

CITY OF TROY, NEW YORK

**Financial Statements – Statutory Basis
as of and for December 31, 2010
and Required Reports
under OMB Circular A-133
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 29, 2011

To the City Council of
City of Troy, New York:

We have audited the accompanying balance sheet – all fund types and account groups – statutory basis of the City of Troy, New York, as of December 31, 2010, and the statements of revenues, expenditures and changes in fund balance – all governmental fund types and trust funds – statutory basis and revenues, expenditures and changes in fund balance – budget and actual – general, water and sewer funds- statutory basis for the year then ended. These financial statements are the responsibility of the City of Troy, New York's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

As more fully described in Note A to the financial statements, the City prepared its financial statements using statutory accounting practices prescribed by the New York State Office of the State Comptroller for reporting to that office, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects of the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not readily determinable, are presumed to be material.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Troy, New York as of December 31, 2010, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Water Fund, and Sewer Fund thereof for the year then ended on the basis of accounting described in Note A.

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(Continued)

INDEPENDENT AUDITORS' REPORT (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011, on our consideration of the City of Troy, New York'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 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.

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

This report is intended solely for the information and use of the Mayor, members of the City Council, management, the New York State Office of the Comptroller and various Federal and New York State funding sources and is not intended to be and should not be used by anyone other than these specified parties.

City of Troy, New York

BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS - STATUTORY BASIS
December 31, 2010

| | Governmental Funds | | | | | | Fiduciary | Account Groups | | |
|---|-----------------------|---------------------|---------------------|-------------------|---------------------|-----------------------|-----------------------|----------------------|---------------------------------|--------------------------------------|
| | Special Revenue Funds | | | | | | Fund Types | | | |
| | General Fund | Special Grant Fund | Water Fund | Sewer Fund | Debt Service Fund | Capital Projects Fund | Trust and Agency Fund | Combined | Non-current Governmental Assets | Non-current Governmental Liabilities |
| | | | | | | | Total | | | |
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$ 8,813,252 | \$ 1,733,467 | \$ 4,260,262 | \$ 350,020 | \$ 63,688 | \$ 473,539 | \$ 443,808 | \$ 16,138,036 | \$ - | \$ - |
| Cash with fiscal agent | 8,729,401 | - | - | - | 3,158,315 | 2,500 | - | 11,890,216 | - | - |
| Due from other governments | 4,456,863 | 707,530 | 2,051,378 | - | - | 2,715,391 | - | 9,931,162 | - | - |
| Taxes receivable, net | 9,280,385 | - | - | - | - | - | - | 9,280,385 | - | - |
| Other receivables | 1,874,295 | 231,128 | 1,174,034 | 484,358 | - | - | - | 3,763,815 | - | - |
| Due from other funds | 519,772 | 141,345 | 2,096,269 | - | 6,834 | 69,959 | 57,626 | 2,891,805 | - | - |
| Prepaid and other assets | 78,635 | - | - | - | - | - | 36,339 | 114,974 | - | - |
| Amounts to be provided for retirement of long-term debt | - | - | - | - | - | - | - | - | - | 90,885,912 |
| Fixed Assets | - | - | - | - | - | - | - | - | 213,538,548 | - |
| Total assets | \$ 33,752,603 | \$ 2,813,470 | \$ 9,581,943 | \$ 834,378 | \$ 3,228,837 | \$ 3,261,389 | \$ 537,773 | \$ 54,010,393 | \$ 213,538,548 | \$ 90,885,912 |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | |
| LIABILITIES: | | | | | | | | | | |
| Accounts payable | \$ 1,247,634 | \$ 297,451 | \$ 168,749 | \$ 72,386 | \$ - | \$ 595,404 | \$ 437,772 | \$ 2,819,396 | \$ - | \$ - |
| Accrued liabilities | 798,547 | - | 115,216 | 34,231 | - | - | - | 947,994 | - | - |
| Other liabilities | 286,871 | - | - | - | - | - | - | 286,871 | - | 3,168,517 |
| Due to other governments | 6,738,393 | 87,000 | - | - | - | - | - | 6,825,393 | - | 5,897,728 |
| Due to other funds | 2,185,585 | 578,733 | - | 2,001 | - | 25,487 | 100,001 | 2,891,807 | - | - |
| Bonds payable | - | - | 41,365 | - | - | - | - | 41,365 | - | 8,375,294 |
| Repayment agreements | - | - | - | - | - | - | - | - | - | 52,798,667 |
| Deferred revenues | 6,310,313 | 808,548 | 387,423 | - | - | 1,358,785 | - | 8,865,069 | - | - |
| Other post employment benefits | - | - | - | - | - | - | - | - | - | 20,645,706 |
| Investment in general fixed assets | - | - | - | - | - | - | - | - | 213,538,548 | - |
| Total liabilities | 17,567,343 | 1,771,732 | 712,753 | 108,618 | - | 1,979,676 | 537,773 | 22,677,895 | 213,538,548 | 90,885,912 |
| FUND BALANCES: | | | | | | | | | | |
| Reserved - | | | | | | | | | | |
| Encumbrances | 632,144 | 482,188 | 325,581 | 810,443 | - | 2,894,513 | - | 5,144,869 | - | - |
| Special reserves | 6,209,445 | - | - | - | - | - | - | 6,209,445 | - | - |
| Debt service reserve | 8,026,408 | - | - | - | 3,228,837 | - | - | 11,255,245 | - | - |
| Total reserved fund balance | 14,867,997 | 482,188 | 325,581 | 810,443 | 3,228,837 | 2,894,513 | - | 22,609,559 | - | - |
| Unreserved - unappropriated | 1,317,263 | 559,550 | 8,543,609 | (84,683) | - | (1,612,800) | - | 8,722,939 | - | - |
| Total fund balances | 16,185,260 | 1,041,738 | 8,869,190 | 725,760 | 3,228,837 | 1,281,713 | - | 31,332,498 | - | - |
| Total liabilities and fund balances | \$ 33,752,603 | \$ 2,813,470 | \$ 9,581,943 | \$ 834,378 | \$ 3,228,837 | \$ 3,261,389 | \$ 537,773 | \$ 54,010,393 | \$ 213,538,548 | \$ 90,885,912 |

The accompanying notes are an integral part of these statements.

