

CITY OF TROY, ALABAMA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

CITY OF TROY, ALABAMA

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of and for the year ended September 30, 2005, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2005, 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 39, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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.


December 19, 2005

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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, 2005. 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 \$47,055,862 (*net assets*).
- Net Assets restricted for future growth of \$15,231,342 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 by a two-thirds (2/3) vote by the residents of the City of Troy.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$343,003, or 2 percent of total General Fund expenditures for the fiscal year.
- The City of Troy's governmental activities indebtedness increased by \$2,995,954 during the current fiscal year. The key factor in this increase was the issuance of the 2005 General Obligation warrants. The City of Troy's business-type activities indebtedness decreased by \$965,425. The key factor in this decrease was annual principal payments on Revenue Bonds.

The City of Troy maintained its AAA bond rating for the 17th consecutive year.

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 life water, sewer and electric services offered by the City of Troy.

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

Fund Financial Statements

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

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

Notes to Basic Financial Statements

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

Table 1: Major Features of the Basic Financial Statements				
	Government-wide	Fund Financial Statements		
	Financial Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	Activities of the City that are not proprietary or fiduciary	Activities of the City that are operated similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	- Statement of net 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
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	- Revenues for which cash is received during or soon after the end of the year - Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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 \$47,055,862. The City's net assets increased by \$1,918,940 for the fiscal year ended September 30, 2005. However, the largest portion (45%) 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 (43%) 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, 2005, and 2004, 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	
	2005	2004	2005	2004	2005	2004
Assets:						
Current and other assets	\$ 17,951,272	\$ 20,407,593	\$ 11,780,503	\$ 14,934,214	\$ 29,731,775	\$ 35,341,807
Capital assets	28,627,405	22,659,691	26,508,453	23,155,978	55,135,858	45,815,669
Total Assets	\$ 46,578,677	\$ 43,067,284	\$ 38,288,956	\$ 38,090,192	\$ 84,867,633	\$ 81,157,476
Liabilities:						
Long-term liabilities outstanding	\$ 16,773,750	\$ 13,777,796	\$ 16,154,295	\$ 17,119,720	\$ 32,928,045	\$ 30,897,516
Other liabilities	1,686,131	1,929,501	3,197,595	3,192,737	4,883,726	5,122,238
Total Liabilities	\$ 18,459,881	\$ 15,707,297	\$ 19,351,890	\$ 20,312,457	\$ 37,811,771	\$ 36,019,754
Net Assets						
Invested in capital assets, net of related debt	\$ 11,908,883	\$ 8,787,377	\$ 9,514,349	\$ 5,191,181	\$ 21,423,232	\$ 13,978,558
Restricted	16,262,986	18,893,820	3,998,671	7,628,201	20,261,657	26,522,021
Unrestricted	(53,073)	(321,210)	5,424,046	4,958,353	5,370,973	4,637,143
Total Net Assets	\$ 28,118,796	\$ 27,359,987	\$ 18,937,066	\$ 17,777,735	\$ 47,055,862	\$ 45,137,722

Condensed Statement of Activities

Table 3 presents the City's condensed statement of activities for the fiscal year ended September 30, 2005, and 2004, derived from the government-wide Statement of Activities. Over time, increases and decreases in net assets measure whether the City's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$758,809 or 2.7%, and the net assets of the business-type increased by \$1,159,331 or 6.52%.

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

- Licenses and Permit Fees increased by 26% due to economic growth in the City.
- Taxes increased by \$490,493 due to a continued increase in economic growth.
- Continued low cost of debt due to the City's high bond rating.
- Capital and operating grants were obtained to finance new capital projects

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	\$ 1,588,571	\$ 1,363,111	\$ 10,411,419	\$ 10,444,827	\$ 11,999,990	\$ 11,807,938
Operating grants and contributions	319,691	272,384	-	-	319,691	272,384
Capital grants and contributions	1,008,959	1,248,422	907,645	-	1,916,604	1,248,422
General Revenues:						
Property taxes	743,462	687,825	-	-	743,462	687,825
Other taxes	5,912,308	5,476,938	-	-	5,912,308	5,476,938
Investment earnings	651,789	694,034	241,906	258,900	893,695	952,934
Other	1,570,119	1,314,407	-	-	1,570,119	1,314,407
Total Revenues	11,794,899	11,057,121	11,560,970	10,703,727	23,355,869	21,760,848
Expenses:						
General government	2,701,233	3,953,035	-	-	2,701,233	3,953,035
Public safety	5,720,738	4,209,417	-	-	5,720,738	4,209,417
Streets, airport and public works	2,868,644	2,589,549	-	-	2,868,644	2,589,549
Health, welfare and recycling	656,664	605,490	-	-	656,664	605,490
Culture and recreation	1,827,273	1,954,295	-	-	1,827,273	1,954,295
Senior center	235,480	201,238	-	-	235,480	201,238
Special projects	549,231	472,266	-	-	549,231	472,266
Interest on long-term debt	679,889	687,049	-	-	679,889	687,049
Water, sewer and electric	-	-	6,198,577	7,480,157	6,198,577	7,480,157
Total Expenses	15,239,152	14,672,339	6,198,577	7,480,157	21,437,729	22,152,496
Increase (Decrease) in Net Assets Before Transfers	(3,444,253)	(3,615,218)	5,362,393	3,223,570	1,918,140	(391,648)
Operating Transfers In (Out)	4,203,062	3,435,833	(4,203,062)	(3,435,833)	-	-
Increase (Decrease) in Net Assets	758,809	(179,385)	1,159,331	(212,263)	1,918,140	(391,648)
Net Assets, October 1	27,359,987	27,539,372	17,777,735	17,989,998	45,137,722	45,529,370
Net Assets, September 30	\$ 28,118,796	\$ 27,359,987	\$ 18,937,066	\$ 17,777,735	\$ 47,055,862	\$ 45,137,722

