemption accounts and \$1,251,803 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, 2015

NOTE 5 - Interfund Transactions, Continued

| <u>Governmental Funds:</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------------|----------------------|----------------------|
| General Fund | \$ 7,306,190 | \$ 23,928,838 |
| Debt Service | 6,858,730 | - |
| Permanent Fund | | 298,980 |
| Capital Improvements | 14,006,299 | |
| Library | 687,144 | |
| Recreation | 2,234,074 | |
| Public Transportation | 124,933 | |
| Municipal Court | 17,658 | |
| <u>Proprietary Funds:</u> | | |
| Water, Electric and Sewer | | 7,007,210 |
| Total Transfers | <u>\$ 31,235,028</u> | <u>\$ 31,235,028</u> |

NOTE 6 - Customers' Deposits - Proprietary Fund

No restricted bank account is maintained to hold customers' deposits. The deposits total: 678,154, and 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, 2015. 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, 2015, 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, 2016.

The City has guaranteed debt on behalf of the following Organizations:

- \$325,000 real estate loan for the Pike County Economic Development Corporation
- \$15,531,738 on behalf of the Troy Hospital Health Care Authority (discretely presented component unit)
- \$2,500,000 conduit debt issued by the Industrial Development Board for the Sikorsky Project

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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 was established October 1, 1945 under the provision of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by the state, state police, and on an elective basis, cities, counties, towns and quasi-public organizations. The Plan is administered by the Retirement Systems of Alabama (RSA). The Retirement Systems of Alabama issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 12 - Pension and Retirement Plan, Continued

Employee membership data related to the Plan, as of September 30, 2014 (the measurement date) was as follows:

| | <u>Number</u> |
|--|-------------------|
| Inactive Members or Their beneficiaries Currently Receiving Benefits | 127 |
| Inactive Members Entitled to But Not Yet Receiving Benefits | 12 |
| Active Plan Members | <u>274</u> |
| Total | <u><u>413</u></u> |

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2015, the City's active employee contribution rate was 12.52% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 12.15% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2015 was 12.52% of pensionable pay for Tier 1 employees, and 11.62% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$1,582,479 for the year ended September 30, 2015.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 12 - Pension and Retirement Plan, Continued

Net Pension Liability

The City's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2013 rolled forward to September 30, 2014 using standard roll-forward techniques as shown in the following table:

| | |
|---|---------------|
| Total Pension Liability as of September 30, 2013 (a) | \$ 49,192,740 |
| Entry Age Normal Cost for October 1, 2013 thru September 30, 2014 (b) | 872,193 |
| Actual Benefit Payments and Refunds for October 1, 2013—September 30, 2014 (c) | (3,225,901) |
| Total Pension Liability as of September 30, 2014 [(a) x (1.08)] + (b) - [(c) x (1.04)] | \$ 50,645,415 |

Actuarial assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---------------|
| Inflation | 3.00% |
| Salary increases | 3.75% - 7.25% |
| Investment rate of return* | 8.00% |
| *Net of pension plan investment expense | |

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Discount rate. The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 12 - Pension and Retirement Plan, Continued

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

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

* Includes assumed rate of inflation of 2.50%

Changes in Net Pension Liability

| | Increase (Decrease) | | |
|---|-----------------------------------|----------------------------------|---------------------------------------|
| | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at 9/30/2013 | \$ 49,192,740 | \$ 29,407,519 | \$ 19,785,221 |
| Changes for the year: | | | |
| Service cost | 872,193 | - | 872,193 |
| Interest | 3,806,393 | - | 3,806,393 |
| Differences between expected and actual experience | | | |
| Contributions—employer | - | 1,511,684 | (1,511,684) |
| Contributions—employee | - | 891,833 | (891,833) |
| Net investment income | - | 3,473,884 | (3,473,884) |
| Benefit payments, including refunds of employee contributions | (3,225,901) | (3,225,901) | - |
| Administrative expense | - | - | - |
| Transfers Among Employers | - | (47,733) | 47,733 |
| Net changes | <u>\$ 1,452,685</u> | <u>\$ 2,603,767</u> | <u>\$ (1,151,082)</u> |
| Balances at 9/30/2014 | <u>\$ 50,645,425</u> | <u>\$ 32,011,286</u> | <u>\$ 18,634,139</u> |

