

**CITY OF TROY, ALABAMA**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**



# CITY OF TROY, ALABAMA

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SEPTEMBER 30, 2010

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Troy, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2011, on our consideration of the City of Troy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Troy, Alabama's basic financial statements. The additional schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The additional schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

April 30, 2011

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## Management's Discussion and Analysis

As management of the City of Troy, Alabama, we offer readers of the City of Troy's financial statements this narrative overview and analysis of the financial activities of the City of Troy for the fiscal year ended September 30, 2010. 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 \$75,300,677 (*net assets*).
- Net Assets restricted for future growth of \$16,498,406 are investments in government backed securities in a nonexpendable trust account established by City Ordinance No. 123 and Alabama Act 96-459, that was funded from the net proceeds of the sale of the hospital in 1996. The City can only spend ninety percent of the earnings. Ten percent of the earnings are retained in the trust. The nonexpendable trust can only be spent if approved by a vote of two-thirds (2/3) of the qualified electors in the City of Troy who cast a vote in an election in which such a question appears on the ballot.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,127,587 or 7 percent of total normal General Fund expenditures for the fiscal year.
- The City of Troy's governmental activities indebtedness increased by \$4,905,570 during the current fiscal year. The key factor in this increase was the new loan used to fund economic development projects.
- The City of Troy signed guarantees on \$17,500,000 in general obligation debt on behalf of the Troy Hospital Health Care Authority. In addition to the guarantees the City implemented an additional 1% sales tax the proceeds of which are being utilized to support the operations of the Hospital.

### Overview of the Financial Statements

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

#### Government-wide Financial Statements

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

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

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

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

#### Fund Financial Statements

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

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

**Notes to Basic Financial Statements**

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

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

The City of Troy adopts an annual budget for its General Fund, as required by the General Statutes. The budget incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. 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 \$75,300,677. The City's net assets increased by \$1,546,765 for the fiscal year ended September 30, 2010. However, the largest portion (63%) of total net assets reflects the City's current and future investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Troy uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Troy's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion (25%) of the City of Troy's net assets represents resources that are subject to external restrictions on how they may be used.

Table 2 presents the City's condensed statement of net assets as of September 30, 2010, and 2009, 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	
	2010	2009	2010	2009	2010	2009
<b>Assets:</b>						
Current and other assets	\$ 21,956,865	\$ 20,555,310	\$ 13,382,027	\$ 10,564,851	\$ 35,338,892	\$ 31,120,161
Capital assets	50,053,280	49,169,281	30,001,766	27,972,336	80,055,046	77,141,617
<b>Total Assets</b>	<b>\$ 72,010,145</b>	<b>\$ 69,724,591</b>	<b>\$ 43,383,793</b>	<b>\$ 38,537,187</b>	<b>\$ 115,393,938</b>	<b>\$ 108,261,778</b>
<b>Liabilities:</b>						
Long-term liabilities outstanding	\$ 19,394,656	\$ 14,425,994	\$ 12,840,100	\$ 14,011,364	\$ 32,234,756	\$ 28,437,358
Other liabilities	3,160,988	2,891,479	4,697,517	3,179,029	7,858,505	6,070,508
<b>Total Liabilities</b>	<b>\$ 22,555,644</b>	<b>\$ 17,317,473</b>	<b>\$ 17,537,617</b>	<b>\$ 17,190,393</b>	<b>\$ 40,093,261</b>	<b>\$ 34,507,866</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 30,658,624	\$ 34,743,287	\$ 17,161,666	\$ 13,960,972	\$ 47,820,290	\$ 48,704,259
Restricted	16,771,145	16,415,329	2,380,768	2,395,937	19,151,913	18,811,266
Unrestricted	2,024,732	1,248,502	6,303,742	4,989,885	8,328,474	6,238,387
<b>Total Net Assets</b>	<b>\$ 49,454,501</b>	<b>\$ 52,407,118</b>	<b>\$ 25,846,176</b>	<b>\$ 21,346,794</b>	<b>\$ 75,300,677</b>	<b>\$ 73,753,912</b>

**Condensed Statement of Activities**

Table 3 presents the City's condensed statement of activities for the fiscal years ended September 30, 2010, and 2009, derived from the government-wide Statement of Activities. Over time, increases and decreases in net assets measure whether the City's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities decreased by \$2,952,617 or 6%, and the net assets of the business-type increased by \$4,499,382 or 21%.

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

- Tax revenues increased due to the additional sales tax levied during the year
- Continued low cost of debt due to the City's high bond rating.
- Capital grants were obtained to finance new capital projects.
- Economic incentives of \$6,000,000 were paid to help a new business; bringing new job opportunities to the community

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 1,797,137	\$ 1,438,520	\$ 17,710,966	\$ 14,950,351	\$ 19,508,103	\$ 16,388,871
Operating grants and contributions	506,353	266,117	-	-	506,353	266,117
Capital grants and contributions	697,710	1,387,123	1,080,441	-	1,778,151	1,387,123
General Revenues:						
Property taxes	1,234,274	1,314,657	-	-	1,234,274	1,314,657
Sales and other taxes	9,377,790	7,972,141	-	-	9,377,790	7,972,141
Investment earnings	936,998	1,286,661	52,065	75,416	989,063	1,362,077
Other	1,133,165	1,231,759	347	203,227	1,133,512	1,434,986
<b>Total Revenues</b>	<b>15,683,427</b>	<b>14,896,978</b>	<b>18,843,819</b>	<b>15,228,994</b>	<b>34,527,246</b>	<b>30,125,972</b>
<b>Expenses:</b>						
General government	2,596,793	3,064,499	-	-	2,596,793	3,064,499
Public safety - police and fire	6,913,111	6,718,786	-	-	6,913,111	6,718,786
Grounds, public works, recycling	3,659,313	3,682,987	-	-	3,659,313	3,682,987
Seniors and nutrition	440,633	384,542	-	-	440,633	384,542
Library and recreation	3,166,799	2,762,736	-	-	3,166,799	2,762,736
Public transportation	350,861	286,236	-	-	350,861	286,236
Municipal courts	321,939	285,558	-	-	321,939	285,558
Healthcare - Hospital Authority	1,491,080	-	-	-	1,491,080	-
Economic Dev and other programs	6,468,836	124,158	-	-	6,468,836	124,158
Interest on long-term debt	1,044,911	988,320	-	-	1,044,911	988,320
Water, sewer and electric	-	-	7,779,571	8,008,006	7,779,571	8,008,006
<b>Total Expenses</b>	<b>26,454,276</b>	<b>18,297,822</b>	<b>7,779,571</b>	<b>8,008,006</b>	<b>34,233,847</b>	<b>26,305,828</b>
Increase (Decrease) in Net Assets Before Transfers	(10,770,849)	(3,400,844)	11,064,248	7,220,988	293,399	3,820,144
Operating Transfers In (Out)	6,934,876	5,336,419	(6,934,876)	(5,336,419)	-	-
<b>Increase (Decrease) in Net Assets</b>	<b>(3,835,973)</b>	<b>1,935,575</b>	<b>4,129,372</b>	<b>1,884,569</b>	<b>293,399</b>	<b>3,820,144</b>
Net Assets, October 1	52,407,118	36,459,162	21,346,794	19,462,225	73,753,912	55,921,387
Capital contributed	-	2,526,568	-	-	-	2,526,568
Prior period adjustment	883,356	11,485,813	370,010	-	1,253,366	11,485,813
<b>Net Assets, September 30</b>	<b>\$ 49,454,501</b>	<b>\$ 52,407,118</b>	<b>\$ 25,846,176</b>	<b>\$ 21,346,794</b>	<b>\$ 75,300,677</b>	<b>\$ 73,753,912</b>