Overall Analysis

Financial highlights for the City as a whole during the fiscal year ended September 30, 2005, include the following:

Governmental activities Governmental activities increased the City's net assets by \$758,809. Key elements of this increase are as follows:

- Increased property and sales tax revenues.
- Overall expenditures were up due to increases in payroll and employee benefit costs.

Business-type activities: Business-type activities increased the City of Troy's net assets by \$1,159,331. Key elements of this increase are as follows:

- There Capital grant revenue of \$907,645 was received and used for utility improvements and additions.
- Repairs and maintenance costs were reduced due to overall system improvements in the past years.
- Interest costs were reduced due to prior refinancings to capitalize on lower interest rates.

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 \$343,003, while total fund balance of the general fund reached \$1,353,809. Unreserved fund balance represents 2 percent of total General Fund expenditures, while total fund balance represents 8 percent of that same amount. \$876,272 is reserved for capital projects. The Fund Balance of all governmental funds decreased by \$2 million due to debt service payments of approximately \$3.56 million and capital outlays of approximately \$8 million. Total fund balance is made up of \$876 thousand dollars in bond proceeds that are obligated to complete construction on a new Recreation facility to serve the citizens and approximately \$15.2 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 \$5,424,046.

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 variance of \$1,999,261 in total revenue budgeted. \$1,328,650 in operating and capital grants were received, but they were not budgeted for because their approval was not known at the time the budget was prepared. The remainder of the favorable variance of \$670,611 is due to unexpected revenue increases from new businesses within the City.
- Expenses were within tolerable variances established by the Council and were mainly due to increases in gasoline prices and the allocation of the City's portion of payroll taxes being allocated to each function instead of being absorbed by the General government (Public Safety and Highways and Streets).
- Restructured debt resulted in a variance of \$2,422,203 in debt service costs that was not included in the budget.
- Capital outlay variances of \$1,785,646 were offset by grant revenues and issuance of bonds to offset the expenditure.

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, 2005, totaled \$55,135,858 (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):

- Recreational facility progress of \$5,700,000
- Fire truck costing \$449,990.
- Street Improvements of \$551,613.
- Industrial access roads of \$713,561.
- Water, sewer and electric improvements of \$4,330,182.

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, 2005, the City of Troy had total bonded debt outstanding of \$34,210,000. Of this, \$15,305,000 is debt backed by the full faith and credit of the City and \$1,440,000 is backed by the school system. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds)

The City of Troy issued \$5,940,000 in bonds for business-type activities, all of which were used to refinance existing bonds at a lower rate.

As mentioned in the financial highlights section of this document, the City of Troy maintained for the 17th consecutive year, its AAA bond rating from Moody's Investor Service and AAA rating from Standard and Poor's Corporation. This bond rating is an indication of the sound financial condition of City of Troy. The City of Troy is one of the few cities in the state that maintains the highest financial rating from both major rating agencies. This achievement is a primary factor in keeping interest costs low on the City's outstanding debt.

Alabama general statutes limit the amount of general obligation debt that a unit of government can issue to 20 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Troy is \$20,180,000.

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 following key economic indicators reflect the growth and prosperity of the City.

- The City continues to realize increases in tax revenues from sales taxes and lodging taxes along with building permits. This economic growth is an indication of the economic impact from the following new and expanding businesses that have located in Troy and around Pike County.

	<u>Company</u>	<u>Estimated New Jobs</u>
Retail Outlets:	Lowe's Home Improvement	125
	Peebles	12
	Ruby Tuesday's	20
	Citi Trend	12
	It's Fashion	4
	The Shoe Dept.	6
Industrial Expansion:	Wal-Mart Distribution Center	300
	Lockheed Martin	120
	Johnson Labs, Inc.	1
	Southern Classic Food Group	15
	CNC Enterprises	30
	HB&G Building Products	230
	Sikorsky Support Services	40

Budget Highlights for the Fiscal Year Ending September 30, 2005

Governmental Activities: Property taxes are expected to increase due to increased investment by developers in condominiums and apartment complexes for the students at Troy University along with the biannual reappraisal of property. In addition 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 are not expected to increase. Any increases in operating expenses are offset by an energy cost adjustment passed on to the consumer.