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 12 - Pension and Retirement Plan, Continued

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

| | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|------------------------------|--------------------|---------------------|--------------------|
| | 7.00% | 8.00% | 9.00% |
| City's net pension liability | \$ 24,021,582 | \$ 18,634,129 | \$ 14,066,457 |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor's report dated June 3, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

**Pension Expense and Deferred Outflows of Resources and
Deferred Inflows of Resources Related to Pensions**

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 924,870 |
| Employer contributions subsequent to the measurement date | 1,588,487 | - |
| Total | <u>\$ 1,588,487</u> | <u>\$ 924,870</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

| <u>Year ended September 30:</u> | |
|---------------------------------|-------------------|
| 2016 | \$ 231,217 |
| 2017 | 231,217 |
| 2018 | 231,217 |
| 2019 | 231,219 |
| 2020 | - |
| Thereafter | - |
| | <u>\$ 924,870</u> |

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 12 - Pension and Retirement Plan, Continued

For the year ended September 30, 2015, the City recognized pension expense of \$1,285,462

| | |
|---|---------------------|
| Service Cost | \$ 872,193 |
| Interest on the total pension liability | 3,806,383 |
| Current-period benefit changes | - |
| Expensed portion of current-period difference between expected and actual experience in the total pension liability | - |
| Expensed portion of current-period changes in assumptions | - |
| Member contributions | (891,833) |
| Projected earnings on plan investments | (2,317,797) |
| Expensed portion of current-period differences between actual and projected earnings on plan investments | (231,217) |
| Transfers among employers | 47,733 |
| Recognition of beginning deferred outflows of resources as pension expense | - |
| Recognition of beginning deferred inflows of resources as pension expense | - |
| | <hr/> |
| Pension expense (income) | <u>\$ 1,285,462</u> |

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 \$126,296 and the UAAL based on a 30 year amortization was \$152,276 for a total ARC of \$278,572. The annual OPEB Cost reflects an adjustment for the obligation including both an interest adjustment and amortization of the prior year OPEB obligation. For 2015 interest on prior obligation was \$14,127 and amortization was \$(20,027) so the total annual OPEB Cost is \$272,672.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 13 - Other Post Employment Benefits, Continued

Net Other Post-employment Benefit Obligation (NOO): The table below shows the City's NOO for the fiscal year ending September 30, 2015:

| | |
|-------------------------------|-------------------|
| Annual OPEB Cost (AOC) | \$ 272,672 |
| Net OPEB Payments* | (93,467) |
| Change in Net OPEB Obligation | <u>\$ 179,205</u> |
| Beginning Net OPEB Obligation | 353,166 |
| Ending Net OPEB Obligation | <u>\$ 532,371</u> |

* - The net OPEB payments include the implicit rate subsidy of \$93,467 and actual employer contributions of \$0

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 |
| 9/30/2013 e | \$ 255,845 | 30.98% | \$ 353,166 |
| 9/30/2014 | \$ 272,672 | 34.28% | \$ 532,371 |

(e - estimated from 9/30/2012 valuation)

Funded Status and Funding Progress: In the fiscal year September 30, 2015 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, 2013, the most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was \$2,641,202, 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 \$2,641,202 is unfunded. The covered payroll was \$10,510,397 and the unfunded AAL as a percentage of covered payroll was 25.13%.

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 December 2, 2015 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.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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:

| | |
|---|----------------------|
| Revenue and maintenance accounts | \$ 4,700,477 |
| Restricted cash and investments | <u>7,933,824</u> |
| Total Proprietary Fund Cash and Equivalents | <u>\$ 12,634,301</u> |

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.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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

