

CITY OF TROY, ALABAMA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

CITY OF TROY, ALABAMA

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SEPTEMBER 30, 2009

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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, 2009, 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2010, 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.

May 26, 2010

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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, 2009. 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 \$73,753,912 (*net assets*).
- Net Assets restricted for future growth of \$16,191,821 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 \$2,150,706 or 13 percent of total General Fund expenditures for the fiscal year.
- The City of Troy's governmental activities indebtedness decreased by \$965,885 during the current fiscal year. The key factor in this decrease was annual principal payments on outstanding debt. The City of Troy's business-type activities indebtedness decreased by \$1,215,000. The key factor in this decrease was annual principal payments on Revenue Bonds.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

Notes to Basic Financial Statements

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

Table 1: Major Features of the Basic Financial Statements				
	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	Activities of the City that are not proprietary or fiduciary	Activities of the City that are operated similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	- Statement of net 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 \$73,753,912. The City's net assets increased by \$3,820,144 for the fiscal year ended September 30, 2009. However, the largest portion (66%) 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 (26%) 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, 2009, and 2008, 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	
	2009	2008	2009	2008	2009	2008
Assets:						
Current and other assets	\$ 20,555,310	\$ 19,649,258	\$ 10,564,851	\$ 9,221,112	\$ 31,120,161	\$ 28,870,370
Capital assets	49,169,281	34,732,156	27,972,336	28,890,051	77,141,617	63,622,207
Total Assets	\$ 69,724,591	\$ 54,381,414	\$ 38,537,187	\$ 38,111,163	\$ 108,261,778	\$ 92,492,577
Liabilities:						
Long-term liabilities outstanding	\$ 14,425,994	\$ 16,565,346	\$ 14,011,364	\$ 15,043,494	\$ 28,437,358	\$ 31,608,840
Other liabilities	2,891,479	1,356,906	3,179,029	3,605,444	6,070,508	4,962,350
Total Liabilities	\$ 17,317,473	\$ 17,922,252	\$ 17,190,393	\$ 18,648,938	\$ 34,507,866	\$ 36,571,190
Net Assets						
Invested in capital assets, net of related debt	\$ 34,743,287	\$ 19,838,418	\$ 13,960,972	\$ 13,709,817	\$ 48,704,259	\$ 33,548,235
Restricted	16,415,329	15,972,293	2,395,937	2,509,300	18,811,266	18,481,593
Unrestricted	1,248,502	648,451	4,989,885	3,243,108	6,238,387	3,891,559
Total Net Assets	\$ 52,407,118	\$ 36,459,162	\$ 21,346,794	\$ 19,462,225	\$ 73,753,912	\$ 55,921,387

Condensed Statement of Activities

Table 3 presents the City's condensed statement of activities for the fiscal years ended September 30, 2009, and 2008, 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 \$15,947,956 or 43%, and the net assets of the business-type increased by \$1,884,569 or 9%.

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

- Tax revenues increased by 17%.
- Continued low cost of debt due to the City's high bond rating.
- Capital grants were obtained to finance new capital projects.

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for services	\$ 1,438,520	\$ 1,906,814	\$ 14,950,351	\$ 12,490,947	\$ 16,388,871	\$ 14,397,761
Operating grants and contributions	266,117	3,053,390	-	-	266,117	3,053,390
Capital grants and contributions	1,387,123	-	-	440,723	1,387,123	440,723
General Revenues:						
Property taxes	1,314,657	1,012,217	-	-	1,314,657	1,012,217
Other taxes	7,972,141	6,889,944	-	-	7,972,141	6,889,944
Investment earnings	1,286,661	763,799	75,416	195,147	1,362,077	958,946
Other	1,231,759	1,676,667	203,227	25,847	1,434,986	1,702,514
Total Revenues	14,896,978	15,302,831	15,228,994	13,152,664	30,125,972	28,455,495
Expenses:						
General government	3,064,499	2,724,434	-	-	3,064,499	2,724,434
Public safety - police and fire	6,718,786	6,948,341	-	-	6,718,786	6,948,341
Grounds, public works, recycling	3,682,987	3,646,458	-	-	3,682,987	3,646,458
Seniors and nutrition	384,542	320,697	-	-	384,542	320,697
Library and recreation	2,762,736	2,673,142	-	-	2,762,736	2,673,142
Public transportation	286,236	371,236	-	-	286,236	371,236
Municipal courts	285,558	298,152	-	-	285,558	298,152
Other programs	124,158	300,651	-	-	124,158	300,651
Interest on long-term debt	988,320	685,437	-	-	988,320	685,437
Water, sewer and electric	-	-	8,008,006	7,252,177	8,008,006	7,252,177
Total Expenses	18,297,822	17,968,548	8,008,006	7,252,177	26,305,828	25,220,725
Increase (Decrease) in Net Assets Before Transfers	(3,400,844)	(2,665,717)	7,220,988	5,900,487	3,820,144	3,234,770
Operating Transfers In (Out)	5,336,419	5,320,951	(5,336,419)	(5,320,951)	-	-
Increase (Decrease) in Net Assets	1,935,575	2,655,234	1,884,569	579,536	3,820,144	3,234,770
Net Assets, October 1	36,459,162	29,668,143	19,462,225	18,882,689	55,921,387	48,550,832
Capital contributed	2,526,568	-	-	-	2,526,568	-
Prior period adjustment	11,485,813	4,135,785	-	-	11,485,813	4,135,785
Net Assets, September 30	\$ 52,407,118	\$ 36,459,162	\$ 21,346,794	\$ 19,462,225	\$ 73,753,912	\$ 55,921,387