### Overall Analysis

Financial highlights for the City as a whole during the fiscal year ended September 30, 2010, include the following:

**Governmental activities.** Governmental activities decreased the City's net assets overall by \$3,835,973. Key elements of this decrease are as follows:

- A new 1% sales tax increased the tax revenue while other tax revenues remained steady
- The City transferred \$1,491,000 to the Hospital Authority to subsidize the operations and acquisition costs
- \$6,000,000 was paid as economic development incentives for a relocating business bringing new jobs to the community

**Business-type activities:** Business-type activities increased the City of Troy's net assets by \$4,129,372. Key elements of this increase are as follows:

- Increased billed energy cost adjustments increased net revenue by \$2,760,615
- The overall operating costs were reduced
- The utility received over \$1,000,000 in American Reinvestment and Recovery Act Grants through the Alabama Department of Environmental Management for upgrades to the water and sewer systems

## 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 \$3,127,587, while total fund balance of the general fund reached \$3,379,488. Unreserved fund balance represents 7 percent of total normal General Fund expenditures, while total fund balance represents 8 percent of that same amount. The Fund Balance of all governmental funds increased by \$848,164 due to increases in market value of restricted investments and transfers in from other funds. Total fund balance is made up of approximately \$16.5 million in a restricted trust account.

### Proprietary Funds

The City of Troy's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$6,303,742.

## Budget Variances in the General Fund

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

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

- The City had a positive variance of \$2,839,909 in total revenue budgeted. \$883,309 of this total was from operating and capital grants that were received, but they were not budgeted for because their approval was not known at the time the budget was prepared.
- Expenses were within tolerable variances established by the Council except capital outlay projects, the transfers to the Hospital Authority, and the Economic Development Payments that were not included on the budget as adopted
- Capital outlay, Economic Development, and the Hospital Authority transfer variances were offset by grants, operating transfers, new debt issues, and an increase to the sales tax rate to offset the expenditures.

## 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, 2010, totaled \$80,055,046 (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):

- Warehouse building was purchased for the Transportation program for \$143,000 and was funded by a grant
- A new walking trail at the Sportsplex was constructed for \$180,000 and was funded by a grant
- Street and sidewalk improvements of \$1.3 million dollars were completed
- Airport improvements of \$350,000 were incurred as part of the runway expansion and was funded by a grant

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, 2010, the City of Troy had total bonded debt outstanding of \$31,696,562. Of this, \$17,920,000 is debt backed by the full faith and credit of the City and \$1,125,000 is backed by the tax revenues of the school system. 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, the City's General Obligation School Warrants, Series 2001, are not subject to the 20% constitutional debt limit. In addition, pursuant to Section 94.01 of the Constitution of Alabama of 1901 ("Amendment 772"), the Series 2010 Warrants, the City's guarantees with respect to the loan and line of credit of the Troy Hospital Health Care Authority and the City's obligations with respect to the South Alabama Electric Cooperative Loan are not subject to the 20% constitutional debt limit. However, Amendment 772 imposes a separate constitutional debt limit of 50% for debt issued pursuant to Amendment 772.

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

### **Economic Conditions and Outlook**

The local economic outlook for the upcoming years appears very positive, but near-term financial challenges exist because of the recession. City managers already note fairly aggressive growth in the demand for public services, and given this reality, operating and spending requirements will continue to exert significant pressure on budgetary resources. City leaders must continue to be intentional and conservative when planning, and exercise strong prioritization of spending in 2011 and 2012 because of budgetary constraints.

### **Budget Highlights for the Fiscal Year Ending September 30, 2011**

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

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

**Business – type Activities:** Water, electric and sewer rates are established by ordinance and were increased at the end of FY 2008. The City will continue to manage higher energy costs through fuel charges and energy cost adjustments.