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, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 932,421	\$ 3,313,960	\$ 4,246,381
Receivables:			
Taxes	489,126	-	489,126
Utility bills	-	3,504,638	3,504,638
Grants	-	-	-
Inventory	-	614,916	614,916
Restricted assets - cash, receivables and investments	16,262,986	3,998,671	20,261,657
Fixed assets (net of accumulated depreciation)	28,627,405	26,508,453	55,135,858
Unamortized bond issuance cost	266,739	348,318	615,057
Total Assets	\$ 46,578,677	\$ 38,288,956	\$ 84,867,633
Liabilities			
Accounts payable	\$ 411,560	\$ 1,360,124	\$ 1,771,684
Payroll taxes and group insurance	246,862	12,532	259,394
Accrued salaries	45,792	55,237	101,029
Accrued interest payable	123,116	97,807	220,923
Alabama utilities tax payable	-	55,205	55,205
Bonds, notes and capital leases due within one year (net)	818,147	1,121,062	1,939,209
Accrued compensated absences	873,375	281,253	1,154,628
Customer deposits	40,654	495,628	536,282
Bonds, notes and capital leases due in more than one year (net)	15,900,375	15,873,042	31,773,417
Total Liabilities	\$ 18,459,881	\$ 19,351,890	\$ 37,811,771
Net Assets			
Invested in capital assets, net of related debt	\$ 11,908,883	\$ 9,514,349	\$ 21,423,232
Restricted for:			
Capital projects	897,110	1,738,954	2,636,064
Debt service	134,534	2,259,717	2,394,251
Future growth	15,231,342	-	15,231,342
Unrestricted net assets	(53,073)	5,424,046	5,370,973
Total Net Assets	\$ 28,118,796	\$ 18,937,066	\$ 47,055,862

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Government Activities:							
General government	\$ 2,701,233	\$ 667,670	\$ 247,844	\$ 104,432	\$ (1,681,287)		\$ (1,681,287)
Public safety	5,720,738		71,847		(5,648,891)		(5,648,891)
Streets, airport and public works	2,868,644	640,131		860,782	(1,367,731)		(1,367,731)
Health, welfare and recycling	656,664				(656,664)		(656,664)
Culture and recreation	1,827,273	280,770		2,250	(1,544,253)		(1,544,253)
Senior center	235,480			41,495	(193,985)		(193,985)
Special projects	549,231				(549,231)		(549,231)
Interest on long-term debt	679,889				(679,889)		(679,889)
Total Governmental Activities	15,239,152	1,588,571	319,691	1,008,959	(12,321,931)	-	(12,321,931)
Business-type Activities:							
Water, sewer and electric	6,198,577	10,411,419	-	907,645	-	5,120,487	5,120,487
Total Business-type Activities	6,198,577	10,411,419	-	907,645	-	5,120,487	5,120,487
Total Primary Government	\$ 21,437,729	\$ 11,999,990	\$ 319,691	\$ 1,916,604	\$ (12,321,931)	\$ 5,120,487	\$ (7,201,444)
General Revenues:							
Property taxes					743,462		743,462
General sales and use tax					4,833,117		4,833,117
Beer, tobacco and lodging tax					693,500		693,500
State gasoline taxes					385,691		385,691
Investment earnings					651,789	241,906	893,695
Special item - gain (loss) on sale of fixed assets					81,035		81,035
Other revenues					1,489,084		1,489,084
Total General Revenues					8,877,678	241,906	9,119,584
Transfers					4,203,062	(4,203,062)	-
Change in Net Assets					758,809	1,159,331	1,918,140
Net Assets - Beginning of Year					27,359,987	17,777,735	45,137,722
Net Assets - End of Year					\$ 28,118,796	\$ 18,937,066	\$ 47,055,862

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
 FUND BALANCE SHEETS
 GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005

	2005			Total
	General Fund	Permanent Fund	Other Governmental Funds	
Assets				
Cash	\$ 604,523	\$ 836,205	\$ 327,898	\$ 1,768,626
Property and other taxes receivable	475,448	-	13,678	489,126
Interest receivable	-	-	-	-
Restricted cash	1,010,806	-	20,838	1,031,644
Investments	-	14,395,137	-	14,395,137
Total Assets	\$ 2,090,777	\$ 15,231,342	\$ 362,414	\$ 17,684,533
Liabilities				
Accounts payable	\$ 403,660	\$ -	\$ 7,900	\$ 411,560
Payroll taxes and group insurance	246,862	-	-	246,862
Deposits payable	40,654	-	-	40,654
Accrued salaries	45,792	-	-	45,792
Total Liabilities	736,968	-	7,900	744,868
Fund Balances				
Reserved for				
Capital projects from bond proceeds	876,272	-	-	876,272
Debt service	134,534	-	-	134,534
Future growth	-	15,231,342	-	15,231,342
Special revenue fund - library	-	-	20,838	20,838
Unreserved, reported in				
General fund	343,003	-	-	343,003
Special revenue fund	-	-	333,676	333,676
Total Fund Balances	1,353,809	15,231,342	354,514	16,939,665
Total Liabilities and Fund Balances	\$ 2,090,777	\$ 15,231,342	\$ 362,414	\$ 17,684,533

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, 2005**

Total Fund Balances - Governmental Fund Types:	\$ 16,939,665
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.	28,627,405
Deferred Costs on the issuance of debt are not financial resources and, therefore, are not reported in the funds.	266,739
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.	<u>(17,715,013)</u>
Net Assets of Government Activities	<u><u>\$ 28,118,796</u></u>