Overall Analysis

Financial highlights for the City as a whole during the fiscal year ended September 30, 2009, include the following:

Governmental activities. Governmental activities increased the City's net assets overall by \$15,947,956. Key elements of this increase are as follows:

- Implementation of GASB 34 accounting for infrastructure added \$11,485,813 in right of ways and easements
- Increases in property taxes and other taxes.
- Received over \$2.5 million dollars in contributed sidewalks and streets from real estate development

Business-type activities: Business-type activities increased the City of Troy's net assets by \$1,884,569. Key elements of this increase are as follows:

- Increased billed energy cost adjustments increased net revenue by \$2,076,330
- The transfers to governmental activities remained constant and operating costs were controlled.

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 \$2,150,706, while total fund balance of the general fund reached \$2,353,376. Unreserved fund balance represents 13 percent of total General Fund expenditures, while total fund balance represents 14 percent of that same amount. The Fund Balance of all governmental funds increased by \$1,571,910 due to increases in market value of restricted investments and debt service payments of approximately \$1.875 million and capital outlays of approximately \$3.8 million that were partially offset by capital grants and transfers in from other funds. Total fund balance is made up of approximately \$16.1 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 \$4,989,885.

Budget Variances in the General Fund

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

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

- The City had a positive variance of \$1,852,128 in total revenue budgeted. \$1,387,123 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.
- Expenses were within tolerable variances established by the Council except capital outlay projects that were not included on the budget as adopted.
- Capital outlay variances of \$2,792,912 were offset by grants and operating transfers 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, 2009, totaled \$77,141,617 (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):

- Old National Guard Armory donated to the City with a value of \$800,000
- Streets and sidewalks constructed by a developer were donated with a value of \$1.7 million
- Rights of way and easements valued at \$7.7 million dollars were retroactively added in accordance with GASB guidance
- Street and drainage improvements of \$2.7 million dollars were completed
- Land was acquired for \$1.5 million dollars as part of the airport expansion

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, 2009, the City of Troy had total bonded debt outstanding of \$26,765,000. Of this, \$12,755,000 is debt backed by the full faith and credit of the City and \$1,195,000 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).

Alabama general statutes limit the amount of general obligation debt that a unit of government can issue up to 20 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt limit for general obligation debt for the City of Troy is \$39,762,000.

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 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 2010 and 2011 because of budgetary constraints.

Budget Highlights for the Fiscal Year Ending September 30, 2010

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 2007. 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, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 2,698,860	\$ 1,644,353	\$ 4,343,213
Receivables:			
Taxes	1,279,051	-	1,279,051
Utility bills	-	5,491,447	5,491,447
Grants	25,641	-	25,641
Inventory	-	846,004	846,004
Restricted assets - cash, receivables and investments	16,394,491	2,395,937	18,790,428
Fixed assets (net of accumulated depreciation)	49,169,281	27,972,336	77,141,617
Unamortized bond issuance cost	157,267	187,110	344,377
Total Assets	\$ 69,724,591	\$ 38,537,187	\$ 108,261,778
Liabilities			
Accounts payable	\$ 343,322	\$ 1,868,281	\$ 2,211,603
Other payables	316,382	-	316,382
Accrued interest payable	98,766	224,660	323,426
Bonds and notes			
due within one year (net)	1,193,941	2,667,720	3,861,661
Accrued compensated absences	2,133,009	554,206	2,687,215
Customer deposits	-	531,882	531,882
Bonds and notes			
due in more than one year (net)	13,232,053	11,343,644	24,575,697
Total Liabilities	\$ 17,317,473	\$ 17,190,393	\$ 34,507,866
Net Assets			
Invested in capital assets, net of related debt	\$ 34,743,287	\$ 13,960,972	\$ 48,704,259
Restricted for:			
Capital projects	20,838	-	20,838
Debt service	202,670	2,395,937	2,598,607
Future growth	16,191,821	-	16,191,821
Unrestricted net assets	1,248,502	4,989,885	6,238,387
Total Net Assets	\$ 52,407,118	\$ 21,346,794	\$ 73,753,912