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

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

**BASIC FINANCIAL STATEMENTS**

## CITY OF TROY, ALABAMA

STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash	\$ 3,166,951	\$ 4,477,008	\$ 7,643,959
Receivables:			
Taxes	1,592,069	-	1,592,069
Utility bills	-	5,184,459	5,184,459
Grants	36,901	-	36,901
Prepaid expenses	-	376,914	376,914
Inventory	-	794,669	794,669
Restricted assets - cash, receivables and investments	16,750,307	2,380,768	19,131,075
Fixed assets (net of accumulated depreciation)	50,053,280	30,001,766	80,055,046
Unamortized bond issuance cost	410,637	168,209	578,846
<b>Total Assets</b>	<b>\$ 72,010,145</b>	<b>\$ 43,383,793</b>	<b>\$ 115,393,938</b>
<b>Liabilities</b>			
Accounts payable	\$ 607,462	\$ 3,339,996	\$ 3,947,458
Other payables	352,263	-	352,263
Accrued interest payable	132,119	214,231	346,350
Bonds and notes			
due within one year (net)	1,102,563	3,347,720	4,450,283
Accrued compensated absences	2,069,144	590,020	2,659,164
Customer deposits	-	553,270	553,270
Bonds and notes			
due in more than one year (net)	18,292,093	9,492,380	27,784,473
<b>Total Liabilities</b>	<b>\$ 22,555,644</b>	<b>\$ 17,537,617</b>	<b>\$ 40,093,261</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 30,658,624	\$ 17,161,666	\$ 47,820,290
Restricted for:			
Capital projects	20,838	-	20,838
Debt service	251,901	2,380,768	2,632,669
Future growth	16,498,406	-	16,498,406
Unrestricted net assets	2,024,732	6,303,742	8,328,474
<b>Total Net Assets</b>	<b>\$ 49,454,501</b>	<b>\$ 25,846,176</b>	<b>\$ 75,300,677</b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
<b>Primary Government Activities:</b>						
General Government - Executive	\$ 2,596,793		\$ 70,051	\$ 562,778	\$ (1,963,964)	\$ (1,963,964)
Police and Fire	6,913,111	278,490		113,087	(6,521,534)	(6,521,534)
Grounds, Public Works, and Recycling	3,659,313	977,936		21,845	(2,659,532)	(2,659,532)
Seniors and Nutrition	440,633		115,548		(325,085)	(325,085)
Library and Recreation	3,166,799	482,853	99,990		(2,583,956)	(2,583,956)
Public Transportation	350,861	57,858	220,764		(72,239)	(72,239)
Municipal Courts	321,939				(321,939)	(321,939)
Healthcare - Transfer to Hospital Authority	1,491,080				(1,491,080)	(1,491,080)
Economic Development and other programs	6,468,836				(6,468,836)	(6,468,836)
Interest on long-term debt	1,044,911				(1,044,911)	(1,044,911)
Total Governmental Activities	26,454,276	1,797,137	506,353	697,710	(23,453,076)	(23,453,076)
<b>Business-type Activities:</b>						
Water	1,343,528	2,103,207		128,289	887,968	887,968
Sewer	1,558,047	1,936,182		952,152	1,330,287	1,330,287
Electric	4,271,930	13,671,577			9,399,647	9,399,647
Interest on bonds	606,066				(606,066)	(606,066)
Total Business-type Activities	7,779,571	17,710,966		1,080,441	11,011,836	11,011,836
<b>Total Primary Government</b>	<b>\$ 34,233,847</b>	<b>\$ 19,508,103</b>	<b>\$ 506,353</b>	<b>\$ 1,778,151</b>	<b>\$ (23,453,076)</b>	<b>\$ (12,441,240)</b>
<b>General Revenues:</b>						
Property taxes				1,234,274		1,234,274
General sales, use, and gasoline taxes				7,231,314		7,231,314
Utility and franchise taxes				1,522,898		1,522,898
Beer, tobacco and lodging tax				623,578		623,578
Licenses and permits				622,445		622,445
Investment earnings				936,998	52,065	989,063
Special item - gain (loss) on sale of fixed assets				35,111	347	35,458
Other revenues				475,609		475,609
Total General Revenues				12,682,227	52,412	12,734,639
Transfers				6,934,876	(6,934,876)	
<b>Change in Net Assets</b>				<b>(3,835,973)</b>	<b>4,129,372</b>	<b>293,399</b>
Net Assets - Beginning of Year				52,407,118	21,346,794	73,753,912
Prior period adjustment				863,356	370,010	1,253,366
Net Assets - End of Year				\$ 49,454,501	\$ 25,846,176	\$ 75,300,677

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**  
**FUND BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2010**

	2010			Total
	General Fund	Permanent Fund	Other Governmental Funds	
<b>Assets</b>				
Cash	\$ 2,208,197	\$ 1,030,786	\$ 958,754	\$ 4,197,737
Property and other taxes receivable	1,544,237	-	47,832	1,592,069
Grants receivable	-	-	36,901	36,901
Restricted cash	251,901	-	-	251,901
Investments	-	15,467,620	-	15,467,620
<b>Total Assets</b>	<b>\$ 4,004,335</b>	<b>\$ 16,498,406</b>	<b>\$ 1,043,487</b>	<b>\$ 21,546,228</b>
<b>Liabilities</b>				
Accounts payable	\$ 503,044	\$ -	\$ 104,418	\$ 607,462
Deferred revenue	-	-	-	-
Other payables	231,236	-	121,027	352,263
<b>Total Liabilities</b>	<b>734,280</b>	<b>-</b>	<b>225,445</b>	<b>959,725</b>
<b>Fund Balances</b>				
Reserved for:				
Capital projects from bond proceeds	-	-	-	-
Debt service	251,901	-	-	251,901
Future growth	-	16,498,406	-	16,498,406
Special revenue fund - library	-	-	20,838	20,838
Unreserved, reported in:				
General fund	3,018,154	-	-	3,018,154
Special revenue fund	-	-	797,204	797,204
<b>Total Fund Balances</b>	<b>3,270,055</b>	<b>16,498,406</b>	<b>818,042</b>	<b>20,586,503</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,004,335</b>	<b>\$ 16,498,406</b>	<b>\$ 1,043,487</b>	<b>\$ 21,546,228</b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE  
 GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2010**


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<b>Total Fund Balances - Governmental Fund Types:</b>			\$ 20,586,503
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			50,053,280
Deferred Costs on the issuance of debt are not financial resources and, therefore, are not reported in the funds.			410,637
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	(132,119)	
	Compensated Absences	(2,069,144)	
	Current Debt	(1,102,563)	
	Long Term Debt	(18,538,545)	
	Deferred Loss and Bond Disc	246,452	(21,595,919)
<b>Net Assets of Government Activities</b>			<u>\$ 49,454,501</u>

## CITY OF TROY, ALABAMA

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	2010			Total
	General Fund	Permanent Fund	Other Governmental Funds	
<b>Revenues:</b>				
Taxes	\$ 10,612,065	\$ -	\$ 280,415	\$ 10,892,480
Charges for services	977,936	-	860,050	1,837,986
Licenses and permits	622,445	-	-	622,445
Fines and costs	-	-	-	-
Investment income	-	927,657	9,341	936,998
Operating and capital grants	883,309	-	320,754	1,204,063
Other revenues	144,664	-	9,680	154,344
<b>Total Revenues</b>	<b>13,240,419</b>	<b>927,657</b>	<b>1,480,240</b>	<b>15,648,316</b>
<b>Expenditures:</b>				
General Government - Executive	2,129,319	-	-	2,129,319
Police and Fire	6,505,411	-	-	6,505,411
Grounds, Public Works, and Recycling	2,852,007	-	-	2,852,007
Seniors and Nutrition	404,102	-	-	404,102
Library and Recreation	-	-	2,585,149	2,585,149
Public Transportation	-	-	314,653	314,653
Municipal Courts	-	-	314,876	314,876
Health and Welfare				
Payment to Troy Regional Medical Center	1,491,080	-	-	1,491,080
Economic Development and other programs	6,533,428	-	-	6,533,428
Debt Service	5,869,413	-	-	5,869,413
Capital Outlay	1,263,579	-	1,080,269	2,343,848
<b>Total Expenditures</b>	<b>27,048,339</b>	<b>-</b>	<b>4,294,947</b>	<b>31,343,286</b>
Excess of Revenues Over (Under) Expenditures	(13,807,920)	927,657	(2,814,707)	(15,694,970)
<b>Other Financing Sources (Uses):</b>				
Proceeds from debt	9,573,147	-	-	9,573,147
Proceeds from sale of assets	35,111	-	-	35,111
Operating transfers in	7,622,325	-	2,512,407	10,134,732
Operating transfers out	(2,505,984)	(621,072)	(72,800)	(3,199,856)
<b>Total Other Financing Sources (Uses)</b>	<b>14,724,599</b>	<b>(621,072)</b>	<b>2,439,607</b>	<b>16,543,134</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	916,679	306,585	(375,100)	848,164
Fund Balance - Beginning of Year	2,353,376	16,191,821	1,193,142	19,738,339
<b>Fund Balance - End of Year</b>	<b>\$ 3,270,055</b>	<b>\$ 16,498,406</b>	<b>\$ 818,042</b>	<b>\$ 20,586,503</b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2010**


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**Net Changes in Fund Balances - Total Governmental Funds** **\$ 848,164**

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

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

Depreciation expense	2,407,797	
Capital outlays capitalized	<u>(2,408,440)</u>	643

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.