CITY OF TROY, ALABAMA
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	2005			Total
	General	Permanent	Other	
	Fund	Fund	Governmental Funds	
Revenues:				
Taxes	\$ 6,484,881	\$ -	\$ 170,889	\$ 6,655,770
Charges for services	640,131	-	280,770	920,901
Licenses and permits	667,670	-	-	667,670
Fines and costs	343,568	-	-	343,568
Investment income	-	646,945	4,844	651,789
Capital and operating grants	1,328,650	-	-	1,328,650
Other revenues	1,253,361	-	-	1,253,361
Total Revenues	10,718,261	646,945	456,503	11,821,709
Expenditures:				
Special projects	549,231	-	-	549,231
Culture and recreation	39,000	-	1,427,597	1,466,597
General government	1,991,031	-	-	1,991,031
Public safety	5,305,714	-	-	5,305,714
Streets, airport and public works	2,132,320	-	-	2,132,320
Health, welfare and recycling	528,082	-	-	528,082
Debt service	3,562,203	-	-	3,562,203
Senior center	235,480	-	-	235,480
Capital outlay	2,385,646	-	5,702,944	8,088,590
Total Expenditures	16,728,707	-	7,130,541	23,859,248
Excess of Revenues Over (Under) Expenditures	(6,010,446)	646,945	(6,674,038)	(12,037,539)
Other Financing Sources (Uses):				
Proceeds from debt	8,691,272	-	-	8,691,272
Bond issue discount	(102,548)	-	-	(102,548)
Payment to bond escrow	(2,874,544)	-	-	(2,874,544)
Operating transfers in	5,446,611	-	6,493,111	11,939,722
Operating transfers out	(7,111,416)	(625,244)	-	(7,736,660)
Total Other Financing Sources (Uses)	4,049,375	(625,244)	6,493,111	9,917,242
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,961,071)	21,701	(180,927)	(2,120,297)
Fund Balance - Beginning of Year	3,314,880	15,209,641	535,441	19,059,962
Fund Balance - End of Year	\$ 1,353,809	\$ 15,231,342	\$ 354,514	\$ 16,939,665

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, 2005

Net Changes in Fund Balances - Total Governmental Funds	\$	(2,120,297)
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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 capital outlays exceeded depreciation in the current period.	5,994,524
---	-----------

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 of the fixed assets sold.	(26,810)
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The change accrued compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount the accrual increased for the current period.	(256,742)
--	-----------

The issuance of long-term debt (e.g., bonds, leases) provide 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.	(2,831,866)
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Change in Net Assets of Governmental Activities	\$	<u>758,809</u>
--	-----------	-----------------------

CITY OF TROY, ALABAMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005

	<u>ASSETS</u>	<u>2005</u>
Current Assets:		
Cash - gross revenue and maintenance accounts	\$	3,313,960
Accounts receivable - customers		3,504,638
Accounts receivable - grants		-
Inventories		<u>614,916</u>
Total Current Assets		7,433,514
 Restricted Assets - Cash and Investments:		
Bond and interest redemptions		422,306
Debt service reserve		1,837,411
Bond proceeds designated for capital projects		<u>1,738,954</u>
Total Restricted Assets - Cash and Investments		3,998,671
 Property, Plant and Equipment:		
Land		105,829
Office equipment		405,634
Automotive equipment		1,611,744
Buildings		2,479,708
Construction in progress		2,084,404
Utility systems and equipment		<u>44,566,617</u>
		51,253,936
Accumulated Depreciation		<u>(24,745,483)</u>
Net Property, Plant and Equipment		26,508,453
 Other Assets:		
Unamortized bond issuance cost		<u>348,318</u>
 Total Assets	 \$	 <u><u>38,288,956</u></u>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

<u>LIABILITIES AND NET ASSETS</u>	
	<u>2005</u>
Liabilities:	
Current Liabilities (Payable from Current Assets):	
Accounts payable	\$ 1,360,124
Alabama utilities tax payable	55,205
Payroll taxes and group insurance payable	12,532
Accrued salaries	55,237
Capital lease payable	11,062
Accrued compensated absences	281,253
	<hr/>
Total Current Liabilities (Payable from Current Assets)	1,775,413
Current Liabilities (Payable from Restricted Assets):	
Water, electric and sewer revenue bonds payable in one year	1,110,000
Accrued interest payable on bonds	97,807
	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	1,207,807
Long-term Liabilities:	
Customers' deposits	495,628
Capital lease - noncurrent	8,548
Water, Electric and Sewer Revenue Bonds not due in one year	16,355,000
Unamortized bond premium	37,509
Unamortized bond discount	(253,224)
Deferred loss on early retirement of debt	(274,791)
	<hr/>
Total Long-term Liabilities	16,368,670
Total Liabilities	19,351,890
Net Assets:	
Invested in capital assets, net of related debt	9,514,349
Restricted for:	
Capital projects	1,738,954
Debt service	2,259,717
Unrestricted net assets	5,424,046
	<hr/>
Total Net Assets	18,937,066
Total Liabilities and Net Assets	\$ 38,288,956