| TROY HOSPITAL HEALTH CARE AUTHORITY | |
|--|----------------------|
| STATEMENT OF NET POSITION - | |
| DECEMBER 31, 2014 | |
| <u>ASSETS</u> | |
| Current assets: | |
| Cash and cash equivalents | \$ 905,715 |
| Patient accounts receivable, net of allowance for contractual and bad debt | 2,903,525 |
| Accounts receivable - other | 448,505 |
| Supplies inventory | 694,606 |
| Prepaid expenses and other assets | 543,596 |
| Total current assets | 5,495,947 |
| Capital assets: | |
| Land | 950,000 |
| Depreciable capital assets, net of accumulated depreciation | 11,284,090 |
| Total Capital assets, net of accumulated depreciation | 12,234,090 |
| Total assets | \$ 17,730,037 |
| <u>LIABILITIES</u> | |
| Current liabilities (payable from current assets): | |
| Accounts payable and accrued expenses | 908,168 |
| Accrued salaries and benefits payable | 1,038,131 |
| Current maturities of long-term debt | 452,855 |
| Current portion of long-term capital lease obligations | 304,633 |
| Total current liabilities (payable from current assets) | 2,703,787 |
| Long-term liabilities: | |
| Long-term debt, net of current maturities | 14,336,364 |
| Capital lease obligations, net of current portion | 437,886 |
| Total long-term liabilities | 14,774,250 |
| Total liabilities | 17,478,037 |
| Net position: | |
| Net invested in capital assets | 382,593 |
| Unrestricted net position | (130,593) |
| Total net position | 252,000 |
| Total liabilities and net position | \$ 17,730,037 |

CITY OF TROY, ALABAMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015

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 POSITION | |
| FOR THE YEAR ENDED DECEMBER 31, 2014 | |
| Operating revenues: | |
| Net patient service revenue, net of provision for bad debts and contractals | \$ 23,842,559 |
| Other operating revenues | 2,544,306 |
| Total operating revenues | <u>26,386,865</u> |
| Operating expenses: | |
| Salaries and wages | 14,212,930 |
| Employee benefits | 2,554,048 |
| Supplies | 3,090,947 |
| Purchased services and physician fees | 3,627,488 |
| Repairs and maintenance | 535,506 |
| Physician recruiting | 23,074 |
| Leases and rentals | 468,478 |
| Other operating expenses | 1,783,793 |
| Depreciation and amortization | 1,396,550 |
| Total operating expenses | <u>27,692,814</u> |
| Operating income (loss) | <u>(1,305,949)</u> |
| Nonoperating revenues (expenses): | |
| Interest income | - |
| Interest expense | (682,250) |
| Total nonoperating revenues (expenses) | <u>(682,250)</u> |
| Excess of expenses over revenues before transfers | (1,988,199) |
| Other financing sources: | |
| Transfers in from City of Troy | 2,848,004 |
| Net increase (decrease) in net position | <u>859,805</u> |
| Net position at beginning of year | (607,805) |
| Net position at end of year | <u><u>\$ 252,000</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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TROY, ALABAMA
BUDGET TO ACTUAL COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | Original Budget | Final Budget | Actual | Variance |
|--|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | |
| Taxes | \$ 12,383,000 | \$ 12,383,000 | \$ 12,213,090 | \$ (169,910) |
| Charges for services | 1,080,400 | 1,080,400 | 1,049,302 | (31,098) |
| Licenses and permits | 742,600 | 742,600 | 749,258 | 6,658 |
| Investment income | 26,000 | 26,000 | 34,117 | 8,117 |
| Operating and capital grants | 500,592 | 500,592 | 270,329 | (230,263) |
| Other | 41,000 | 41,000 | 152,789 | 111,789 |
| Total Revenues | 14,773,592 | 14,773,592 | 14,468,885 | (304,707) |
| Expenditures: | | | | |
| General Government - Executive | 1,147,203 | 1,147,203 | 1,281,041 | (133,838) |
| Police and Fire | 8,541,635 | 8,541,635 | 8,403,887 | 137,748 |
| Public Works, and Recycling | 4,119,865 | 4,119,865 | 3,721,870 | 397,995 |
| Seniors and Nutrition | 548,485 | 548,485 | 531,092 | 17,393 |
| Health and welfare - payment to Troy Regional Medical Center | 2,820,000 | 2,820,000 | 2,839,791 | (19,791) |
| Economic development and other programs | - | - | - | - |
| Capital Outlay | 985,580 | 985,580 | 1,285,806 | (300,226) |
| Total Expenditures | 18,162,768 | 18,162,768 | 18,063,487 | 99,281 |
| Excess (Deficiency) of Revenues Over Expenditures | (3,389,176) | (3,389,176) | (3,594,602) | (205,426) |
| Other Financing Sources (Uses): | | | | |
| Proceeds from debt | - | - | 19,317,913 | 19,317,913 |
| Proceeds from sale of assets | - | - | 13,673 | 13,673 |
| Operating transfers in | 8,632,807 | 8,632,807 | 7,306,190 | (1,326,617) |
| Operating transfers out | (5,243,631) | (5,243,631) | (23,928,838) | (18,685,207) |
| Total Other Financing Sources (Uses) | 3,389,176 | 3,389,176 | 2,708,938 | (680,238) |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses | - | - | (885,664) | (885,664) |
| Fund Balance - Beginning of Year | 3,489,779 | 3,489,779 | 3,489,779 | - |
| Fund Balance - End of Year | \$ 3,489,779 | \$ 3,489,779 | \$ 2,604,115 | \$ (885,664) |