City of Troy, New York

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND TYPES - STATUTORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | Governmental Fund Types | | | | | | Total |
|--|-------------------------|--------------------|--------------------|------------------|--------------------|-----------------------|---------------------|
| | General Fund | Special Grant Fund | Water Fund | Sewer Fund | Debt Service Fund | Capital Projects Fund | |
| REVENUES: | | | | | | | |
| Real property taxes and tax items | \$20,221,530 | \$ - | \$ - | \$ - | \$ - | \$ - | \$20,221,530 |
| Nonproperty tax items | 14,608,236 | - | - | - | - | - | 14,608,236 |
| Departmental income | 4,796,471 | 331,364 | 10,600,082 | 2,307,731 | - | - | 18,035,648 |
| Intergovernmental charges | 400,088 | - | 29,484 | - | - | - | 429,572 |
| Use of money and property | 125,810 | - | 331,942 | 1,922 | 191,936 | 2,796 | 654,406 |
| Licenses and permits | 477,493 | - | 12,200 | - | - | - | 489,693 |
| Fines and forfeitures | 1,353,883 | 72,758 | - | - | - | - | 1,426,641 |
| Interfund revenue | 1,717,245 | - | 327,000 | - | - | - | 2,044,245 |
| Sale of property and compensation for loss | 3,157,273 | - | 98,389 | - | - | - | 3,255,662 |
| Miscellaneous | 644,088 | - | 10,672 | 17,288 | - | 29,326 | 701,374 |
| State aid | 13,980,011 | 490,365 | - | - | - | 1,798,210 | 16,268,586 |
| Federal aid | 1,564,040 | 2,914,742 | - | - | - | 5,848,600 | 10,327,382 |
| Total revenues | 63,046,168 | 3,809,229 | 11,409,769 | 2,326,941 | 191,936 | 7,678,932 | 88,462,975 |
| EXPENDITURES: | | | | | | | |
| General governmental support | 8,342,594 | - | 380,283 | - | 255,539 | - | 8,978,416 |
| Public safety | 31,098,433 | - | - | - | - | - | 31,098,433 |
| Public health | 142,887 | - | - | - | - | - | 142,887 |
| Transportation | 3,494,388 | - | - | - | - | - | 3,494,388 |
| Culture and recreation | 2,230,466 | - | - | - | - | - | 2,230,466 |
| Home and community services | 4,290,636 | 3,533,362 | 8,578,032 | 1,998,227 | - | - | 18,400,257 |
| Employee benefits | 4,141,373 | - | - | - | - | - | 4,141,373 |
| CAPITAL EXPENDITURES: | | | | | | | |
| General governmental support | 72,433 | - | 292,599 | - | - | 350,000 | 715,032 |
| Public safety | 674,715 | - | - | - | - | 124,778 | 799,493 |
| Transportation | 333,871 | - | - | - | - | 6,369,132 | 6,703,003 |
| Economic assistance and opportunity | - | - | - | - | - | 181,459 | 181,459 |
| Culture and recreation | - | - | - | - | - | 986,230 | 986,230 |
| Home and community services | - | - | - | - | - | 1,674,995 | 1,674,995 |
| DEBT SERVICE: | | | | | | | |
| Principal | 4,118,984 | - | 283,241 | 40,760 | 2,685,000 | - | 7,127,985 |
| Interest | 2,575,804 | - | 213,613 | 33,218 | - | - | 2,822,635 |
| Total expenditures | 61,516,584 | 3,533,362 | 9,747,768 | 2,072,205 | 2,940,539 | 9,686,594 | 89,497,052 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 1,529,584 | 275,867 | 1,662,001 | 254,736 | (2,748,603) | (2,007,662) | (1,034,077) |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Bond anticipation note redeemed from appropriations | - | - | - | - | - | 225,000 | 225,000 |
| Proceeds from issuance of long term debt | - | - | - | - | 18,305,000 | 1,000,000 | 19,305,000 |
| Bond Premium | - | - | - | - | 640,444 | - | 640,444 |
| Payment to refunding bond escrow agent | - | - | - | - | (16,422,772) | - | (16,422,772) |
| Operating transfers - in | 1,671,921 | 24,751 | 67,165 | - | 403,716 | 1,435,353 | 3,602,906 |
| Operating transfers - out | (1,930,985) | - | (1,472,000) | - | (199,921) | - | (3,602,906) |
| Total other financing sources and uses | (259,064) | 24,751 | (1,404,835) | - | 2,726,467 | 2,660,353 | 3,747,672 |
| CHANGE IN FUND BALANCE | 1,270,520 | 300,618 | 257,166 | 254,736 | (22,136) | 652,691 | 2,713,595 |
| FUND BALANCE - beginning of year | 14,914,740 | 741,120 | 8,612,024 | 471,024 | 3,250,973 | 629,022 | 28,618,903 |
| FUND BALANCE - end of year | \$16,185,260 | \$1,041,738 | \$8,869,190 | \$725,760 | \$3,228,837 | \$1,281,713 | \$31,332,498 |

The accompanying notes are an integral part of these statements.

CITY OF TROY, NEW YORK

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
 STATUTORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | <i>Original Budget</i> | <i>Final Budget</i> | <i>Actual (Budgetary Basis)</i> | <i>Encumbrances</i> | <i>Final Budget Variance with Budgetary Actual</i> |
|---|----------------------------|-------------------------|-------------------------------------|---------------------|--|
| REVENUE: | | | | | |
| Real property taxes and tax items | \$ 19,952,606 | \$ 19,952,606 | \$ 20,221,530 | \$ - | \$ 268,924 |
| Nonproperty tax items | 14,610,000 | 14,610,000 | 14,608,236 | - | (1,764) |
| Departmental income | 4,592,000 | 4,600,250 | 4,796,471 | - | 196,221 |
| Intergovernmental charges | 331,432 | 386,992 | 400,088 | - | 13,096 |
| Miscellaneous local sources | 375,000 | 376,100 | 644,088 | - | 267,988 |
| Use of money and property | 535,000 | 535,000 | 125,810 | - | (409,190) |
| Licenses and permits | 714,000 | 714,000 | 477,493 | - | (236,507) |
| Fines and forfeitures | 1,027,000 | 1,052,000 | 1,353,883 | - | 301,883 |
| Sale of property and compensation for loss | 525,000 | 538,600 | 3,157,273 | - | 2,618,673 |
| Interfund activity | 2,186,541 | 2,186,541 | 1,717,245 | - | (469,296) |
| State aid | 14,852,618 | 15,137,118 | 13,980,011 | - | (1,157,107) |
| Federal aid | 535,607 | 869,309 | 1,564,040 | - | 694,731 |
| Total revenue | 60,236,804 | 60,958,516 | 63,046,168 | - | 2,087,652 |
| EXPENDITURES: | | | | | |
| General governmental support | \$ 9,071,454 | \$ 9,112,503 | \$ 8,415,027 | \$ 127,171 | \$ 570,305 |
| Public safety | 31,855,539 | 32,700,684 | 31,773,148 | 119,827 | 807,709 |
| Public Health | 142,982 | 142,982 | 142,887 | - | 95 |
| Transportation | 3,721,717 | 3,914,321 | 3,828,259 | 80,356 | 5,706 |
| Culture and recreation | 2,192,141 | 2,242,217 | 2,230,466 | 4,291 | 7,460 |
| Home and community services | 4,534,173 | 4,914,102 | 4,290,636 | 300,499 | 322,967 |
| Employee benefits | 4,627,872 | 4,627,872 | 4,141,373 | - | 486,499 |
| Debt service - principal | 4,118,984 | 4,118,984 | 4,118,984 | - | - |
| Debt service - interest | 2,597,207 | 2,597,207 | 2,575,804 | - | 21,403 |
| Total expenditures | 62,862,069 | 64,370,872 | 61,516,584 | 632,144 | 2,222,144 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Appropriated fund balance | 1,128,265 | 3,415,356 | - | - | (3,415,356) |
| Operating transfers in | 1,497,000 | 1,497,000 | 1,671,921 | - | 174,921 |
| Operating transfers out | - | (1,500,000) | (1,930,985) | - | (430,985) |
| Total other financing sources (uses) | 2,625,265 | 3,412,356 | (259,064) | - | (3,671,420) |
| NET CHANGE IN FUND BALANCES | - | - | 1,270,520 | (632,144) | 638,376 |
| FUND BALANCE - beginning of year | 14,914,740 | 14,914,740 | 14,914,740 | - | - |
| FUND BALANCE - end of year | \$ 14,914,740 | \$ 14,914,740 | \$ 16,185,260 | \$ (632,144) | \$ 638,376 |

The accompanying notes are an integral part of these statements.