CITY OF TROY, ALABAMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2005

	2005
Operating Revenues:	
Electric tolls	\$ 19,362,417
Less electric power purchases	(12,942,415)
ECA revenue	999,248
Water tolls	1,289,171
Sewer charges	1,044,073
Fees and taps	421,824
Other income	237,101
Total Operating Revenues	10,411,419
Operating Expenses:	
Salaries and wages	2,703,303
Materials and supplies	460,234
Heat, light and power	58,348
Insurance	267,370
Engineering services	126,777
Auto and truck repairs	94,695
Office supplies and expense	106,888
Fuel and lubrication	58,922
Retirement expense	-
Depreciation	1,179,904
Bad debts	151,435
Special appropriation	-
Other expenses	280,428
Total Operating Expenses	5,488,304
Operating Income	4,923,115
Nonoperating Revenues (Expenses):	
Grant revenue	907,645
Interest	241,906
Interest on bonds	(506,267)
Amortization of bond issuance cost	(204,006)
Total Nonoperating Revenues (Expenses)	439,278
Net Income Before Contributions and Transfers	5,362,393
Capital contributions and grant revenues	-
Transfers to general government	(4,203,062)
Changes in Net Assets	1,159,331
Net Assets - Beginning of Year	17,777,735
Net Assets - End of Year	\$ 18,937,066

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, 2005

	<u>2005</u>
Cash Flows from Operating Activities:	
Receipts from customers	\$ 22,652,896
Payments to suppliers	(14,281,282)
Payments to employees for wages and benefits	(2,679,192)
Other receipts (payments)	237,101
Net Cash Provided (Used) by Operating Activities	<u>5,929,523</u>
Cash Flows from Noncapital Financing Activities:	
Amounts transferred to general government	(4,203,062)
Cash Flows from Capital and Related Financing Activities:	
Proceeds from capital debt	204,006
Proceeds from grants	907,645
Purchases of capital assets	(4,532,379)
Principal payments on capital leases	(13,948)
Principal payments on capital debt	(1,090,000)
Interest paid on capital debt	(887,113)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,411,789)</u>
Cash Flows from Investing Activities:	
Interest	241,906
Net Increase (Decrease) in Cash and Equivalents	(3,443,422)
Cash and Equivalents - Beginning of Year	<u>10,756,053</u>
Cash and Equivalents - End of Year	<u>\$ 7,312,631</u>

SUPPLEMENTARY INFORMATION

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 4,923,115
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,179,904
(Increase) decrease in:	
Accounts receivable	(378,005)
Inventories	17,543
Increase (decrease) in:	
Accounts payable and expenses	97,252
Compensated absences	24,111
Customer deposits	65,603
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,929,523</u>

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CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

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, 2005

(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, 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, 2005

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, 2005

(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, 2005, the carrying amount of the City's deposits with financial institutions in all funds was \$9,677,101. All of the account balances are covered either by federal depository insurance or the "SAFE" program administered by the Alabama state treasurer or are collateralized with securities held by an outside agent in the City's name.

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, 2005, \$0 of the City's bank balance of \$9,677,101 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 \$100,000.)

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, 2005

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

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

Investments consist primarily of U.S. Treasury Bonds and U.S. Government Agency Notes and are stated at market. At September 30, 2005, investments consisted of the following investments, all of which were in the Investment Trust Fund, accounted for as a governmental fund type and reported as a permanent fund on the financial statements:

Investment Type	Fair Market	Investment Maturities (in Years)			
	Value	Under 1	1 to 5	6 to 10	More than 10
U.S. Treasury Bonds and Notes	\$ 5,938,315	\$ 1,211,765	\$ 4,726,550	\$ -	\$ -
Alabama Municipal Bonds	1,014,579	-	373,673	640,906	-
U.S. Government Agencies	7,442,243	-	375,946	2,458,074	4,608,223
Totals	<u>\$ 14,395,137</u>	<u>\$ 1,211,765</u>	<u>\$ 5,476,169</u>	<u>\$ 3,098,980</u>	<u>\$ 4,608,223</u>

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

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

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

Interfund Transactions

Interfund transactions are reflected as transfers.

Receivables

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

	2005
Water and Sewer System	\$ 11,587
Electric System	603,329
Total	<u>\$ 614,916</u>

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

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

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. A liability 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, 2005

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

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, 2005, the City has a debt service reserve of \$2,394,251.

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, 2005, there were no interest costs required to be capitalized.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

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

Accumulated Unpaid Employee Benefits

At September 30, 2005, the General Fund liability amounted to \$873,375 and the Enterprise Fund liability amounted to \$281,253. 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 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, 2005, expenditures over appropriations for governmental funds were \$12,037,539. The excess expenditures were mainly due to capital outlay expenditures and debt service payments that were financed with proceeds from debt issues in the prior fiscal year. Additional expenditures over appropriations 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, 2005