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	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
Functions/Programs							
Primary Government:							
Government Activities:							
General Government - Executive	\$ 3,064,499			\$ 1,387,123	\$ (1,677,376)	\$	\$ (1,677,376)
Police and Fire	6,718,786	256,471			(6,462,315)		(6,462,315)
Grounds, Public Works, and Recycling	3,682,987	743,524			(2,939,463)		(2,939,463)
Seniors and Nutrition	384,542				(384,542)		(384,542)
Library and Recreation	2,762,736	383,397	77,288		(2,302,051)		(2,302,051)
Public Transportation	286,236	55,128	188,829		(42,279)		(42,279)
Municipal Courts	285,558				(285,558)		(285,558)
Other Programs	124,158				(124,158)		(124,158)
Interest on long-term debt	988,320				(988,320)		(988,320)
Total Governmental Activities	18,297,822	1,438,520	266,117	1,387,123	(15,206,062)	-	(15,206,062)
Business-type Activities:							
Water	916,240	2,098,708			1,182,468		1,182,468
Sewer	1,181,733	1,855,382			673,649		673,649
Electric	5,221,574	11,186,803			5,965,229		5,965,229
Interest on bonds	688,459				(688,459)		(688,459)
Total Business-type Activities	8,008,006	15,140,893	-	-	7,132,887	-	7,132,887
Total Primary Government	\$ 26,305,828	\$ 16,579,413	\$ 266,117	\$ 1,387,123	\$ (15,206,062)	\$ 7,132,887	\$ (8,073,175)
General Revenues:							
Property taxes					1,314,657		1,314,657
General sales, use, and gasoline taxes					5,811,564		5,811,564
Utility and bank franchise taxes					938,859		938,859
Beer, tobacco and lodging tax					618,030		618,030
Licenses and permits					603,688		603,688
Investment earnings					1,286,661	75,416	1,362,077
Special item - gain (loss) on sale of fixed assets					(213,611)	12,685	(200,926)
Other revenues					1,445,370		1,445,370
Total General Revenues					11,805,218	88,101	11,893,319
Transfers					5,336,419	(5,336,419)	-
Change in Net Assets					1,935,575	1,884,569	3,820,144
Net Assets - Beginning of Year					36,459,162	19,462,225	55,921,387
Contributed capital assets					2,526,568	-	2,526,568
Prior period adjustment					11,485,813	-	11,485,813
Net Assets - End of Year					\$ 52,407,118	\$ 21,346,794	\$ 73,753,912

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	2009			Total
	General Fund	Permanent Fund	Other Governmental Funds	
Assets				
Cash	\$ 1,363,469	\$ 1,899,987	\$ 1,335,391	\$ 4,598,847
Property and other taxes receivable	1,264,209	-	14,842	1,279,051
Grants receivable	-	-	25,641	25,641
Restricted cash	202,670	-	-	202,670
Investments	-	14,291,834	-	14,291,834
Total Assets	\$ 2,830,348	\$ 16,191,821	\$ 1,375,874	\$ 20,398,043
Liabilities				
Accounts payable	\$ 224,070	\$ -	\$ 119,252	\$ 343,322
Other payables	252,902	-	63,480	316,382
Total Liabilities	476,972	-	182,732	659,704
Fund Balances				
Reserved for:				
Capital projects from bond proceeds	-	-	-	-
Debt service	202,670	-	-	202,670
Future growth	-	16,191,821	-	16,191,821
Special revenue fund - library	-	-	20,838	20,838
Unreserved, reported in:				
General fund	2,150,706	-	-	2,150,706
Special revenue fund	-	-	1,172,304	1,172,304
Total Fund Balances	2,353,376	16,191,821	1,193,142	19,738,339
Total Liabilities and Fund Balances	\$ 2,830,348	\$ 16,191,821	\$ 1,375,874	\$ 20,398,043