CITY OF TROY, NEW YORK

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - WATER FUND
 STATUTORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <i>Original Budget</i> | <i>Final Budget</i> | <i>Actual (Budgetary Basis)</i> | <i>Encumbrances</i> | <i>Final Budget Variance with Budgetary Actual</i> |
|---|----------------------------|-------------------------|-------------------------------------|---------------------|--|
| REVENUE: | | | | | |
| Use of money and property | \$ 235,000 | \$ 235,000 | \$ 331,942 | \$ - | \$ 96,942 |
| Intergovernmental charges | 30,000 | 30,000 | 29,484 | - | (516) |
| Departmental income | 10,871,000 | 10,871,000 | 10,600,082 | - | (270,918) |
| Licenses and permits | 13,000 | 13,000 | 12,200 | - | (800) |
| Fines and forfeitures | 500 | 500 | - | - | (500) |
| Sale of property and compensation for loss | 120,500 | 120,500 | 98,389 | - | (22,111) |
| Interfund activity | 327,000 | 327,000 | 327,000 | - | - |
| Miscellaneous local sources | 8,242 | 8,242 | 10,672 | - | 2,430 |
| Federal aid | - | 450,000 | - | - | (450,000) |
| Total revenue | <u>11,605,242</u> | <u>12,055,242</u> | <u>11,409,769</u> | <u>-</u> | <u>(645,473)</u> |
| EXPENDITURES: | | | | | |
| General governmental support | \$ 466,596 | \$ 488,901 | \$ 672,882 | \$ 805 | \$ (184,786) |
| Home and community services | 9,169,792 | 9,920,197 | 8,578,032 | 324,776 | 1,017,389 |
| Debt service - principal | 283,241 | 283,241 | 283,241 | - | - |
| Debt service - interest | 213,613 | 213,613 | 213,613 | - | - |
| Total expenditures | <u>10,133,242</u> | <u>10,905,952</u> | <u>9,747,768</u> | <u>325,581</u> | <u>832,603</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Appropriated fund balance | - | 322,710 | - | - | 322,710 |
| Operating transfers in | - | - | 67,165 | - | (67,165) |
| Operating transfers out | (1,472,000) | (1,472,000) | (1,472,000) | - | - |
| Total other financing sources (uses) | <u>(1,472,000)</u> | <u>(1,149,290)</u> | <u>(1,404,835)</u> | <u>-</u> | <u>255,545</u> |
| NET CHANGE IN FUND BALANCES | - | - | 257,166 | (325,581) | 442,675 |
| FUND BALANCE - beginning of year | <u>8,612,024</u> | <u>8,612,024</u> | <u>8,612,024</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE - end of year | <u>\$ 8,612,024</u> | <u>\$ 8,612,024</u> | <u>\$ 8,869,190</u> | <u>\$ (325,581)</u> | <u>\$ 442,675</u> |

The accompanying notes are an integral part of these statements.

CITY OF TROY, NEW YORK

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SEWER FUND
 STATUTORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <i>Original Budget</i> | <i>Final Budget</i> | <i>Actual (Budgetary Basis)</i> | <i>Encumbrances</i> | <i>Final Budget Variance with Budgetary Actual</i> |
|--|----------------------------|-------------------------|-------------------------------------|---------------------|--|
| REVENUE: | | | | | |
| Departmental income | \$ 2,586,808 | \$ 2,586,808 | \$ 2,307,731 | \$ - | \$ 279,077 |
| Use of money and property | 18,500 | 18,500 | 1,922 | - | 16,578 |
| Miscellaneous local sources | 10,200 | 10,200 | 17,288 | - | (7,088) |
| Interfund activity | <u>100</u> | <u>100</u> | <u>-</u> | <u>-</u> | <u>100</u> |
| Total revenue | <u>2,615,608</u> | <u>2,615,608</u> | <u>2,326,941</u> | <u>-</u> | <u>288,667</u> |
| EXPENDITURES: | | | | | |
| Home and community services | \$ 2,541,630 | \$ 3,018,195 | \$ 1,998,227 | \$ 810,443 | \$ 209,525 |
| Debt service - principal | 40,760 | 40,760 | 40,760 | - | - |
| Debt service - interest | <u>33,218</u> | <u>33,218</u> | <u>33,218</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>2,615,608</u> | <u>3,092,173</u> | <u>2,072,205</u> | <u>810,443</u> | <u>209,525</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Appropriated fund balance | - | 476,565 | - | - | 476,565 |
| NET CHANGE IN FUND BALANCES | - | - | 254,736 | (810,443) | 555,707 |
| FUND BALANCE - beginning of year | <u>471,024</u> | <u>471,024</u> | <u>471,024</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE - end of year | <u>\$ 471,024</u> | <u>\$ 471,024</u> | <u>\$ 725,760</u> | <u>\$ -</u> | <u>\$ 555,707</u> |

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Troy, New York (City) has elected to prepare its financial statements on the statutory basis required by the New York State Office of the State Comptroller for annual reports to that office. This statutory basis is an other comprehensive basis which varies from accounting principles generally accepted in the United States of America (GAAP) primarily in accounting for governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The statutory basis under the New York State Office of the Comptroller, uses the modified accrual basis of accounting for governmental funds and fiduciary funds; accrual basis accounting is used for the account groups. This basis differs from GAAP primarily in that no government wide financial statements are prepared, nor is a Management's Discussion and Analysis prepared.

Use of Estimates

In preparing the financial statements in conformity with the accounting principles described above, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows.

1. Financial Reporting Entity

The City was established during 1789 within the County of Rensselaer (County); was incorporated during 1816; and is governed by its Charter, the General City Law, other general laws of the State of New York, and various local laws. The Mayor is responsible for overall operations and serves as Chief Executive Officer. The City Comptroller serves as Chief Fiscal Officer. All legislative power of the City is vested in the City Council, whose powers are specified in Section 2.08 of the City Charter.

The City provides several services, including general government support, police and fire protection, refuse and garbage collection, water and sewer service, and recreation services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to influence operations significantly, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used in evaluating potential component units is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. Financial Reporting Entity - Continued

Based on the application of these criteria, a brief review of each potential component unit addressed in defining the City's reporting entity follows:

Excluded From the Reporting Entity

Although the following organizations, functions, or activities are related to the City, they are not included in the City reporting entity for the reasons noted:

Municipal Assistance Corporation for the City of Troy

The Municipal Assistance Corporation for the City of Troy (MAC) was created during 1995 under the provisions of Section 3053 of the Financial Control Act (see Note I). The MAC is an authority of the State of New York. The members of the authority have complete responsibility for managing the MAC and are not presumed to be a component unit of the City. The enabling legislation creating the MAC was amended June 29, 1995, with an effective date of July 19, 1995, and was again amended August 5, 1996.

City of Troy Supervisory Board

Per the provision of Chapter 721 of the Laws of 1994 as amended by Chapters 187 and 188 of the Laws of 1995 and Chapters 444 and 445 of the Laws of 1996 (see Note I), the State Legislature created the City of Troy Supervisory Board. Per the legislation, the City is to establish a general debt service fund to be overseen by the New York State Office of the State Comptroller. The City does not have any oversight responsibility over the Supervisory Board.

Troy Industrial Development Authority

The Troy Industrial Development Authority (IDA) is a Public Benefit Corporation created by the State Legislature to promote the economic welfare, recreation opportunities, and prosperity of City inhabitants. Members of the IDA are appointed by the Mayor and confirmed by the City Council, but the City exercises no oversight responsibility. IDA members have complete responsibility for management of the IDA and accountability for fiscal matters. The City is not liable for IDA bonds or notes.

Troy Local Development Corporation

The Troy Local Development Corporation (LDC) was incorporated in the State of New York in November 1988. The LDC's primary purpose is to maintain and develop the economic climate of the City through the promotion of employment and attraction of new businesses. Effective for the year ended December 31, 2008, the LDC is required to have an annual independent audit completed of their financial statements.

The LDC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is classified as a private foundation under Sections 507(d) and 4940 of the Internal Revenue Code and qualifies for the charitable contribution deduction for individual donors.