0

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

63,865

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

Net proceeds from debt	(9,573,147)	
Principal paid less amortization of issue costs	<u>4,824,502</u>	<u>(4,748,645)</u>

**Change in Net Assets of Governmental Activities**

**\$ (3,835,973)**

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**CITY OF TROY, ALABAMA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2010**

**ASSETS**

**Current Assets:**

Cash - gross revenue and maintenance accounts	\$ 4,477,008
Accounts receivable - customers	5,184,459
Prepaid expenses	376,914
Inventories	794,669
Total Current Assets	<u>10,833,050</u>

**Restricted Assets - Cash and Investments:**

Bond and interest redemptions	587,931
Debt service reserve	1,792,837
Total Restricted Assets - Cash and Investments	<u>2,380,768</u>

**Net Property, Plant and Equipment:**

30,001,766

**Other Assets:**

Unamortized bond issuance cost	<u>168,209</u>
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**Total Assets**

\$ 43,383,793

**LIABILITIES AND NET ASSETS**

**Current Liabilities (Payable from Current Assets):**

Accounts payable and other accrued expenses	\$ 3,339,996
Short term note payable	1,407,720
Accrued compensated absences	590,020
Total Current Liabilities (Payable from Current Assets)	<u>5,337,736</u>

**Current Liabilities (Payable from Restricted Assets):**

Water, electric and sewer revenue bonds payable in one year	1,940,000
Accrued interest payable on bonds	214,231
Total Current Liabilities (Payable from Restricted Assets)	<u>2,154,231</u>

**Long-term Liabilities:**

Customers' deposits	553,270
Water, electric and sewer revenue bonds not due in one year	9,675,000
Unamortized premium, discount, and deferred loss	(182,620)
Total Long-term Liabilities	<u>10,045,650</u>

**Total Liabilities**

17,537,617

**Net Assets:**

Invested in capital assets, net of related debt	17,161,666
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Restricted for:

Debt service	2,380,768
Unrestricted net assets	6,303,742

**Total Net Assets**

25,846,176

**Total Liabilities and Net Assets**

\$ 43,383,793

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

**CITY OF TROY, ALABAMA**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

<b>Operating Revenues:</b>	
Electric tolls	\$ 28,002,092
ECA and fuel charge revenue	3,431,109
Less: electric power purchases	(18,363,361)
Water tolls	2,103,207
Sewer charges	1,936,182
Fees and taps	522,184
Other income	79,553
<b>Total Operating Revenues</b>	<u>17,710,966</u>
<b>Operating Expenses:</b>	
Personnel	3,558,564
Contractual services	1,022,223
Materials and supplies	1,072,814
Depreciation	1,517,029
Other expenses	2,875
<b>Total Operating Expenses</b>	<u>7,173,505</u>
<b>Operating Income</b>	10,537,461
<b>Nonoperating Revenues (Expenses):</b>	
Grant revenue	1,080,441
Interest income	52,065
Interest on bonds	(606,066)
Gain (Loss) on sale of fixed assets	347
<b>Total Nonoperating Revenues (Expenses)</b>	<u>526,787</u>
Net Income Before Contributions and Transfers	11,064,248
Transfers to general government	<u>(6,934,876)</u>
Changes in Net Assets	4,129,372
Net Assets - Beginning of Year	21,346,794
Prior period adjustment	<u>370,010</u>
<b>Net Assets - End of Year</b>	<u><u>\$ 25,846,176</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, 2010**

<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 35,994,774
Payments to suppliers	(18,975,416)
Payments to employees for wages and benefits	(3,558,564)
Other receipts (payments)	79,553
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>13,540,347</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Amounts transferred to general government	(6,934,876)
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Proceeds from sale of property and equipment	347
Proceeds from capital debt	1,096,562
Proceeds from grants	1,080,441
Purchases of capital assets	(3,070,893)
Principal payments on capital debt	(2,340,441)
Interest paid on capital debt	(606,066)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(3,840,050)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest received	<u>52,065</u>
Net Increase (Decrease) in Cash and Equivalents	2,817,486
<b>Cash and Equivalents - Beginning of Year</b>	<u>4,040,290</u>
<b>Cash and Equivalents - End of Year</b>	<u><u>\$ 6,857,776</u></u>

**SUPPLEMENTARY INFORMATION**

<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income (loss)	\$ 10,537,461
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,517,029
<b>(Increase) decrease in:</b>	
Accounts receivable	306,988
Prepaid expenses	(376,914)
Inventories	51,335
<b>Increase (decrease) in:</b>	
Accounts payable and expenses	1,490,022
Compensated absences	35,814
Customer deposits	(21,388)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 13,540,347</u></u>

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## **CITY OF TROY, ALABAMA**

NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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

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

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

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

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

#### **(A) Financial Reporting Entity:**

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

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

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

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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**(B) Basis of Presentation:**

Government-Wide Financial Statements

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

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

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

Governmental Fund Financial Statements

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

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

*The City reports the following major governmental funds:*

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

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

## **CITY OF TROY, ALABAMA**

NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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

*The City reports the following major proprietary funds:*

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

### **(C) Basis of Accounting:**

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

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

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

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

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

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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

Cash and Cash Equivalents

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

The enterprise fund, for purposes of the statement of cash flows, considers both restricted and unrestricted cash on deposit in demand deposit accounts and time deposit accounts to be cash equivalents. Time certificates of deposit held in banks are carried at cost, which approximates market value. As of September 30, 2010, the carrying amount of the City's deposits with financial institutions in all funds was \$7,643,959. All of the account balances are covered either by federal depository insurance or the "SAFE" program administered by the Alabama state treasurer.