CITY OF TROY, ALABAMA
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE
 GOVERNMENT-WIDE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2009**

Total Fund Balances - Governmental Fund Types: **\$ 19,738,339**

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. 49,169,281

Deferred Costs on the issuance of debt are not financial resources and, therefore, are not reported in the funds. 157,267

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	(98,766)	
Compensated Absences	(2,133,009)	
Current Debt	(1,193,941)	
Long Term Debt	(13,536,580)	
Deferred Loss and Bond Disc	304,527	(16,657,769)

Net Assets of Government Activities **\$ 52,407,118**

CITY OF TROY, ALABAMA
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	2009			Total
	General Fund	Permanent Fund	Other Governmental Funds	
Revenues:				
Taxes	\$ 8,525,938	\$ -	\$ 327,994	\$ 8,853,932
Charges for services	999,995	-	438,525	1,438,520
Licenses and permits	603,688	-	-	603,688
Fines and costs	-	-	298,498	298,498
Investment income	-	1,270,822	15,839	1,286,661
Operating and capital grants	1,387,123	-	266,117	1,653,240
Other revenues	968,384	-	7,668	976,052
Total Revenues	12,485,128	1,270,822	1,354,641	15,110,591
Expenditures:				
General Government - Executive	2,561,341	-	-	2,561,341
Police and Fire	6,086,931	-	-	6,086,931
Grounds, Public Works, and Recycling	2,698,199	-	115	2,698,314
Seniors and Nutrition	338,061	-	-	338,061
Library and Recreation	-	-	1,898,428	1,898,428
Public Transportation	-	-	259,741	259,741
Municipal Courts	-	-	273,699	273,699
Other Programs	115,126	-	-	115,126
Debt Service	1,876,055	-	-	1,876,055
Capital Outlay	3,292,912	-	469,580	3,762,492
Total Expenditures	16,968,625	-	2,901,563	19,870,188
Excess of Revenues Over (Under) Expenditures	(4,483,497)	1,270,822	(1,546,922)	(4,759,597)
Other Financing Sources (Uses):				
Proceeds from debt	433,000	-	-	433,000
Proceeds from sale of assets	562,088	-	-	562,088
Operating transfers in	6,108,940	-	2,112,303	8,221,243
Operating transfers out	(2,112,187)	(692,564)	(80,073)	(2,884,824)
Total Other Financing Sources (Uses)	4,991,841	(692,564)	2,032,230	6,331,507
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	508,344	578,258	485,308	1,571,910
Fund Balance - Beginning of Year	1,845,032	15,613,563	707,834	18,166,429
Fund Balance - End of Year	\$ 2,353,376	\$ 16,191,821	\$ 1,193,142	\$ 19,738,339

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, 2009**

Net Changes in Fund Balances - Total Governmental Funds **\$ 1,571,910**

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	2,562,049	
Capital outlays capitalized	<u>(3,767,540)</u>	1,205,491

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.

(775,699)

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.

(520,732)

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	(433,000)	
Principal paid less amortization of issue costs	<u>887,605</u>	454,605

Change in Net Assets of Governmental Activities

\$ 1,935,575

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CITY OF TROY, ALABAMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

ASSETS

Current Assets:

Cash - gross revenue and maintenance accounts	\$ 1,644,353
Accounts receivable - customers	5,491,447
Inventories	846,004
Total Current Assets	<u>7,981,804</u>

Restricted Assets - Cash and Investments:

Bond and interest redemptions	587,993
Debt service reserve	1,807,944
Total Restricted Assets - Cash and Investments	<u>2,395,937</u>

Net Property, Plant and Equipment: 27,972,336

Other Assets:

Unamortized bond issuance cost	187,110
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Total Assets \$ 38,537,187

LIABILITIES AND NET ASSETS

Current Liabilities (Payable from Current Assets):

Accounts payable and other accrued expenses	\$ 1,868,281
Short term note payable	1,407,720
Accrued compensated absences	554,206
Total Current Liabilities (Payable from Current Assets)	<u>3,830,207</u>

Current Liabilities (Payable from Restricted Assets):

Water, electric and sewer revenue bonds payable in one year	1,260,000
Accrued interest payable on bonds	224,660
Total Current Liabilities (Payable from Restricted Assets)	<u>1,484,660</u>

Long-term Liabilities:

Customers' deposits	531,882
Water, electric and sewer revenue bonds not due in one year	11,555,000
Unamortized premium, discount, and deferred loss	(211,356)
Total Long-term Liabilities	<u>11,875,526</u>