Troy Capital Resource Corporation (CRC)

The Troy Capital Resource Corporation was established pursuant to Article 8, Title 11 of the Public Authorities Law of the State of New York, as a public benefit corporation of the State with purposes as set forth within the Act.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. Financial Reporting Entity - Continued

Excluded From the Reporting Entity - Continued

Members of the CRC are appointed by the Mayor and confirmed by the City Council, but the City exercises no oversight responsibility. CRC members have complete responsibility for management of the CRC and accountability for fiscal matters. The City is not liable for CRC bonds or notes.

Troy City and Lansingburgh Central School Districts

The Troy City and Lansingburgh Central School Districts (School Districts) were created by State legislation, which designated the School Boards as the governing authorities. School Board members are elected by the qualified voters of the School Districts. The Boards designate management and exercise complete responsibility for all fiscal matters. The City Council exercises no oversight over the School Districts' operations.

Troy Housing Authority

The Troy Housing Authority (Authority) was created during 1957 by the State Legislature. The governing board of the Authority is appointed by the Chief Executive Officer of the City. The City provides no subsidy to the Authority nor is it responsible for debt or operating deficits of the Authority. The Authority's debt is essentially supported by operating revenues of the Authority and is not guaranteed by the City. The City does not appoint management of the Authority nor does it approve the Authority's budget, contracts, or hiring of staff. The City has no oversight responsibility for funds of the Authority.

2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on the modified accrual basis using a current financial resources focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, governmental fund revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably determined, and "available" means the related cash resources are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes available if they are collected within 60 days after year-end. Property taxes determined to be collectible after the 60-day period are recorded as deferred revenues. The City uses a 120-day availability period for other significant governmental revenue sources. In addition to property taxes, governmental revenues susceptible to accrual include sales tax, state and federal aid, and certain other significant revenues. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received. For state and federal grants, if reimbursement of expenditures is the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation* - Continued
The City also reports deferred revenue for certain revenues other than property taxes. Deferred revenues arise when potential revenue does not meet both of the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combining balance sheet and revenue is recognized.

Governmental fund expenditures are recorded when the fund liability is incurred except that:

- Payment of prepaid expenses and purchase of inventory type items are recorded as expenditures when the related amounts are due and payable. This method is generally referred to as the “purchase” method, as opposed to the “consumption” method used in the government-wide financial statements.
- Principal and interest on indebtedness are recorded as expenditures when the related debt service amounts are due and payable, which normally approximates the date the debt is paid.
- Compensated absences, such as vacation leave and compensation time, which vest or accumulate with eligible employees, are recorded as expenditures in the payroll period that the leave credits are used by employees.
- Current pension costs payable to the New York State Retirement Systems are recorded as expenditures when billed by the Systems.
- Costs of acquiring fixed assets are recorded as expenditures when the related acquisition amounts are due and payable.

3. *Fund Accounting*

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The activities of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. The City’s fund types and account groups are as follows:

Fund Types

Governmental Funds are those through which most governmental functions are financed. The acquisition, use, and balances of expendable financial resources, and the related liabilities are accounted for through governmental funds. The City’s governmental fund types are as follows:

- a. General Fund is the principal operating fund of the City and accounts for the general tax revenues, miscellaneous receipts not allocated by law or contractual agreement to another fund, risk retention operations, and general operating expenditures. This fund operates within the financial limits of an annual budget adopted by the City Council.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Fund Accounting* – Continued

- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the City include the following:

Special Grant Fund is used principally to account for the use of federal monies received under Community Development and other Department of Housing and Urban Development Funds.

Water Fund is used to report operations of the City's water treatment and supply facilities that provide drinking water to all City residents, as well as to certain other local communities outside the City's corporate boundaries.

Sewer Fund is used to report operations of the City's wastewater treatment facilities and sanitary sewer system that is provided to all City residents.

- c. Debt Service Fund is used to account for the accumulation of resources reserved for future MAC debt payments. Unexpended balances of proceeds and earnings on proceeds of borrowings for capital projects are transferred from the Capital Projects Fund and held until appropriated.
- d. Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets for governmental activities. Financing is generally provided from proceeds of bonds, notes, federal and state grants, and transfers from other governmental funds.

Fiduciary Funds are used to report resources that are held by the City in a trustee or agency capacity for others and cannot be used to support the City's own programs. Fiduciary funds include pension and other employee benefit trust funds, investment trust funds, private purpose trust funds, and agency funds. The City does not maintain any investment or private purpose trust funds, but does maintain the following Fiduciary Funds:

- a. Agency Funds are used to account for monies and property held by the City as agent for others pending disposition to the applicable parties.

In addition to the various funds, the City maintains schedules of non-current governmental assets and non-current governmental liabilities. Non-current governmental assets include capital assets used in governmental activities, and non-current governmental liabilities include bonds, state loans, and other long-term debt used to finance governmental activities.

4. *Budgets*

The City's procedures for establishing the budgetary data reflected in the accompanying financial statements are as follows:

- a. Not later than October 1, the City Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1.
- b. The operating budget includes proposed expenditures and the means of financing them.
- c. Public hearings are conducted to obtain taxpayer comments.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Budgets - Continued

- d. Not later than December 1, the budget is legally enacted through the passage of a legislative resolution.
- e. Total expenditures for each object may not legally exceed the total appropriations for that object.

Budgetary controls for certain special grants are established in accordance with the applicable grant agreements, which may cover a period other than the City's fiscal year.

The Mayor is authorized to approve all budget transfer requests not exceeding \$500 between the major fund codes within individual departments. Additionally, the Mayor may authorize all budget transfers within major fund codes within individual departments. All other modifications to the budget must be approved by the City Council.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgeting control purposes to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year-end are recorded as reservations of fund balances since the commitments do not constitute expenditures or liabilities. Open encumbrances, after review by the City Council, are added to the subsequent year's budget to provide the modified budget presented in the combining financial statements. Expenditures for such commitments are recorded in the period in which the liability is incurred.

The budget is developed on the basis generally consistent with accounting principles generally accepted in the United States of America. The only significant difference is that the budget treats encumbrances as expenditures, whereas accounting principles generally accepted in the United States of America treat them as reservations of fund balances.

Budgetary controls for the Special Grant Fund are established in accordance with the applicable grant agreements, which cover periods different from the City's fiscal year. The Troy Urban Renewal Agency does not operate on an annual budget due to its limited activity. Accordingly, these funds have not been included in statements comparing budget estimates to actual transactions.

5. Cash and Cash Equivalents

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. City monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and United States agencies, repurchase agreements, and obligations of New York State or its localities.

All deposits shall be fully secured by insurance of the FDIC or by obligations of New York State, or obligations of federal agencies, the principal and interest of which is guaranteed by the United States or obligations of New York State local governments.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Cash and Cash Equivalents (Continued)

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the federal government. Underlying securities shall be valued to market at periodic intervals by the City Comptroller or his/her designee.

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

6. Interfund Transactions

During the course of operations, the City processes several transactions that affect more than one fund and other transactions between the various funds. Interfund services provided and used are accounted for as revenues in the provider funds and expenditures or expenses in the user funds. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Advances or loans from one fund to another are recorded as receivables in the remitting fund and payables in the receiving fund. Other interfund transactions generally represent transfers of resources from one fund to be utilized in another fund and are reported as transfers. Interfund transactions that are unpaid between funds are recorded in the financial statements as due from other funds (receivables) and due to other funds (payables).

7. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the schedule of non-current governmental assets.

Accounting principles under the statutory basis require that all purchased fixed assets be valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Fixed assets are not depreciated nor has interest on construction in progress been capitalized.