NOTE 3 - Capital Assets

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

Primary Government Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 1,143,156	\$ 5,160,141	\$ -	\$ 6,303,297
Land	2,416,571	22,600	-	2,439,171
Total Capital Assets Not Being Depreciated	\$ 3,559,727	\$ 5,182,741	\$ -	\$ 8,742,468
Capital Assets Being Depreciated:				
Autos and trucks	\$ 3,289,882	\$ 286,323	\$ (157,386)	\$ 3,418,819
Furniture and fixtures	225,131	18,918	-	244,049
Buildings and improvements	20,364,374	290,656	(17,558)	20,637,472
Equipment	3,329,556	574,199	(3,718)	3,900,037
Books	1,571,958	94,260	-	1,666,218
Street improvements	13,511,539	1,385,124	-	14,896,663
Total Capital Assets Being Depreciated	\$42,292,440	\$ 2,649,480	\$ (178,662)	\$ 44,763,258
Less Accumulated Depreciation for:				
Autos and trucks	\$ 2,223,570	\$ 201,465	\$ (147,500)	\$ 2,277,535
Furniture and fixtures	187,370	8,693	-	196,063
Buildings and improvements	7,778,952	863,770	(634)	8,642,088
Equipment	2,550,684	150,948	(3,718)	2,697,914
Books	1,021,054	85,898	-	1,106,952
Street improvements	9,430,846	526,923	-	9,957,769
Total Accumulated Depreciation	23,192,476	1,837,697	(151,852)	24,878,321
Total Capital Assets Being Depreciated, net	19,099,964	811,783	(26,810)	19,884,937
Governmental Activities Capital Assets, net	\$22,659,691	\$ 5,994,524	\$ (26,810)	\$ 28,627,405

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 3 - Capital Assets, Continued

	Beginning Balance	Additions	Reductions	Ending Balance
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 1,547,009	\$ 537,393	\$ (117,501)	\$ 1,966,901
Land	104,434	1,395	-	105,829
Total Capital Assets Not Being Depreciated	\$ 1,651,443	\$ 538,788	\$ (117,501)	\$ 2,072,730
Capital Assets Being Depreciated:				
Office equipment	\$ 369,423	\$ 153,714	\$ -	\$ 523,137
Automotive equipment	1,564,253	150,744	(103,255)	1,611,742
Buildings	2,465,863	13,845	-	2,479,708
Communication equipment	201,875	-	-	201,875
Electric distribution system	12,247,413	2,796,840	-	15,044,253
Water distribution system	9,296,027	901,820	-	10,197,847
Sewer distribution system	19,032,162	94,129	(3,648)	19,122,643
Total Capital Assets Being Depreciated	\$45,177,016	\$ 4,111,092	\$ (106,903)	\$ 49,181,205
Less Accumulated Depreciation for:				
Office equipment	\$ 282,041	\$ 33,481	\$ -	\$ 315,522
Automotive equipment	1,131,879	90,224	(103,255)	1,118,848
Buildings	549,632	59,031	-	608,663
Communication equipment	109,655	31,618	-	141,273
Electric distribution system	7,096,556	258,537	-	7,355,093
Water distribution system	5,019,593	227,679	-	5,247,272
Sewer distribution system	9,483,125	479,334	(3,648)	9,958,811
Total Accumulated Depreciation	23,672,481	1,179,904	(106,903)	24,745,482
Total Capital Assets Being Depreciated, net	21,504,535	2,931,188	-	24,435,723
Business-type Activities Capital Assets, net	\$23,155,978	\$ 3,469,976	\$ (117,501)	\$ 26,508,453

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

Governmental Activities:	
General government	\$ 432,667
Public safety	193,083
Highways and public improvements	731,405
Health, welfare and recycling	128,998
Parks and recreation	351,544
Total Depreciation Expense - Governmental Activities	\$ 1,837,697
Business-type Activities:	
Utility systems and equipment	\$ 1,179,904
Total Depreciation Expense - Business-type Activities	\$ 1,179,904
Total Depreciation Expense	\$ 3,017,601

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 4 - 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	\$ 5,446,611	\$ 7,111,416
Permanent Fund	-	625,244
Recreation	6,103,310	-
Library	389,801	-
<u>Proprietary Funds:</u>		
Water, Electric and Sewer	-	4,203,062
Total Transfers	<u>\$11,939,722</u>	<u>\$11,939,722</u>

NOTE 5 - Long-Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General obligation bonds	\$14,100,000	\$ 5,940,000	\$ 3,295,000	\$16,745,000	\$ 680,000
General obligation notes payable	232,523	3,400,273	3,016,580	616,216	138,147
	14,332,523	9,340,273	6,311,580	17,361,216	818,147
Less: Deferred loss on refunding	84,786	172,115	23,348	233,553	-
Bond discount	375,423	102,548	68,830	409,141	-
Total Bonds and Notes Payable	13,872,314	9,065,610	6,219,402	16,718,522	818,147
Other Liabilities:					
Compensated absences	616,633	256,742	-	873,375	-
Long-term Liabilities	<u>\$14,488,947</u>	<u>\$ 9,322,352</u>	<u>\$ 6,219,402</u>	<u>\$17,591,897</u>	<u>\$ 818,147</u>
Business-type Activities:					
Bonds and Notes Payable:					
Water, electric and sewer bonds	\$18,555,000	\$ -	\$ 1,090,000	\$17,465,000	\$ 1,110,000
Capital leases	33,558	-	13,948	19,610	11,062
	18,588,558	-	1,103,948	17,484,610	1,121,062
Plus: Bond premium	53,182	-	15,673	37,509	-
Less: Deferred loss on refunding	391,111	-	116,320	274,791	-
Bond discount	285,832	-	32,608	253,224	-
Total Bonds and Notes Payable	17,964,797	-	970,693	16,994,104	1,121,062
Other Liabilities:					
Compensated absences	257,142	24,111	-	281,253	-
Long-term Liabilities	<u>\$18,221,939</u>	<u>\$ 24,111</u>	<u>\$ 970,693</u>	<u>\$17,275,357</u>	<u>\$ 1,121,062</u>