*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, 2010, 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, 2010

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

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

Investments consist primarily of U.S. Treasury Bonds and U.S. Government Agency Notes and are stated at market. At September 30, 2010, investments consisted of the following investments, all of which were in the Investment Trust Fund, accounted for as a governmental fund type and reported as a permanent fund on the financial statements:

<u>Investment Type</u>	Fair Market	Investment Maturities (in Years)			
	Value	Under 1	1 to 5	6 to 10	More than 10
Alabama Municipal Bonds	453,218	-	186,415	266,803	-
U.S. Government Agencies	15,014,402	1,159,591	3,790,862	3,819,755	6,244,194
Totals	15,467,620	1,159,591	3,977,277	4,086,558	6,244,194

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

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

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

Interfund Transactions

Interfund transactions are reflected as transfers.

Receivables

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

Inventory

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

# CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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

### 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.

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

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

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

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

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

### Compensated Absences

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

## CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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

#### Long-term Obligations

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

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

#### Non-Current Governmental Assets/Liabilities

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

#### Net Assets/Fund Equity

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

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

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

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

#### Debt Service

The restricted for debt service portion of net assets represents funds being held by the bond trustee reserved for the payment of revenue bond obligations of the City. At September 30, 2010, the City has a debt service reserve of \$2,632,669.

#### Designated for Capital Improvements

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

#### Capitalization of Interest Revenue and Expense - Proprietary Funds

It is the policy of the City to capitalize, during the period of significant construction only, interest on projects of the Water, Electric and Sewer Systems proprietary fund. During the fiscal year ended September 30, 2010, there were no interest costs required to be capitalized.

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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

Accumulated Unpaid Employee Benefits

At September 30, 2010, the General Fund liability amounted to \$2,069,144 and the Enterprise Fund liability amounted to \$590,020. Compensated absences are reported as accrued in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

Restricted Assets

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

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

**(E) Use of Estimates:**

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

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

Excess of Expenditures Over Appropriations

For the year ended September 30, 2010 revenues over appropriations for governmental funds were \$1,026,612. The excess expenditures were mainly due to capital outlay expenditures and debt service payments that were funded by transfers from the City's business-type activity.

Reclassifications and Eliminations

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

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

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

**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

**NOTE 3 - Capital Assets**

Capital asset activity for the year ended September 30, 2010 was as follows:

<b>Primary Government</b>	<b>Beginning</b>		<b>Reductions</b>	<b>Ending</b>
<b>Governmental Activities:</b>	<b>Balance</b>	<b>Additions</b>		<b>Balance</b>
Capital Assets Not Being Depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	3,269,481	61,303	-	3,330,784
Right of ways and easements	7,743,986	-	-	7,743,986
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 11,013,467</b>	<b>\$ 61,303</b>	<b>\$ -</b>	<b>\$ 11,074,770</b>
Capital Assets Being Depreciated:				
Autos and trucks	\$ 4,384,532	\$ 250,172	\$ (152,890)	\$ 4,481,814
Furniture and fixtures	349,074	925	(75)	349,924
Buildings and improvements	31,143,963	858,208	-	32,002,171
Equipment	4,545,437	61,985	(10,747)	4,596,675
Books	1,893,407	-	-	1,893,407
Street and drainage improvements	39,885,301	1,175,846	-	41,061,147
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 82,201,714</b>	<b>\$ 2,347,136</b>	<b>\$ (163,712)</b>	<b>\$ 84,385,138</b>
Less Accumulated Depreciation for:				
Autos and trucks	\$ 2,723,515	\$ 287,811	\$ (139,758)	\$ 2,871,568
Furniture and fixtures	293,963	22,763	(75)	316,651
Buildings and improvements	12,481,148	1,097,583	-	13,578,731
Equipment	2,994,419	372,443	(10,348)	3,356,514
Books	1,532,033	87,250	-	1,619,283
Street improvements	23,124,334	539,947	(400)	23,663,881
<b>Total Accumulated Depreciation</b>	<b>43,149,412</b>	<b>2,407,797</b>	<b>(150,581)</b>	<b>45,406,628</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>39,052,302</b>	<b>(60,661)</b>	<b>(13,131)</b>	<b>38,978,510</b>
<b>Governmental Activities Capital Assets, net</b>	<b>\$ 50,065,769</b>	<b>\$ 642</b>	<b>\$ (13,131)</b>	<b>\$ 50,053,280</b>

<b>Business-type Activities:</b>	<b>Beginning</b>		<b>Reclass/ Reductions</b>	<b>Ending</b>
	<b>Balance</b>	<b>Additions</b>		<b>Balance</b>
Capital Assets Not Being Depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Row and easements	370,008	4,330	-	374,338
Land	167,829	30,266	-	198,095
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 537,837</b>	<b>\$ 34,596</b>	<b>\$ -</b>	<b>\$ 572,433</b>

**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

**NOTE 3 - Capital Assets, Continued**

Capital Assets Being Depreciated:

Office equipment	\$ 639,021	\$ 221,536	\$ -	\$ 860,557
Tools and equipment	-	37,274	-	37,274
Automotive equipment	1,881,556	107,064	(28,548)	1,960,072
Buildings	2,572,378	83,415	-	2,655,793
Communication equipment	230,512	-	-	230,512
Electric distribution system	19,511,420	666,018	-	20,177,438
Water distribution system	12,016,484	376,693	-	12,393,177
Sewer distribution system	20,609,943	1,649,852	-	22,259,795
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 57,461,314</b>	<b>\$ 3,141,852</b>	<b>\$ (28,548)</b>	<b>\$ 60,574,618</b>

Less Accumulated Depreciation for:

Office equipment	\$ 256,286	\$ 37,252	\$ -	\$ 293,538
Tools and equipment	-	2,534	-	2,534
Automotive equipment	1,291,812	156,869	(28,548)	1,420,133
Buildings	742,571	58,762	-	801,333
Communication equipment	202,564	5,543	-	208,107
Electric distribution system	8,901,040	462,230	-	9,363,270
Water distribution system	6,293,769	283,906	-	6,577,675
Sewer distribution system	11,968,762	509,933	-	12,478,695
<b>Total Accumulated Depreciation</b>	<b>29,656,804</b>	<b>1,517,029</b>	<b>(28,548)</b>	<b>31,145,285</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>27,804,510</b>	<b>1,624,823</b>	<b>-</b>	<b>29,429,333</b>
<b>Business-type Activities Capital Assets, net</b>	<b>\$ 28,342,347</b>	<b>\$ 1,659,419</b>	<b>\$ -</b>	<b>\$ 30,001,766</b>

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

Governmental Activities:

General Government - Executive	\$ 463,436
Police and Fire	406,789
Grounds, Public Works, and Recycling	837,732
Seniors and Nutrition	41,969
Library and Recreation	586,805
Public Transportation	29,669
Municipal Courts	2,293
Other Programs	39,104
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 2,407,797</b>