8. Compensated Absences

During 2010, accumulated vacation for General, Water, and Sewer Fund personnel totaled \$4,965,026, \$230,306, and \$48,396, respectively. The amounts of vested accumulated vacation leave and compensation time are recorded in the schedule of non-current governmental liabilities in other liabilities. No liability is recorded for nonvesting accumulated rights to receive sick and personal pay benefits.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. *Post-Retirement Benefits*

The City provides health insurance coverage and survivors' benefits for retired employees and their survivors. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. Health care benefits and survivors' benefits are provided through a self-insurance program or insurance company contracts with premiums based on the benefits paid during the year. The City recognizes the cost of providing benefits by recording total costs as expenditures during the year paid. The retirees' premium contributions are reported as revenue received during the year.

During the year, approximately \$4.6 million of pooled funds was paid on behalf of approximately 361 retirees and survivors and recorded as expenditures in the General Fund. During the year, \$123,430 was collected for premiums from these retirees and survivors and recorded as revenue of the General Fund. See Note H for additional disclosures required for retiree postemployment benefits other than pensions.

10. *Fund Balance*

Reserves represent those portions of fund balance not available for appropriation or legally segregated for a future use. Designated fund balances represent tentative plans for future use of financial resources. There were no designated fund balances at December 31, 2010.

Unrestricted fund balance represents fund balance of the City not restricted for any project or other purpose.

The following reserve funds are utilized by the City. Any capital gains or interest earned on reserve fund resources becomes part of the respective reserve fund. While a separate bank account is not necessary for each reserve fund, a separate identity for each reserve fund must be maintained.

Workers' Compensation Reserve

Workers' compensation reserve (GML §6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. The reserve is accounted for in the general fund Miscellaneous Reserve.

Unemployment Insurance Reserve

Unemployment insurance reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the School District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund Miscellaneous Reserve.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Insurance Reserve

Insurance reserve is used to pay liability, casualty, and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value, and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the insurance reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000, or 5%, of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. The reserve is accounted for in the general fund Miscellaneous Reserve.

Reserve for Debt Service

Mandatory reserve for debt service (GML §6-1) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of School District property or capital improvement that was financed by obligations which remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of School District property or capital improvement. The reserve is accounted for in the debt service fund.

Reserve for Encumbrances

Reserve for encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year.

NOTE B - CASH AND CASH EQUIVALENTS

It is the City's policy for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the FDIC insurance. The City's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

Category 1

Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2

Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3

Uncollateralized.

| Bank Pooled Deposits | Category | | | Carrying Amount |
|---|----------------------|-------------|----------------------|----------------------|
| | Balance | <u>1</u> | <u>2</u> | |
| Pooled cash and cash equivalents | \$ 6,119,412 | | \$ 6,119,412 | \$ 5,591,129 |
| <u>Non-Pooled Deposits</u> | | | | |
| Non-Pooled cash and cash equivalents | | | | |
| General Fund | 8,144,393 | | 8,144,393 | 8,144,578 |
| Special Revenue Funds | 1,773,619 | | 1,773,619 | 1,691,818 |
| Capital Projects | 276,353 | | 276,353 | 220,848 |
| Trust and Agency | 431,657 | | 431,657 | 419,974 |
| Debt Service | 63,688 | | 63,688 | 63,688 |
| Petty Cash | 6,000 | - | - | 6,000 |
| | <u>\$ 16,815,122</u> | <u>\$ -</u> | <u>\$ 16,809,122</u> | <u>\$ 16,138,035</u> |

As a provision of certain financing arrangements, certain Capital Projects Fund cash is restricted for related construction purposes. Reserved fund balance includes the excess of assets over certain liabilities reserved according to donor restrictions, reserved for debt service on bonded debt, and reserved for capital projects.

Cash with fiscal agent represents amounts held by the fiscal agent for payment of principal and interest on outstanding obligations held by the MAC in the General and Debt Service Funds.

NOTE C - PROPERTY TAXES

The City's property taxes are levied annually on January 1. The annual City tax levy consists of taxes levied for City purposes based on City budget requirements, County taxes levied within the City for County budget requirements, and relieved unpaid water rents and sewer rents and recycling container charges. Taxes are due and payable in bi-annual installments on January 1 and July 1. Taxes become delinquent on February 1 and August 1. On November 1, unpaid City and County taxes are enforced through tax liens. Effective January 1, 1995, the City adopted a foreclosure process in accordance with Article 11 of the Real Property Tax Law, as amended by Chapter 602 of the Laws of 1993 and Chapter 532 of the Laws of 1994, whereby unpaid property taxes are allowed to be processed through In-Rem and formal foreclosure proceedings.

The City has established a \$485,000 allowance for doubtful accounts based on collection history and a review of accounts by management.

In addition to the City tax levy, the City is responsible for collecting the School Districts' taxes levied on property within the City that has been certified as being uncollectible by School District authorities.

The School Districts are paid annually by the City for their portion of school taxes which are more than two years old. The General Fund annually reimburses the Water and Sewer Special Revenue Funds in full for uncollected rents. The City only reimburses the County for taxes collected. In the event the City sells any property it has acquired as a result of the nonpayment of taxes in accordance with the Charter of the City, the City will share with the County all losses and gains proportionately to the liens outstanding.

Also, on the 21st day of May 2009, the New York State Legislature amended chapter 672 of the laws of 1993, amending the Public Authorities Law relating to the construction and financing of facilities for certain public libraries including the Troy public Library within the provisions of the chapter. In addition, pursuant to said amendment, taxes voted on and approved for the support of the library shall be levied in the calendar year directly preceding the Library's fiscal year and shall be included in the tax bills issued during December of the calendar year preceding the fiscal year. The City of Troy implemented the provisions of the amendment as forth in Legislative Bill A-11189 and began collecting library taxes in January 2010 for the 2010 fiscal year. The City has agreed to certify and pay to the Troy Public Library, all library taxes collected by the City of Troy on a monthly basis commencing with January 2010 collections 45 days after the first of every month.

On July 9, 2009 per Article 19-A of New York State Consolidated General Municipal Law the Troy City Council passed Local Law No. 3 approving the establishment of the Business Improvement District (BID). The Act became effective after compliance with Section 980 (g) of the General Municipal Law.

The BID Assessment rate of 5% multiplied by the City taxes is permanently capped and cannot be changed or modified. The City of Troy implemented the provisions set forth and began collecting the BID taxes in January, 2011 for the 2011 fiscal year. As with the Library tax, the City has agreed to certify and pay to the Business Improvement District all BID taxes collected by the City on a monthly basis commencing with the January 2011 collections.

NOTE C - PROPERTY TAXES (Continued)

As described above, City taxes receivable consist in part of direct City tax revenues and in part of taxes levied for the purposes of other local governments over which the City exercises no fiscal control. Since the City must ultimately “buy” the other governments’ and funds’ interest in taxes receivable, a sufficient amount is included in deferred tax revenue to assure the cash position needed to pay the other governments and funds. This deferred tax revenue does not include uncollected County and Troy Public Library taxes.

Taxes are calculated using assessments prepared by the City Assessor as adjusted by the New York State Board of Equalization and Assessment for the purpose of comparability. The taxable assessed value of real property included in the levy of 2010 is approximately \$251.1 million. The effective tax rate on this value is approximately \$72.80 per thousand. The statutory maximum tax rate is 2% of the five-year average of the equalized assessment. The 2010 levy represents approximately 46% of the maximum statutory levy.