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 5 - Long-Term Debt, Continued

Bonds payable at September 30, 2005 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%	\$ 1,440,000
\$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%	9,365,000
\$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%	5,940,000

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%	1,975,000
\$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%	7,105,000
	<u>34,210,000</u>
Plus Unamortized bond premium at September 30, 2005	37,509
Less Unamortized bond discount and deferred loss at September 30, 2004	(1,170,709)
Net General Obligation and Revenue Bonds	<u><u>\$ 33,076,800</u></u>

The annual requirements to amortize all long-term bonded debt outstanding as of September 30, 2005, including interest payments of \$13,610,902 are as follows:

For the Year Ending September 30,	General Obligations			Revenue Obligations		
	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2006	\$ 680,000	\$ 668,413	\$ 1,348,413	\$ 1,110,000	\$ 662,973	\$ 1,772,973
2007	690,000	650,548	1,340,548	1,145,000	632,773	1,777,773
2008	700,000	631,183	1,331,183	1,180,000	596,478	1,776,478
2009	725,000	610,180	1,335,180	1,215,000	558,103	1,773,103
2010	755,000	586,948	1,341,948	1,260,000	517,228	1,777,228
2011-2015	4,058,249	2,561,236	6,619,485	5,535,000	1,819,473	7,354,473
2016-2020	5,094,156	1,597,745	6,691,901	3,520,000	936,700	4,456,700
2021-2025	4,042,595	409,820	4,452,415	2,500,000	171,101	2,671,101
	<u>\$ 16,745,000</u>	<u>\$ 7,716,073</u>	<u>\$ 24,461,073</u>	<u>\$ 17,465,000</u>	<u>\$ 5,894,829</u>	<u>\$ 23,359,829</u>

CITY OF TROY, ALABAMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

NOTE 5 - Long-Term Debt, Continued

Notes payable and capital lease obligations at September 30, 2005 are comprised of the following individual issues:

Primary Government

Governmental Activities:

Troy City Board of Education, monthly payments ranging from \$1,609.27 to \$1,627.50, including interest at variable rates between 7% and 8%, unsecured \$ 46,372

Troy Bank & Trust, due in 60 monthly payments of \$12,017, including interest at a rate of 4.25%, collateralized by fire trucks and police cars 569,844

Total General Fund \$ 616,216

The annual requirements to amortize all long-term note debt outstanding as of September 30, 2005, including interest payments of \$62,015 are as follows.

Maturing September 30,	Principal	Interest	Payments
2006	\$ 138,147	\$ 25,402	\$ 163,549
2007	144,694	18,896	163,590
2008	146,770	12,056	158,826
2009	138,962	5,239	144,201
2010	47,643	422	48,065
	<u>\$ 616,216</u>	<u>\$ 62,015</u>	<u>\$ 678,231</u>

The City has leased certain office and maintenance equipment under capital lease agreements. The resulting obligations have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at interest rates of 8.15% and 5.66%. The capitalized cost of \$139,237, less accumulated depreciation of \$138,434, is included in property and equipment in the accompanying financial statements of the enterprise fund. Depreciation expense for this equipment for the year ended September 30, 2005 was \$9,632.

The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments are as follows for the period ended September 30, 2005:

	2006	\$ 11,949
	2007	8,801
		<u>20,750</u>
Less: Amount Representing Interest		1,140
Present Value of Future Minimum Lease Payments		<u>\$ 19,610</u>

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 5 - Long-Term Debt, Continued

Other:

Revenue Obligations - There is \$422,306 on deposit in bond and interest redemption accounts and \$1,837,411 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 \$1,010,806 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.

NOTE 6 - Debt Defeasance

On August 1, 2005, the City of Troy issued the Series 2005 general obligation warrants of \$5,940,000, with interest rates varying from 3.20% to 5.00%, of which \$2,950,000 of the proceeds were used to advance refund the 1998 general obligation warrants, with interest rates varying from 3.85% to 5.00%, with an outstanding par value of \$2,770,000. The refunding portion of the 2005 general obligation warrants were issued at a discount of \$21,369 and after paying issuance costs of \$54,087, the net proceeds of the refunding portion were \$2,874,544. Of the net proceeds, \$2,874,544 were used to purchase U.S. Government securities and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments of the outstanding serial bonds through September 27, 2005, at which time the bonds were repurchased under the call provisions of the 1998 issue. The advance refunding met the requirements of an in-substance debt defeasance and the 1998 warrants were removed from the City's proprietary fund balance sheet.

As a result of the advance refunding, the City reduced its total debt service requirements by \$35,234, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$33,930.

NOTE 7 - Customers' Deposits - Proprietary Fund

No restricted bank account is maintained to hold customers' deposits. The deposits at September 30, 2005, which total \$495,628, are included in the operating cash and constitute a portion of the current assets shown in these statements.