Business-type Activities:

Utility systems and equipment	\$ 1,517,029
<b>Total Depreciation Expense - Business-type Activities</b>	<b>\$ 1,517,029</b>

<b>Total Depreciation Expense</b>	<b>\$ 3,924,826</b>
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**CITY OF TROY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

**NOTE 4 - Long-Term Debt**

Long-term liability activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Bonds and Notes Payable:					
General obligation bonds	\$ 13,950,000	\$ 5,850,000	\$ 755,000	\$ 19,045,000	\$ 705,000
General obligation notes payable	780,521	4,000,000	4,189,430	591,091	397,563
	14,730,521	9,850,000	4,944,430	19,636,091	1,102,563
Less:    Deferred loss on refunding	82,045	-	26,512	55,533	-
Bond discount	222,482	-	31,563	190,919	-
Total Bonds and Notes Payable	14,425,994	9,850,000	4,886,355	19,389,639	1,102,563
Other Liabilities:					
Compensated absences	2,133,009	-	(63,865)	2,069,144	-
Long-term Liabilities	\$ 16,559,003	\$ 9,850,000	\$ 4,822,490	\$ 21,458,783	\$ 1,102,563
<b>Business-type Activities:</b>					
Bonds and Notes Payable:					
Water, electric and sewer bonds	\$ 12,815,000	\$ 2,177,003	\$ 2,340,441	\$ 12,651,562	\$ 1,940,000
Note payable line of credit	1,407,720	-	-	1,407,720	1,407,720
	14,222,720	2,177,003	2,340,441	14,059,282	3,347,720
Plus:    Bond premium	11,076	-	2,215	8,861	-
Less:    Deferred loss on refunding	66,322	-	17,484	48,838	-
Bond discount	156,110	-	13,465	142,645	-
Total Bonds and Notes Payable	14,011,364	2,177,003	2,311,707	13,876,660	3,347,720
Other Liabilities:					
Customer Deposits	531,882	21,388	-	553,270	-
Long-term Liabilities	\$ 14,543,246	\$ 2,198,391	\$ 2,311,707	\$ 14,429,930	\$ 3,347,720

Bonds payable at September 30, 2010 are comprised of the following individual issues:

**Primary Government**

*Governmental Activities:*

\$1,600,000 General Obligation Warrants, Series 2001, due in installments varying from \$50,000 to \$345,000 from December 1, 2001 through December 1, 2021; interest 3.25% to 5.10%	\$ 1,125,000
\$10,000,000 General Obligation Warrants, Series 2003, due in installments varying from \$315,000 to \$945,000 from August 1, 2003 through August 1, 2023; interest at 1.00% to 4.75%	7,675,000
\$5,940,000 General Obligation Warrants, Series 2005, due in installments varying from \$165,000 to \$450,000 from August 1, 2006 through August 1, 2025; interest 3.20% to 5.00%	4,395,000
\$5,850,000 General Obligation Warrants, Series 2010, due in installments varying from \$210,000 to \$415,000 from 2013 to 2032; interest 2% to 4.5%.	5,850,000
	<u>\$ 19,045,000</u>

**CITY OF TROY, ALABAMA**

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

**Business-type Activities**

*Revenue Bonds:*

\$8,385,000 Water, Electric, and Sewer Revenue Bonds, Series 2002, due in varying installments through October 1, 2022 ; interest at 3.4% to 4.5%	\$ 8,385,000
\$2,590,000 Water, Electric, and Sewer Revenue Bonds, Series 2003, due in varying installments through August 1, 2011; interest at 1.0% to 3.5%	355,000
\$1,620,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2009-CWSRF/ARRA-DL, due in varying installments through 2030; interest at 3.5%	891,562
\$205,000 Subordinated Water, Electric, Sewer Revenue Warrant, Series 2009-DWSRF/ARRA-DL, due in varying installments through 2030; interest at 3.5%	205,000
\$7,885,000 Water, Electric, and Sewer Revenue Bonds, Series 2004, due in varying installments through June 1, 2014; interest at 2.0% to 4.5%	2,815,000
	<u>\$ 12,651,562</u>

Total General Obligation and Revenue Bonds	\$ 31,696,562
Plus Unamortized bond premium at September 30, 2010	8,861
Less Unamortized bond discount and deferred loss at September 30, 2010	(437,935)
Net General Obligation and Revenue Bonds	<u>\$ 31,267,488</u>

The annual requirements to amortize all long-term bonded debt outstanding as of September 30, 2010, including interest payments of \$11,364,782 are as follows:

For the Year Ending September 30,	General Obligations			Revenue Obligations		
	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2011	705,000	785,184	1,490,184	1,365,000	487,315	1,852,315
2012	880,000	757,999	1,637,999	1,440,000	478,013	1,918,013
2013	965,000	729,059	1,694,059	1,490,000	419,393	1,909,393
2014	1,160,000	693,766	1,853,766	885,000	358,193	1,243,193
2015	1,030,000	653,721	1,683,721	700,000	322,818	1,022,818
2016-2020	6,270,000	2,580,063	8,850,063	3,935,000	1,167,527	5,102,527
2021-2025	5,470,000	1,145,654	6,615,654	2,836,562	324,752	3,161,314
2026-2030	1,755,000	406,595	2,161,595	-	-	-
2031-2032	810,000	54,730	864,730	-	-	-
	<u>\$ 19,045,000</u>	<u>\$ 7,806,771</u>	<u>\$ 26,851,771</u>	<u>\$ 12,651,562</u>	<u>\$ 3,558,011</u>	<u>\$ 16,209,573</u>

**CITY OF TROY, ALABAMA**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2010

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

Notes payable at September 30, 2010 are comprised of the following individual issues:

**Primary Government**

*Governmental Activities:*

Troy Bank & Trust, open Line of Credit of \$1,000,000 due January 2011	250,128
Troy Bank & Trust, due in 48 monthly payments of \$13,279, including interest at a rate of 4.35%, collateralized by equipment	340,963
Total General Fund	<u>\$ 591,091</u>

The annual requirements to amortize all long-term note debt outstanding as of September 30, 2010, including interest payments of \$17,574 are as follows:

Maturing September 30,	Principal	Interest	Payments
2011	397,564	11,915	409,479
2012	153,977	5,372	159,349
2013	39,550	287	39,837
	<u>\$ 591,091</u>	<u>\$ 17,574</u>	<u>\$ 608,665</u>

**Other Long-Term Debt Related:**

Revenue Obligations - There is \$587,931 on deposit in bond and interest redemption accounts and \$1,792,837 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.