NOTE D - FIXED ASSETS

The following schedule identifies changes in the City’s fixed assets for the year ended December 31, 2010:

| | January 1, 2010 <u>Balance</u> | <u>Additions</u> | <u>Deletions</u> | December 31, 2010 <u>Balance</u> |
|--|-----------------------------------|---------------------|---------------------|-------------------------------------|
| Governmental activities: | | | | |
| Capital assets that are not depreciated: | | | | |
| Land | \$ 1,313,405 | \$ - | \$ - | \$ 1,313,405 |
| Buildings and land improvements | 50,272,407 | - | 2,575,000 | 47,697,407 |
| Machinery and equipment | 15,090,128 | 1,806,367 | 1,074,347 | 15,822,148 |
| Infrastructure | <u>148,705,588</u> | <u>-</u> | <u>-</u> | <u>148,705,588</u> |
| | <u>\$ 215,381,528</u> | <u>\$ 1,806,367</u> | <u>\$ 3,649,347</u> | <u>\$ 213,538,548</u> |

The City has assessed the value of their infrastructure and has elected to record it even though it is not required under the accounting principles prescribed by the New York State Office of the State Comptroller.

NOTE E - OTHER RECEIVABLES

Other receivables include:

1. General Fund

The City was owed \$10,075 of assessments receivable, and \$1,131,144 of accounts receivable as of December 31, 2010.

2. Special Grant Fund

The City has made loans to various companies and individuals under the United States Department of Housing and Urban Development programs. The total of commercial and residential rehabilitation loans receivable is \$354,776 as of December 31, 2010. At year-end, the City had \$123,646 reserved in the Allowance for Receivables.

NOTE E - OTHER RECEIVABLES (Continued)

3. Water and Sewer Funds

Other receivables in these funds are comprised of water and sewer rents receivable totaling \$1,104,327 and \$481,031, respectively, and accounts receivable of \$69,707 and \$3,327, respectively, as of December 31, 2010.

The Water Fund also had \$3,264,936 for water rents due from other governments. An allowance for receivables in the amount of \$1,213,358 has been set up in the Water Fund.

NOTE F - INDEBTEDNESS

1. Short-Term Debt

Liabilities for Bond Anticipation Notes (BANs) are generally accounted for in the Capital Projects Fund. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date.

| | <u>Maturity</u> | <u>Interest Rate</u> | <u>Beginning Balance</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Ending Balance</u> |
|------------------------|-----------------|----------------------|--------------------------|---------------|-------------------|-----------------------|
| Bond Anticipation Note | 4/30/2010 | 1.75% | \$ 62,500 | \$ - | \$ 62,500 | \$ - |
| Bond Anticipation Note | 10/29/2010 | 1.19% | <u>162,500</u> | <u>-</u> | <u>162,500</u> | <u>-</u> |
| | | | <u>\$ 225,000</u> | <u>\$ -</u> | <u>\$ 225,000</u> | <u>\$ -</u> |

2. Bonds Payable

A summary of the City's bonds payable as reported in non-current liabilities is as follows:

| | <u>Original Date Issued</u> | <u>Original Balance</u> | <u>Interest Rate %</u> | <u>Final Maturity</u> | <u>December 31, 2010</u> |
|---------------------|-----------------------------|-------------------------|------------------------|-----------------------|--------------------------|
| <u>General Fund</u> | | | | | |
| General obligation | 07/09 | 500,000 | 2.010 | 07/14 | \$ 400,000 |
| General obligation | 05/10 | 1,000,000 | VAR | 05/15 | <u>1,000,000</u> |
| | | | | | 1,400,000 |
| <u>Water Fund</u> | | | | | |
| General obligation | 09/99 | 855,297 | 0.000 | 12/19 | \$ 415,000 |
| General obligation | 12/01 | 3,390,000 | 3.250 | 12/22 | 2,294,974 |
| General obligation | 07/07 | 3,136,180 | 4.633 | 09/36 | <u>2,890,000</u> |
| | | | | | 5,599,974 |
| <u>Sewer Fund</u> | | | | | |
| General obligation | 09/04 | 1,625,890 | 2.380 | 04/34 | <u>1,375,320</u> |
| | | | | | <u>\$ 8,375,294</u> |

Water and sewer debt issuances are essential to continued operations of those activities. Consequently, the City recognizes interest on the related debt as a direct operating expense of the water and sewer activities.

3. Repayment Agreements

The repayment agreements between the City and the MAC represent the 1996 capital appreciation bonds refinancing of the 1992 Lease Revenue Bonds in the original amount of \$55,589,262, the 1997 refinancing of the 1990 Installment Purchase Debt (Certificate of Participation) in the original amount of \$3,425,000, the 1999 issuance for the closing of the City's landfill in the original amount of \$5,364,156 (Series 1999A), and the 1999 issuance to provide funds to repay the City's bond anticipation notes to meet the debt service fund requirement and to pay certain costs of issuance in the original amount of \$5,205,000 (Series 1999B).

NOTE F – INDEBTEDNESS (Continued)

3. Repayment Agreements (Continued)

During November 2010, the MAC refunded the Series 1996A Bonds and Series 1999B Bonds with Series 2010A General Resolution Bonds in the principal amount of \$15.62 million. The Series 2010A bonds were issued at a premium of \$640,444. Substantially all of the net proceeds together with other monies of the MAC were used to refund \$14.080 million and \$1.955 million of those issues. The sale will generate budgetary savings totaling \$831,125 over the life of the refunding bonds, which will be passed on to the City.

During May 2010, the MAC revised the Project Financing and Loan Agreement with the EFC as a result of refinancing the \$2.685 million remaining balance interest rate savings from the refunding of corresponding bonds that the EFC sold to the public. The refinancing generated \$181,756 of budgetary savings over the remaining life of the loan, which will be passed on to the City.

The outstanding balances of the repayment agreements for the 2010A, 1996A, 1996B and 1996C, the 1996A, and the 1996B are \$15,562,000, \$15,996,190, \$2,685,000, and \$335,000 at December 31, 2010, respectively.

4. State Clean Water Program

The City has entered into loan agreements with the New York State Environmental Facilities Corporation (EFC) to finance the cost of improvements to the City's sewer system which were necessary to eliminate the discharge of untreated sewage into the Hudson River. The general obligation serial bonds shown above under the Sewer Fund represent the unpaid balance of these bonds at December 31, 2010.

5. State Drinking Water Program

The City has also entered into loan agreements with EFC to help finance recent improvements to the City's water system. The general obligation serial bonds shown above under Water Fund represent the unpaid balance of these bonds at December 31, 2010.

6. Maturity Information

The annual debt service requirements to maturity, including principal and interest, for the City's general obligation bonds as of December 31, 2010, are as follows:

| <u>Total</u> | <u>Interest</u> | <u>Principal</u> | <u>Fiscal Year Ending December 31,</u> |
|----------------------|---------------------|---------------------|--|
| \$ 872,116 | \$ 256,880 | \$ 615,236 | 2011 |
| 872,333 | 245,669 | 626,664 | 2012 |
| 882,513 | 234,212 | 648,301 | 2013 |
| 887,640 | 222,497 | 665,143 | 2014 |
| 787,541 | 210,324 | 577,217 | 2015 |
| 2,804,294 | 878,804 | 1,925,490 | 2016-2020 |
| 1,853,666 | 579,403 | 1,274,263 | 2021-2025 |
| 1,303,516 | 373,076 | 930,440 | 2026-2030 |
| 1,153,923 | 186,383 | 967,540 | 2030-2036 |
| <u>165,593</u> | <u>20,593</u> | <u>145,000</u> | 2036-2038 |
| <u>\$ 11,583,135</u> | <u>\$ 3,207,841</u> | <u>\$ 8,375,294</u> | |

NOTE F - INDEBTEDNESS - Continued

The annual debt service requirements to maturity, including principal and interest, for the City's repayment agreements as of December 31, 2010, are as follows:

| <u>Total</u> | <u>Interest</u> | <u>Principal</u> | <u>Fiscal Year Ending December 31.</u> |
|----------------------|---------------------|----------------------|--|
| \$ 6,088,565 | \$ 923,565 | \$ 5,165,000 | 2011 |
| 5,813,381 | 753,381 | 5,060,000 | 2012 |
| 5,832,316 | 627,316 | 5,205,000 | 2013 |
| 5,723,224 | 568,224 | 5,155,000 | 2014 |
| 5,982,889 | 502,889 | 5,480,000 | 2015 |
| 30,574,519 | 1,184,519 | 29,390,000 | 2016-2020 |
| <u>10,624,113</u> | <u>59,113</u> | <u>10,565,000</u> | 2021-2025 |
| <u>\$ 70,639,007</u> | <u>\$ 4,619,007</u> | <u>\$ 66,020,000</u> | Liability as of December 31, 2010 |

Repayment agreements include accretion on Capital Appreciation Bonds of \$13,221,333.