NOTE 8 - 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, 2005. 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.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 9 - Pension and Retirement Plan

Employees of the City participate in the Employees' Retirement System operated by the State of Alabama ("the Employees' System"). The City has been a participant in the Employees' System since 1969. Since that date, contributions have been made by employees and by the City to the Employees' System. Contributions by the City are made on the basis of actuarial determinations, which determinations attempt to provide contributions by the City and by employees that will be sufficient, at the time of retirement, to provide the benefits contemplated by the retirement program. The City is informed that total employer contributions will, with employee contributions at the statutory rate, cover the normal contribution and liquidate the total unfunded actuarial accrued liability. Unlike the Teachers' Retirement System, the Employees' System does not undertake to fund the retirement plans of participating local governments and acts only in an administrative capacity, and then only upon election of local governments.

The state statute permitting such election provides that "the retirement system shall not be liable for the payment of any pensions or other benefits on account of the employees or pensions of any employees under this section, for which reserves have not been previously created from funds contributed by such employer or its employees for such benefits." The statute further provides that the agreement of the City to contribute to the employees' system on account of its employees is irrevocable, but should it become financially unable to make the normal and accrued liability contribution, the City would be deemed to be in default under the Employees' System. Total pension costs for the year ended September 30, 2005 were \$1,093,398.

NOTE 10 - 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 11 - Litigation

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

NOTE 12 - Commitments

As of October 1, 2005, the City is obligated under an agreement with Troy State University to provide a debt service payment of \$304,265 on their behalf, on June 1, 2006.

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, 2005, the City's commitment is \$60,000 to be paid on December 1, 2005.

The City has a commitment to complete 2002 Water, Electric and Sewer capital projects totaling \$1,700,00 with the 2002 bond proceeds, 2003 General Government capital projects totaling \$100,000 with the 2003 bond proceeds and 2005 General Government capital projects totaling \$775,000 as specified in the bond official statement.

The City has guaranteed debt in the amount of \$76,656 for the Colley Senior Center.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 13 - Property Taxes

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

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

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

NOTE 14 - Cash and Equivalents, Cash Flow Statement

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

Proprietary fund cash and equivalents consist of the following:

Petty cash	\$ 369
Revenue and maintenance accounts	3,313,591
Reserved for principal and interest redemption	422,306
Reserved for debt service	1,837,411
Reserved for capital projects	1,738,954
 Total Proprietary Fund Cash and Equivalents	 <u><u>\$ 7,312,631</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF TROY, ALABAMA
BUDGET TO ACTUAL COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	2005			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes	\$ 6,297,000	\$ 6,297,000	\$ 6,484,881	\$ 187,881
Charges for services-garbage fees	615,000	615,000	640,131	25,131
Licenses and permits	609,000	609,000	667,670	58,670
Fines and costs	250,000	250,000	343,568	93,568
Operating and capital grants	-	-	1,328,650	1,328,650
Other	948,000	948,000	1,253,361	305,361
Total Revenues	8,719,000	8,719,000	10,718,261	1,999,261
Expenditures:				
Special expenditures	491,469	491,469	549,231	(57,762)
Culture and recreation	39,000	39,000	39,000	-
General government	3,412,868	3,412,868	1,991,031	1,421,837
Public safety	4,165,250	4,165,250	5,305,714	(1,140,464)
Highways and streets	1,704,000	1,704,000	2,132,320	(428,320)
Health and welfare	527,200	527,200	528,082	(882)
Debt service	1,140,000	1,140,000	3,562,203	(2,422,203)
Senior Center	102,000	102,000	235,480	(133,480)
Capital Outlay	600,000	600,000	2,385,646	(1,785,646)
Total Expenditures	12,181,787	12,181,787	16,728,707	(4,546,920)
Excess (Deficiency) of Revenues Over Expenditures	(3,462,787)	(3,462,787)	(6,010,446)	(2,547,659)
Other Financing Sources (Uses):				
Proceeds from debt	-	-	8,691,272	8,691,272
Bond issue discount	-	-	(102,548)	(102,548)
Payments to bond escrow	-	-	(2,874,544)	(2,874,544)
Operating transfers in	4,927,287	4,927,287	5,446,611	519,324
Operating transfers out	(1,464,500)	(1,464,500)	(7,111,416)	(5,646,916)
Total Other Financing Sources (Uses)	3,462,787	3,462,787	4,049,375	586,588
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	-	-	(1,961,071)	(1,961,071)
Fund Balance - Beginning of Year	3,314,880	3,314,880	3,314,880	-
Fund Balance - End of Year	\$ 3,314,880	\$ 3,314,880	\$ 1,353,809	\$ (1,961,071)

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

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CITY OF TROY, ALABAMA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2005

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.

OTHER SUPPLEMENTARY INFORMATION



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f (334) 335-3545 Luverne, AL 36049

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

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

We have audited 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, 2005, which collectively comprise the City of Troy, Alabama's basic financial statements and have issued our report thereon dated December 19, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

December 19, 2005

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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, 2005 met the 2-year, 80 hour auditing and accounting continuing professional education requirement.

In addition, our firm has met the requirement to have an on-site peer review once every three years. Our review was conducted on September 18, 2003 and we received an unqualified report.