General Obligations - The Series 2001 General Obligation School Warrants were issued by the City of Troy on behalf of and for the City of Troy School System (which is not a component unit of the City's reporting entity). Certain taxes allocated to the Board of Education have been pledged by the board for the repayment of this indebtedness, as provided for in a funding agreement between the City Board of Education of the City of Troy and the City of Troy. There is \$251,901 on deposit in debt service reserve accounts to service the 2003 and 2005 General Obligation warrants. Requirements of all General Obligation warrants have been complied with.

## CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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### NOTE 5 - Interfund Transactions

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

<u>Governmental Funds:</u>	Transfers In	Transfers Out
General Fund	\$ 7,622,325	\$ 2,505,984
Permanent Fund	-	621,072
Capital Improvements	79,437	-
Library	562,437	-
Recreation	1,685,454	-
Public Transportation	178,656	-
Municipal Court	6,423	72,800
<u>Proprietary Funds:</u>		
Water, Electric and Sewer	-	6,934,876
Total Transfers	<u>\$ 10,134,732</u>	<u>\$ 10,134,732</u>

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

No restricted bank account is maintained to hold customers' deposits. The deposits at September 30, 2010, which total \$553,270, 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, 2010. This amount is not included in these statements because the eventual redemption of these capital credits is unknown. The City accumulated these patronage capital credits by purchasing electricity from the South Alabama Electric Cooperative. The City began purchasing power from the South Alabama Electric Cooperative in 1965.

### NOTE 8 - Risk Management

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

### NOTE 9 - Litigation

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

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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**NOTE 10 - Guarantees and Commitments**

As of October 1, 2010, 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, 2011.

The City has a commitment to the Troy City School Board to provide the amount to make the principal payment on bonds issued for improvements on an annually renewable basis. For the year ended September 30, 2010, the City's commitment is \$65,000 to be paid on December 1, 2010.

The City has guaranteed debt in the amount of \$70,000 for the Colley Senior Center.

The City has guaranteed debt in the amount of \$400,000 for Pike County Economic Development Corporation.

In December of 2009 the City was required to perform on its' guarantee of certain debts that resulted in the formation of the Troy Hospital Health Care Authority and subsequent acquisition of the buildings and equipment of Troy Regional Medical Center in the amount of \$11,500,000 through the issuance of a general obligation note. The transaction was completed in expectation that the owner's of Troy Regional Medical Center would in turn lease the assets in an amount sufficient to retire the related debts. In January of 2010 the owner's defaulted on the lease and the Troy Hospital Health Care Authority elected to take over the operations of Troy Regional Medical Center. As part of the transition of operations the Authority opened an operating line of credit for \$6,000,000 with the City pledging its' full faith and credit behind this letter of credit. The Authority will be a discretely presented component unit for financial reporting purposes but is not presented in these statements because of different fiscal year ends that would not allow fair presentation for September 30, 2010.

**NOTE 11 - Property Taxes**

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

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

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

**CITY OF TROY, ALABAMA****NOTES TO BASIC FINANCIAL STATEMENTS**

SEPTEMBER 30, 2010

**NOTE 12 - Pension and Retirement Plan**

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

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

For 2010 the City's annual pension cost of \$1,442,905 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2009 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included: (a) 8.00% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.61 - 7.75% per year, and (c) no cost of living adjustment. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of the City's assets was determined using the 5-year smoothed market value of investments.

**Three Year Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/2007	\$ 1,087,820	100%	\$ -
9/30/2008	\$ 1,185,806	100%	\$ -
9/30/2009	\$ 1,385,856	100%	\$ -

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded (Assets in Excess of AAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2007	\$ 27,816,463	\$ 39,789,372	\$ 11,972,909	69.90%	\$ 8,977,326	133.40%
9/30/2008	\$ 28,502,786	\$ 41,844,377	\$ 13,341,591	68.10%	\$ 9,502,454	140.40%
9/30/2009	\$ 28,867,382	\$ 44,453,375	\$ 15,585,993	64.90%	\$ 9,611,424	162.20%

**CITY OF TROY, ALABAMA**  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, deposits, short-term investments and cash and investments with fiscal agents. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

Proprietary fund cash and equivalents consist of the following:

Petty cash	\$	750
Revenue and maintenance accounts		4,012,530
Reserved for principal and interest redemption		587,931
Reserved for debt service		1,792,837
Reserved for capital projects		<u>463,728</u>
Total Proprietary Fund Cash and Equivalents	\$	<u>6,857,776</u>

**NOTE 14 - Prior Period Adjustment**

In accordance with the implementation of GASB 34, the City was required to perform a retrospective valuation of its infrastructure assets in place to be presented in the Government Wide Statement of Net Assets that were not required to be capitalized in fund basis accounting. The City estimated the historical cost of all right of ways and easements acquired since 1980 not previously capitalized resulting in an increase of \$1,253,366 in net assets on the Statement of Net Assets.

**NOTE 15 - 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.

In December of 2010 the City issued \$850,000 in debt to South Alabama Electric Cooperative for economic development through its Industrial Development Board at 0% interest payable in 10 years.

In March of 2011 the City issued General Obligation Warrants Series 2011 in the amount of \$5,315,000 that is expected to be used for capital improvements mainly to include the construction of a new public library.

In March of 2011 the City issued Water, Electric, Sewer Revenue Warrants Series 2011 in the amount of \$17,870,000. \$8,660,000 of the proceeds was used to refund the then outstanding 2002 Revenue Warrants and \$8,400,000 was to be utilized for capital improvements of the utility system.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF TROY, ALABAMA**  
**BUDGET TO ACTUAL COMPARISON STATEMENT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	2010			
	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Taxes	\$ 8,408,000	\$ 8,408,000	\$ 10,612,065	\$ 2,204,065
Charges for services	949,200	949,200	977,936	28,736
Licenses and permits	609,000	609,000	622,445	13,445
Fines and costs	-	-	-	-
Operating and capital grants	-	-	883,309	883,309
Other	434,310	434,310	144,664	(289,646)
<b>Total Revenues</b>	<b>10,400,510</b>	<b>10,400,510</b>	<b>13,240,419</b>	<b>2,839,909</b>
<b>Expenditures:</b>				
General Government - Executive	1,826,719	1,826,719	2,129,319	(302,600)
Police and Fire	6,817,571	6,817,571	6,505,411	312,160
Grounds, Public Works, and Recycling	2,864,074	2,864,074	2,852,007	12,067
Seniors and Nutrition	375,317	375,317	404,102	(28,785)
Library and Recreation	-	-	-	-
Public Transportation	-	-	-	-
Municipal Courts	-	-	-	-
Health and welfare payment to Troy Regional Medical Center	-	-	1,491,080	(1,491,080)
Economic development and other programs	5,626,217	5,626,217	6,533,428	(907,211)
Debt Service	1,943,555	1,943,555	5,869,413	(3,925,858)
Capital Outlay	20,000	20,000	1,263,579	(1,243,579)
<b>Total Expenditures</b>	<b>19,473,453</b>	<b>19,473,453</b>	<b>27,048,339</b>	<b>(7,574,886)</b>
Excess (Deficiency) of Revenues Over Expenditures	(9,072,943)	(9,072,943)	(13,807,920)	(4,734,977)
<b>Other Financing Sources (Uses):</b>				
Proceeds from debt	5,400,000	5,400,000	9,573,147	4,173,147
Proceeds from sale of assets	-	-	35,111	35,111
Operating transfers in	5,586,997	5,586,997	7,622,325	2,035,328
Operating transfers out	(1,914,054)	(1,914,054)	(2,505,984)	(591,930)
<b>Total Other Financing Sources (Uses)</b>	<b>9,072,943</b>	<b>9,072,943</b>	<b>14,724,599</b>	<b>5,651,656</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	-	-	916,679	916,679
Fund Balance - Beginning of Year	2,353,376	2,353,376	2,353,376	-
<b>Fund Balance - End of Year</b>	<b>\$ 2,353,376</b>	<b>\$ 2,353,376</b>	<b>\$ 3,270,055</b>	<b>\$ 916,679</b>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