Of the total outstanding principal indebtedness of the City in the sum of \$61,173,961, \$1,345,999 was subject to the statutory debt limit and represented 1.11% of the City's \$120,451,781 statutory debt limit.

7. Non-Current Governmental Liabilities

The following is a summary of the City's non-current governmental liabilities:

| | <u>Beginning Balance</u> | <u>Issued</u> | <u>Retirement / Adjustments</u> | <u>Ending Balance</u> |
|---|--------------------------|----------------------|---------------------------------|-----------------------|
| Government activities | | | | |
| Bonds and notes payable: | | | | |
| General obligation debt: | | | | |
| Serial bonds payable - Water Fund | \$ 460,000 | \$ - | \$ 45,000 | \$ 415,000 |
| Serial bonds payable - Water Fund | 2,448,215 | - | 153,241 | 2,294,974 |
| Serial bonds payable - Water Fund | 2,975,000 | - | 85,000 | 2,890,000 |
| Serial bonds payable - Sewer Fund | 1,416,080 | - | 40,760 | 1,375,320 |
| Serial bonds payable - Sewer Fund | 500,000 | - | 100,000 | 400,000 |
| Serial bonds payable - Capital Projects | <u>-</u> | <u>1,000,000</u> | <u>-</u> | <u>1,000,000</u> |
| Total bonds and other debt | 7,799,295 | 1,000,000 | 424,001 | 8,375,294 |
| Repayment agreements (d) | 56,089,582 | 20,739,085 | 24,030,000 | 52,798,667 |
| Other liabilities: | | | | |
| Due to County (a) | 82,500 | - | 16,500 | 66,000 |
| Judgments and claims payable | 160,000 | - | 16,000 | 144,000 |
| Landfill closure | 540,000 | - | 30,000 | 510,000 |
| Retirement debt (b) | 695,341 | - | 334,296 | 361,045 |
| Retirement debt (c) | 2,684,317 | - | 413,863 | 2,270,454 |
| Retirement debt (f) | - | 471,018 | - | 471,018 |
| Compensated absences | 4,945,209 | 298,519 | - | 5,243,728 |
| Post employment benefits (e) | <u>15,506,324</u> | <u>5,139,382</u> | <u>-</u> | <u>20,645,706</u> |
| Total other liabilities | 24,613,691 | 5,908,919 | 810,659 | 29,711,951 |
| Total long-term liabilities | <u>\$ 88,502,568</u> | <u>\$ 27,648,004</u> | <u>\$ 25,264,660</u> | <u>\$ 90,885,912</u> |

NOTE F - INDEBTEDNESS - Continued

- (a) \$16,500 adjustment was reclassified as a current liability in General Fund and was paid in the first quarter of 2010.
- (b) Represents debt for the 2002 incentive and §443 plans for police and fire. See Note G.
- (c) Represents debt for the 2004 amortization covering the period April 1, 2004 to December 31, 2004; 2005 amortization covering the period April 1, 2005 to December 31, 2005; 2006 amortization covering the period April 1, 2006 to December 31, 2006; 2007 amortization covering the period April 1, 2007 to December 31, 2007; 2008 amortization covering the period April 1, 2007 to December 31, 2008. See Note G.
- (d) Repayment agreements include accreted interest of \$277,658 added during 2010 and \$17,522,033 to date.
- (e) Postemployment health insurance liability at December 31, 2010, has been adjusted to actuarial computations as prescribed under GASB No. 45. See Note I.
- (f) Represents debt for 2010 (2011) amortization for participation in the 2010 Contribution Stabilization Program.

NOTE G - NEW YORK STATE RETIREMENT SYSTEMS

1. Plan Description

The City participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL).

As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

2. Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, and prior to January 1, 2010, who contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in NYSERS contribute 3% of their salary throughout their active membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employers' contributions. The required contributions for the current year and two preceding years were:

| | <u>ERS</u> | <u>PFRS</u> |
|------|--------------|--------------|
| 2010 | \$ 1,317,851 | \$ 3,937,965 |
| 2009 | 1,005,210 | 3,764,610 |
| 2008 | 1,143,499 | 3,974,779 |

NOTE G - NEW YORK STATE RETIREMENT SYSTEMS (Continued)

2. Funding Policy (Continued)

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g., billings due February 2009 would be based on the pension value as of March 31, 2008).

Chapter 260 of the Laws of 2004 of the State of New York was enacted and allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5% of employees' covered pensionable salaries.
- For SFY 2007-08, the amount in excess of 10.5% of employees' covered pensionable salaries.

The City also opted into the §443 plans for both police and fire personnel covered under the New York State Local Police and Fire Retirement System. The total past service costs for fire and police were \$1,652,837 and \$1,172,901, respectively, for a total of \$2,825,738. The City opted to pay for this program over a ten-year term with interest starting the second year at 8% per annum. The maturity schedule for this debt is as follows:

| | <u>Fire</u> | <u>Police</u> | <u>Total</u> |
|------------------|-------------|---------------|--------------|
| February 1, 2011 | \$ 211,185 | \$ 149,860 | \$ 361,045 |

The years 2004-2006 the City amortized the allowable amounts of \$653,184 for the Employees and \$2,766,871 for the Police and Fire Retirement Systems. The portion of these amortized liabilities covering the nine-month period April 1, 2010 to December 31, 2010, \$324,778 and \$1,957,786, respectively, are included in the financial statements as non-current governmental liabilities.

NOTE G - NEW YORK STATE RETIREMENT SYSTEMS (Continued)

2. Funding Policy (Continued)

The City of Troy has also elected to participate in the Employer Contribution Stabilization Program per Part II of Chapter 57, Laws of 2010, which was signed into law on August 11, 2010. This program gives localities the option to amortize a portion of their annual pension cost. The amortized will be paid in equal installments over a ten-year period and may be prepaid at any time. The portion of the retirement bill that the City has elected to amortize is \$156,607 for Employees and \$314,411 for the Police and Fire Retirement System. These two are included in the financial statements as Non-Current Governmental Liabilities.

NOTE H - OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City administers a single-employer defined benefit healthcare plan (“the Plan”). The Plan provides for continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of City subject to applicable collective bargaining and employment agreements. Employees covered include the employees of the CSEA, UFA, PBA, Command and non-represented employees. The plan is open to new entrants. The plan is subject to good faith collective bargaining between City and these covered employees. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy. The obligations of the plan members, employers and other entities are established by action of City pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The employer currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by City. For the year ended December 31, 2010, the City contributed \$4,635,940 to the Plan. Some Plan members receiving benefits contribute a percent of their premium costs. Total member contributions were \$123,430 for the year ended December 31, 2010.