Total Liabilities 17,190,393

Net Assets:

Invested in capital assets, net of related debt	13,960,972
Restricted for:	
Debt service	2,395,937
Unrestricted net assets	4,989,885

Total Net Assets 21,346,794

Total Liabilities and Net Assets \$ 38,537,187

CITY OF TROY, ALABAMA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Operating Revenues:	
Electric tolls	\$ 25,205,796
ECA and fuel charge revenue	5,648,506
Less: electric power purchases	(20,528,306)
Water tolls	2,077,136
Sewer charges	1,833,004
Fees and taps	714,215
Other income	190,542
Total Operating Revenues	<u>15,140,893</u>
Operating Expenses:	
Personnel	3,443,638
Contractual services	951,073
Materials and supplies	1,439,902
Depreciation	1,483,736
Other expenses	1,198
Total Operating Expenses	<u>7,319,547</u>
Operating Income	7,821,346
Nonoperating Revenues (Expenses):	
Grant revenue	-
Interest income	75,416
Interest on bonds	(688,459)
Amortization of bond issuance cost	-
Gain (Loss) on sale of fixed assets	12,685
Total Nonoperating Revenues (Expenses)	<u>(600,358)</u>
Net Income Before Contributions and Transfers	7,220,988
Transfers to general government	<u>(5,336,419)</u>
Changes in Net Assets	1,884,569
Net Assets - Beginning of Year	<u>19,462,225</u>
Net Assets - End of Year	<u><u>\$ 21,346,794</u></u>

CITY OF TROY, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Cash Flows from Operating Activities:	
Receipts from customers	\$ 34,771,584
Payments to suppliers	(22,714,525)
Payments to employees for wages and benefits	(3,399,062)
Other receipts (payments)	(1,198)
Net Cash Provided (Used) by Operating Activities	<u>8,656,799</u>
Cash Flows from Noncapital Financing Activities:	
Amounts transferred to general government	(5,336,419)
Cash Flows from Capital and Related Financing Activities:	
Proceeds from sale of property and equipment	12,843
Purchases of capital assets	(566,319)
Principal payments on capital debt	(1,215,000)
Interest paid on capital debt	(607,076)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,375,552)</u>
Cash Flows from Investing Activities:	
Interest received	<u>75,416</u>
Net Increase (Decrease) in Cash and Equivalents	1,020,244
Cash and Equivalents - Beginning of Year	<u>3,020,046</u>
Cash and Equivalents - End of Year	<u><u>\$ 4,040,290</u></u>

SUPPLEMENTARY INFORMATION

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 7,821,346
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,483,737
(Increase) decrease in:	
Accounts receivable	(860,867)
Inventories	494,469
Increase (decrease) in:	
Accounts payable and expenses	(289,714)
Compensated absences	44,576
Customer deposits	(36,748)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 8,656,799</u></u>

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CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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, 2009

(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, 2009

(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, 2009

(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, 2009, the carrying amount of the City's deposits with financial institutions in all funds was \$4,343,213. 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, 2009, 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, 2009

(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, 2009, 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
U.S. Treasury Bonds and Notes	-	-	-	-	-
Alabama Municipal Bonds	405,687	130,577	275,110	-	-
Corporate Obligations	1,269,223	-	-	1,269,223	-
U.S. Government Agencies	12,616,924	3,974	2,224,118	4,634,996	5,753,836
Totals	14,291,834	134,551	2,499,228	5,904,219	5,753,836

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, 2009

(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, 2009

(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, 2009, the City has a debt service reserve of \$2,598,607.

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, 2009, there were no interest costs required to be capitalized.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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

Accumulated Unpaid Employee Benefits

At September 30, 2009, the General Fund liability amounted to \$2,133,009 and the Enterprise Fund liability amounted to \$554,206. 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, 2009 expenditures over appropriations for governmental funds were \$4,759,597. 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, 2009

NOTE 3 - Capital Assets

Capital asset activity for the year ended September 30, 2009 was as follows:

Primary Government Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets Not Being Depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	2,501,271	1,567,791	(799,580)	3,269,482
Right of ways and easements	-	7,743,986	-	7,743,986
Total Capital Assets Not Being Depreciated	\$ 2,501,271	\$ 9,311,777	\$ (799,580)	\$ 11,013,468
Capital Assets Being Depreciated:				
Autos and trucks	\$ 4,227,598	\$ 376,572	\$ (219,638)	\$ 4,384,532
Furniture and fixtures	305,192	44,610	(728)	349,074
Buildings and improvements	30,156,220	1,007,091	(19,348)	31,143,963
Equipment	4,252,010	352,969	(59,542)	4,545,437
Books	1,812,696	80,711	-	1,893,407
Street and drainage improvements	37,158,450	2,726,852	-	39,885,302
Total Capital Assets Being Depreciated	\$ 77,912,166	\$ 4,588,805	\$ (299,256)	\$ 82,201,715
Less Accumulated Depreciation for:				
Autos and trucks	\$ 2,509,562	\$ 419,800	\$ (205,847)	\$ 2,723,515
Furniture and fixtures	231,596	63,052	(685)	293,963
Buildings and improvements	11,678,486	1,716,186	(16,130)	13,378,542
Equipment	3,026,114	25,781	(57,476)	2,994,419
Books	1,408,477	123,556	-	1,532,033
Street improvements	22,909,756	213,674	-	23,123,430
Total Accumulated Depreciation	41,763,991	2,562,049	(280,138)	44,045,902
Total Capital Assets Being Depreciated, net	36,148,175	2,026,756	(19,118)	38,155,813
Governmental Activities Capital Assets, net	\$ 38,649,446	\$ 11,338,533	\$ (818,698)	\$ 49,169,281

During the year capital assets were contributed to the City. These assets consisted of a federal government building that was valued at \$834,000 and street and sidewalks constructed in a new subdivision valued at \$1,692,568. These are presented as contributed capital on the government wide statement of net assets.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 3 - Capital Assets, Continued

	Beginning Balance	Additions	Reclass/ Reductions	Ending Balance
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	105,829	62,000	-	167,829
Total Capital Assets Not Being Depreciated	\$ 105,829	\$ 62,000	\$ -	\$ 167,829
Capital Assets Being Depreciated:				
Office equipment	\$ 393,517	\$ 251,546	\$ (6,042)	\$ 639,021
Automotive equipment	1,935,914	-	(54,358)	1,881,556
Buildings	2,572,378	-	-	2,572,378
Communication equipment	214,129	16,383	-	230,512
Electric distribution system	19,425,127	86,293	-	19,511,420
Water distribution system	12,016,484	-	-	12,016,484
Sewer distribution system	20,459,846	150,097	-	20,609,943
Total Capital Assets Being Depreciated	\$ 57,017,395	\$ 504,319	\$ (60,400)	\$ 57,461,314
Less Accumulated Depreciation for:				
Office equipment	\$ 287,490	\$ 16,251	\$ (47,455)	\$ 256,286
Automotive equipment	1,036,209	168,613	86,990	1,291,812
Buildings	775,773	57,035	(90,237)	742,571
Communication equipment	205,944	6,021	(9,401)	202,564
Electric distribution system	8,439,709	461,331	-	8,901,040
Water distribution system	6,026,171	267,598	-	6,293,769
Sewer distribution system	11,461,877	506,888	-	11,968,765
Total Accumulated Depreciation	28,233,173	1,483,737	(60,103)	29,656,807
Total Capital Assets Being Depreciated, net	28,784,222	(979,418)	(297)	27,804,507
Business-type Activities Capital Assets, net	\$ 28,890,051	\$ (917,418)	\$ (297)	\$ 27,972,336

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

Governmental Activities:	
General Government - Executive	\$ 438,691
Police and Fire	382,011
Grounds, Public Works, and Recycling	843,215
Seniors and Nutrition	44,491
Library and Recreation	807,890
Public Transportation	28,081
Municipal Courts	3,590
Other Programs	14,080
Total Depreciation Expense - Governmental Activities	\$ 2,562,049
Business-type Activities:	
Utility systems and equipment	\$ 1,483,737
Total Depreciation Expense - Business-type Activities	\$ 1,483,737
Total Depreciation Expense	\$ 4,045,786

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 6,108,940	\$ 2,112,187
Permanent Fund	-	692,564
Capital Improvements	334,946	
Library	551,616	
Recreation	1,157,015	
Public Transportation	35,397	
Municipal Court	33,329	80,073
<u>Proprietary Funds:</u>		
Water, Electric and Sewer	-	5,336,419
Total Transfers	<u>\$ 8,221,243</u>	<u>\$ 8,221,243</u>