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
 REQUIRED SUPPLEMENTARY INFORMATION - PENSION AND OTHER POST EMPLOYMENT BENEFITS
 SEPTEMBER 30, 2015

1. SCHEDULE OF FUNDING PROGRESS OTHER POST EMPLOYMENT BENEFITS:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL)- Entry Age (b) | Unfunded 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% |
| 10/1/2013 | \$ - | \$ 2,641,202 | \$ 2,641,202 | 0.00% | \$ 10,510,397 | 25.13% |

CITY OF TROY, ALABAMA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2014

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Pension Liability: | | | | | | | | | | |
| Service Cost | \$ 872,193 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest | 3,806,383 | - | - | - | - | - | - | - | - | - |
| Changes of benefit terms | - | - | - | - | - | - | - | - | - | - |
| Differences between expected and actual experience | - | - | - | - | - | - | - | - | - | - |
| Changes of assumptions | - | - | - | - | - | - | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (3,225,901) | - | - | - | - | - | - | - | - | - |
| Net change in total pension liability | 1,452,675 | - |
| Total pension liability - beginning | 49,192,740 | - | - | - | - | - | - | - | - | - |
| Total pension liability - ending (a) | \$ 50,645,415 | \$ - |
| Plan Fiduciary Net Position: | | | | | | | | | | |
| Contributions - employer | \$ 1,511,684 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions - member | 891,833 | - | - | - | - | - | - | - | - | - |
| Net investment income | 3,473,884 | - | - | - | - | - | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (3,225,901) | - | - | - | - | - | - | - | - | - |
| Transfers among employers | (47,733) | - | - | - | - | - | - | - | - | - |
| Net change in plan fiduciary net position | 2,603,767 | - |
| Plan net position - beginning | 29,407,519 | - | - | - | - | - | - | - | - | - |
| Plan net position - ending (b) | \$ 32,011,286 | \$ - |
| Net pension liability (asset) - ending (a) - (b) | \$ 18,634,129 | \$ - |
| Plan fiduciary net position as a percentage of total pension liability | 63.21% | | | | | | | | | |
| Covered Employee Payroll | \$ 8,993,545 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Net pension liability (asset) as a percentage of covered-employee payroll | 209.52% | | | | | | | | | |

SEE AUDITORS' REPORT AND NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TROY, ALABAMA
SCHEDULE OF EMPLOYERS CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT 12

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|---------------|-------|-------|-------|-------|-----------------------------------|-------|-------|-------|-------|
| Actuarially determined contribution | \$ 1,530,981 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | 1,530,981 | - | - | - | - | - | - | - | - | - |
| | | | | | | PREVIOUS YEARS DATA NOT AVAILABLE | | | | |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Employee Payroll | \$ 10,266,273 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Contributions as a percentage of covered-employee payroll | 14.91% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

SEE AUDITORS' REPORT AND NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TROY, ALABAMA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015

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 | 9/30/2014 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percent Closed |
| Remaining amortization period | 30 Years |
| Asset Valuation method | 5-year smoothed market |
| Actuarial Assumptions: | |
| Net investment rate of return | 8%, net of pension plan investment expense, |
| 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 | 10/1/2013 |
| 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 |

**INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of, and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Troy, Alabama's basic financial statements and have issued our report thereon dated March 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Troy, Alabama's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Troy, Alabama's internal control.

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

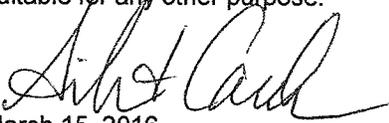
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Purpose of this Report

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



March 15, 2016
Troy, Alabama