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## **CITY OF TROY, ALABAMA**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2010**

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#### Budgets and Budgetary Accounting

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

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

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

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

#### Basis of Accounting

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of, and for the year ended September 30, 2010, which collectively comprise the City of Troy, Alabama's basic financial statements and have issued our report thereon dated April 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

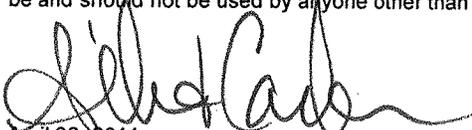
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

Compliance and Other Matters

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

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

  
 April 30, 2011

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

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

**Compliance**

We have audited the compliance of the City of Troy, Alabama with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The City of Troy, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Troy, Alabama's management. Our responsibility is to express an opinion on the City of Troy, Alabama's compliance based on our audit.

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

In our opinion, the City of Troy, Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

**Internal Controls over Compliance**

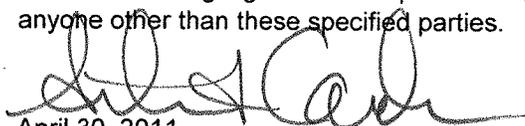
The management of the City of Troy, Alabama is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Troy, Alabama's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

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

material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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



April 30, 2011

**CITY OF TROY, ALABAMA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**EXHIBIT 11**

Federal Grantor/Pass-Through Agency Program Title	Federal CFDA Number	Grantor's Number	Expenditures
U.S. Dept of Transportation/Federal Aviation Admin/ Airport Improvement Program	20.106	AIP 3-01-0071-011-2009	<u>343,796</u>
US Dept of Transportation/AL Dept of Transportation Formula Grants for Other than Urbanized Areas	20.509		<u>169,399</u>
U.S. Dept of Transportation/ADECA Recreational Trails Program	20.219	ADECA 08 RT 54 010	<u>78,764</u>
<b>Total U.S. Dept of Transportation</b>			<b><u>591,959</u></b>
U.S. Department of Agriculture/SCADC and AL Dept of Educ Title III Summer Food Service	10.559		<u>119,648</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>119,648</u></b>
U.S. Department of Environmental Protection/Alabama Dept of Environmental Management ARRA- Capitalization Grant for Drinking Water State RLF	66.468	2F954280-09	<u>327,833</u>
ARRA- Capitalization Grant for Clean Water State RLF	66.458	2W954279-09	<u>1,680,182</u>
<b>Total Environmental Protection Agency</b>			<b><u>2,008,015</u></b>
U.S. Department of Homeland Security/ Assistance to Firefighters	97.044		<u>8,150</u>
U.S. Department of Homeland Security/ Staffing for Adequate Fire and Emergency Response	97.083		<u>100,937</u>
<b>Total U.S. Dept of Homeland Security</b>			<b><u>109,087</u></b>
 <b>Grand Total - All Federal Programs</b>			 <b><u>2,828,709</u></b>

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

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**CITY OF TROY, ALABAMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 For the Year Ended September 30, 2010

EXHIBIT 12

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

**Financial Statements:**

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

**Internal Control Over Financial Reporting:**

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

**Federal Awards:**

Internal control over major programs:

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

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

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

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

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
66.468	ARRA - EPA Capitalization grants for Drinking Water SRF
66.458	ARRA - EPA Capitalization grants for Clean Water SRF

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

      \$ 300,000      

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

There were no matters reported

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

There were no matters reported

See Auditors' Report

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**CITY OF TROY, ALABAMA**  
**AUDITED EXPENDITURES AND REVENUES BUDGET AND ACTUAL**  
**ADECA CONTRACT NUMBER**  
**LR-PF-PL-06-005**  
**AS OF SEPTEMBER 30, 2010**

	Total Budget		Current Year Activity		Prior Year Totals		Cumulative Totals		Over (Under)
	Grant Funds	Local Match	Grant Funds	Local Match	Grant Funds	Local Match	Actual	Budget	
<u>REVENUES:</u>									
State of Alabama	\$ 100,000	\$ 25,000	\$ 78,764	\$ 19,691	\$ -	\$ -	\$ 98,455	\$ 125,000	\$ (26,545)
Local Contributions	-	-	-	-	-	-	-	-	-
<b>Totals</b>	<b>\$ 100,000</b>	<b>\$ 25,000</b>	<b>\$ 78,764</b>	<b>\$ 19,691</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 98,455</b>	<b>\$ 125,000</b>	<b>\$ (26,545)</b>

EXPENDITURES BY  
BUDGET COST CATEGORY

Administration	\$ 100,000	\$ 25,000	\$ 78,764	\$ 19,691	\$ -	\$ -	\$ 98,455	\$ 125,000	\$ (26,545)
<b>Totals</b>	<b>\$ 100,000</b>	<b>\$ 25,000</b>	<b>\$ 78,764</b>	<b>\$ 19,691</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 98,455</b>	<b>\$ 125,000</b>	<b>\$ (26,545)</b>

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

Gibson & Carden, L.L.C., Certified Public Accountants hereby affirms that it meets the auditing standards generally accepted in the United States of America regarding continuing professional education and peer review as defined by *Government Auditing Standards* (the Yellow Book). We affirm that all staff assigned to the audit of the City of Troy for the year ended September 30, 2010 met both the 2-year, 80 hour continuing professional education requirement and the 2-year, 24 hour governmental auditing and accounting continuing professional education requirement.

In addition, our firm has met the requirement to have an on-site peer review once every three years. Our review was conducted on July 2, 2009 and we received a *pass* report.