NOTE 5 - Long-Term Debt

Long-term liability activity for the year ended September 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General obligation bonds	\$ 14,675,000	\$ -	\$ 725,000	\$ 13,950,000	\$ 755,000
General obligation notes payable	588,280	433,128	240,889	780,519	438,941
	<u>15,263,280</u>	<u>433,128</u>	<u>965,889</u>	<u>14,730,519</u>	<u>1,193,941</u>
Less: Deferred loss on refunding	112,130	-	30,085	82,045	-
Bond discount	257,412	-	34,932	222,480	-
Total Bonds and Notes Payable	<u>14,893,738</u>	<u>433,128</u>	<u>900,872</u>	<u>14,425,994</u>	<u>1,193,941</u>
Other Liabilities:					
Compensated absences	1,617,325	515,684	-	2,133,009	-
Long-term Liabilities	<u>\$ 16,511,063</u>	<u>\$ 948,812</u>	<u>\$ 900,872</u>	<u>\$ 16,559,003</u>	<u>\$ 1,193,941</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Bonds and Notes Payable:					
Water, electric and sewer bonds	\$ 15,437,720	\$ -	\$ 1,215,000	\$ 14,222,720	\$ 2,667,720
Plus: Bond premium	13,291	-	2,215	11,076	-
Less: Deferred loss on refunding	83,807	-	17,485	66,322	-
Bond discount	169,575	-	13,465	156,110	-
Total Bonds and Notes Payable	<u>15,197,629</u>	<u>-</u>	<u>1,186,265</u>	<u>14,011,364</u>	<u>2,667,720</u>
Other Liabilities:					
Customer Deposits	568,630	-	36,748	531,882	-
Long-term Liabilities	<u>\$ 15,766,259</u>	<u>\$ -</u>	<u>\$ 1,223,013</u>	<u>\$ 14,543,246</u>	<u>\$ 2,667,720</u>

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 5 - Long-Term Debt, Continued

Bonds payable at September 30, 2009 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%	\$ 1,195,000
\$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%	8,030,000
\$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%	4,725,000

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%	695,000
\$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%	3,735,000
	26,765,000
Plus Unamortized bond premium at September 30, 2009	11,076
Less Unamortized bond discount and deferred loss at September 30, 2009	(526,957)
Net General Obligation and Revenue Bonds	<u>\$ 26,249,119</u>

The annual requirements to amortize all long-term bonded debt outstanding as of September 30, 2009, including interest payments of \$8,900,262 are as follows:

For the Year Ending September 30,	General Obligations			Revenue Obligations		
	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2010	755,000	586,948	1,341,948	1,260,000	517,228	1,777,228
2011	705,000	563,381	1,268,381	1,305,000	473,808	1,778,808
2012	880,000	536,196	1,416,196	1,375,000	416,238	1,791,238
2013	755,000	507,256	1,262,256	1,420,000	359,893	1,779,893
2014	945,000	476,163	1,421,163	810,000	301,143	1,111,143
2015-2019	4,890,000	2,124,929	7,014,929	3,380,000	1,077,360	4,457,360
2020-2024	4,805,000	650,132	5,455,132	3,265,000	298,837	3,563,837
2025-2029	215,000	10,750	225,750	-	-	-
	<u>\$ 13,950,000</u>	<u>\$ 5,455,755</u>	<u>\$ 19,405,755</u>	<u>\$ 12,815,000</u>	<u>\$ 3,444,507</u>	<u>\$ 16,259,507</u>

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 5 - Long-Term Debt, Continued

Notes payable at September 30, 2009 are comprised of the following individual issues:

Primary Government

Governmental Activities:

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	\$ 47,643
Troy Bank & Trust, open Line of Credit of \$1,000,000 due January 2010	250,128
Troy Bank & Trust, due in 48 monthly payments of \$13,279, including interest at a rate of 4.35%, collateralized by equipment	482,750
Total General Fund	<u>\$ 780,521</u>

The annual requirements to amortize all long-term note debt outstanding as of September 30, 2009, including interest payments of \$36,176 are as follows:

Maturing September 30,	Principal	Interest	Payments
2010	438,943	18,602	457,545
2011	147,435	11,915	159,350
2012	153,977	5,372	159,349
2013	39,550	287	39,837
	<u>\$ 779,905</u>	<u>\$ 36,176</u>	<u>\$ 816,081</u>

Other Long-Term Debt Related:

Revenue Obligations - There is \$587,983 on deposit in bond and interest redemption accounts and \$1,807,944 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 \$202,679 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 - Customers' Deposits - Proprietary Fund

No restricted bank account is maintained to hold customers' deposits. The deposits at September 30, 2009, which total \$531,882, are included in the operating cash and constitute a portion of the current assets shown in these statements.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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, 2009. This amount is not included in these statements because the eventual redemption of these capital credits is unknown. The City accumulated these patronage capital credits by purchasing electricity from the South Alabama Electric Cooperative. The City began purchasing power from the South Alabama Electric Cooperative in 1965.

NOTE 8 - Risk Management

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

NOTE 9 - Litigation

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

NOTE 10 - Commitments

As of October 1, 2009, the City is obligated under an agreement with Troy State University to provide a debt service payment of \$325,000 on their behalf, on June 1, 2010.

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, 2009, the City's commitment is \$55,000 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 \$450,000 for Pike County Economic Development Corporation.

NOTE 11 - Property Taxes

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

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

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

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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 2009 the City's annual pension cost of \$1,313,513 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2008 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)
9/30/2006	\$ 967,226	100%	\$ -
9/30/2007	\$ 1,087,820	100%	\$ -
9/30/2008	\$ 1,185,806	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)
9/30/2006	\$ 26,025,017	\$ 37,491,928	\$ 11,466,911	69.40%	\$ 8,973,474	127.80%
9/30/2007	\$ 27,816,463	\$ 39,789,372	\$ 11,972,909	69.90%	\$ 8,977,326	133.40%
9/30/2008	\$ 28,502,786	\$ 41,844,377	\$ 13,341,591	68.10%	\$ 9,502,454	140.40%

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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	\$ 980
Revenue and maintenance accounts	1,203,864
Reserved for principal and interest redemption	587,993
Reserved for debt service	1,807,944
Reserved for capital projects	<u>439,509</u>
Total Proprietary Fund Cash and Equivalents	<u>\$ 4,040,290</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 and estimated the accumulated depreciation on those assets resulting in an increase of \$11,485,813 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 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 \$10,500,000 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. It is expected that the Authority will be a component unit for financial reporting purposes.

In November of 2009 the City agreed to borrow \$5.5M to fund the remodeling of a building as an economic incentive package to a relocating business under terms to repay the debt upon its' completion.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF TROY, ALABAMA
BUDGET TO ACTUAL COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	2009			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes	\$ 8,736,000	\$ 8,736,000	\$ 8,525,938	\$ (210,062)
Charges for services	945,000	945,000	999,995	54,995
Licenses and permits	710,000	710,000	603,688	(106,312)
Fines and costs	-	-	-	-
Operating and capital grants	-	-	1,387,123	1,387,123
Other	242,000	242,000	968,384	726,384
Total Revenues	10,633,000	10,633,000	12,485,128	1,852,128
Expenditures:				
General Government - Executive	2,066,799	2,066,799	2,561,341	(494,542)
Police and Fire	6,302,250	6,302,250	6,086,931	215,319
Grounds, Public Works, and Recycling	2,954,968	2,954,968	2,698,199	256,769
Seniors and Nutrition	315,491	315,491	338,061	(22,570)
Library and Recreation	-	-	-	-
Public Transportation	-	-	-	-
Municipal Courts	-	-	-	-
Other Programs	90,000	90,000	115,126	(25,126)
Debt Service	1,983,000	1,983,000	1,876,055	106,945
Capital Outlay	500,000	500,000	3,292,912	(2,792,912)
Total Expenditures	14,212,508	14,212,508	16,968,625	(2,756,117)
Excess (Deficiency) of Revenues Over Expenditures	(3,579,508)	(3,579,508)	(4,483,497)	(903,989)
Other Financing Sources (Uses):				
Proceeds from debt	-	-	433,000	433,000
Proceeds from sale of assets	-	-	562,088	562,088
Operating transfers in	4,307,759	4,307,759	6,108,940	1,801,181
Operating transfers out	(173,800)	(173,800)	(2,112,187)	(1,938,387)
Total Other Financing Sources (Uses)	4,133,959	4,133,959	4,991,841	857,882
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	554,451	554,451	508,344	(46,107)
Fund Balance - Beginning of Year	1,845,032	1,845,032	1,845,032	-
Fund Balance - End of Year	\$ 2,399,483	\$ 2,399,483	\$ 2,353,376	\$ (46,107)

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CITY OF TROY, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2009

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, 2009, which collectively comprise the City of Troy, Alabama's basic financial statements and have issued our report thereon dated May 26, 2010. 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Troy, Alabama's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Troy, Alabama's financial statements that is more than inconsequential will not be prevented or detected by the City of Troy, Alabama's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Troy, Alabama's internal control.

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

Compliance and Other Matters

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

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

May 26, 2010