Annual OPEB Cost and Net OPEB Obligation. The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation to the Retiree Health Plan:

| | |
|---|----------------------|
| Annual required contribution and OPEB expense | \$ 9,775,322 |
| Contributions made (expected) | <u>4,635,940</u> |
| Increase in net OPEB obligation | 5,139,382 |
| Net OPEB obligation, beginning of year * | <u>15,506,324</u> |
| Net OPEB obligation, end of year | <u>\$ 20,645,706</u> |

NOTE H - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ended December 31, 2010, was as follows:

| <u>Fiscal Year</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------|---------------------------------|---|------------------------------------|
| 12/31/10 | \$ 9,775,322 | 47.4% | \$20,645,706 |

Funded Status and Funding Progress. As of December 31, 2010, the actuarial accrued liability for benefits was \$136,731,486, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$29,380,172, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 465.4%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group according to the NY State Retirement System schedule, active plan members were assumed to retire as early as age fifty-five.

Marital status - 80% of employees are assumed married. Females are assumed to be three years younger than males. Actual spouse coverage information was used for retirees where available.

Mortality - Life expectancies were based on RP 2000 mortality tables for healthy Male and Female employees and retirees.

Turnover - The Ultimate Turnover Rates from the Vaughn table was used as the basis for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the several insurance providers. A rate of 10% initially, reduced to an ultimate rate of 5% after four years, was used.

NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Health insurance premiums - 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 3.3% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 20X1 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate - No salary increases were assumed since benefits are not based on compensation.

Based on the historical and expected returns of the City’s short-term investment portfolio, a discount rate of 4% was used. In addition, the projection unit credit cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2010, was thirty years.

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Simplified Entry Age (b) | Unfunded AAL (UAAL) (b/a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b/a)/c) |
|--------------------------|-------------------------------|--|---------------------------|--------------------|---------------------|---|
| 12/31/10 | \$0 | \$136,731,486 | \$136,905,621 | 0% | \$29,380,072 | 465.4% |

NOTE I - CITY AND STATE ACTIONS

During 1994, State legislation (1994 Act) was adopted which allowed the City to sell notes or bonds for the purpose of liquidating cumulative and projected deficits in the City’s General Fund under certain conditions contained in the 1994 Act. The 1994 Act also created a Supervisory Board to review and make recommendations on certain financial practices of the City. The five-member Board is headed by the State Comptroller.

The State Legislature amended the 1994 Act (the 1994 Act, as amended during 1995, is referred to as the “Original Financial Control Act”) to provide the Supervisory Board with control over the City’s financial situation.

During July 1996, the State Legislature adopted Chapters 444 and 445 of the Laws of 1996, which further amended the Original Financial Control Act. The principal purposes of Chapters 444 and 445 were to allow the City to restructure its annual debt services requirements, to reinforce existing controls over the City’s authority to contract indebtedness or enter into other long-term financing arrangements, and to strengthen the credit of the MAC. The Original Financial Control Act, as amended by Chapters 444 and 445 of the Laws of 1996, is hereinafter referred to as the “Financial Control Act.”

During 1995, the State Legislature created the MAC.

1. The MAC is a corporate governmental agency and instrumentality of the state constituting a public benefit corporation. The MAC Board is made up of five members, three appointed by the Governor, one by the Senate Majority Leader, and one by the Speaker of the State Assembly.

NOTE I - CITY AND STATE ACTIONS (Continued)

2. The MAC was established for the purpose of providing financing assistance and fiscal monitoring for the City. The Financial Control Act authorized the MAC to provide financing assistance to the City if the Mayor certified to the MAC that funds are required by the City to enable it (1) to pay for any item which is permitted by law to be included in the City's capital budget for the fiscal year for which such certification is made, including payments to reimburse the General Fund for monies advanced and expended for any such item, (2) to pay operating expenses, (3) to liquidate all or a portion of the City's deficits for the years 1993 through 1995, both inclusive, or to pay, at maturity, or on the redemption date, the principal of and interest on obligations of the City issued for such purposes, (4) to acquire, or cause to be acquired, all or a portion of the real or personal property leased by the City pursuant to one or more lease agreements between the City and the LDC, including the financing of the payment of any judgments or comprised or settled claims against the City relating to such real or personal property, (5) to pay at maturity, or on the redemption date, the principal and interest of obligations of the City previously issued to finance any item in the current or any prior fiscal year, and (6) to pay for the costs of the closure of the City's landfill. The Financial Control Act authorized the MAC to issue bonds and notes in an aggregate principal amount of up to \$71 million for the purposes set forth in items (1), (3), (4), (5), and (6) just mentioned.
3. The refinancing obligations will be general obligations of the MAC payable from the sources described below. Amounts will be subject to a lien including the following:
 - a. Amounts to be derived from the sales tax, after those amounts have been appropriated by the state from the Municipal Assistance Tax Fund where they are first deposited, and transferred to the MAC or a trustee;
 - b. Amounts to be derived from state aid, after those amounts have been appropriated by the state from the Municipal Assistance State Aid Fund (State Aid Fund) where they are first deposited, and transferred to the MAC or a trustee;
 - c. Amounts to be derived from payments made by the State for the purpose of providing a minimum debt coverage ratio of 1.5 to 1, after those amounts have been appropriated by the State from the State Aid Fund where they are first deposited, and transferred to the MAC or a trustee; and,
 - d. Any monies or securities held in the funds established under a general resolution (other than (i) the operating fund and (ii) the rebate fund).

The amounts described in a., b., and c. above are required to be paid to the MAC from two special funds established under the State Finance Law and held in the custody of the Comptroller, the Municipal Assistance Tax Fund, and the State Aid Fund. The Financial Control Act requires the Comptroller to make payments from those special funds to the MAC, in accordance with a schedule to be delivered by the MAC annually, as required under the Act and the General Resolution. That schedule, which may be revised from time to time, sets forth the MAC's cash requirements, including debt service payments and amounts required to meet the 1.5:1 debt-service-coverage requirement.

NOTE J - LANDFILL

During November 1993, directives were issued by the state and federal governments ordering the City to discontinue receiving solid waste at their landfill facility. In addition to the stop order, the City was ordered to close the facility and initiate a program to both maintain and monitor the closed site for the following thirty years. The City utilized the services of the MAC to obtain the financing necessary to close the landfill (project) and fund the costs associated with the monitoring requirements. The project was completed during March 1999, and long-term financing has been disclosed under Note G2, repayment agreements.

As a means of recognizing the potential cost to the City for the monitoring of the landfill, the City has recorded a non-current governmental liability based on annual projections prepared by its consulting engineers. The amount currently projected is \$30,000 per year for the next seventeen years, for a total of \$510,000.

NOTE K - COMMITMENTS AND CONTINGENCIES

1. Sales and Use Tax

On September 25, 2009, the City and County renewed their current agreement that was in effect for the period December 1, 2004 through November 30, 2009, whereby the City agreed to:

- a. Extend the term of the agreement from December 1, 2009 through February 28, 2015;
- b. Receive 18.07% of the local share of the 3% County-wide sales and use tax;
- c. Receive 24.37% of the local share of the additional 1% County-wide sales and use tax effective September 1, 1994, and
- d. Repay \$165,000 of the \$330,000 balance remaining with respect to the \$440,000 obligation due to the County by the City pursuant to the sales tax agreement between the parties dated November 23, 1982. The payment of \$165,000 was deducted by the County from the March 15, 2005, sales and use tax distribution due to the City. The remaining balance of \$165,000, after the March 15, 2005 payment, shall be paid by the City to the County without interest over a period of ten years at \$16,500 per year. Balance due County at December 31, 2010 is \$66,000.00.

2. Due to Other Governments

Due to other governments includes:

General Fund

- a. The City acts as a tax collection agent for delinquent school taxes for the two School Districts, as well as tax and sewer rents for the County. A liability of \$2,324,873 and \$4,348,361 respectively, represents the amount owed to these entities at December 31, 2010.
- b. The amount of uncollected 1985-2010 County taxes totaling \$2,752,846, and the amount of uncollected sewer rent at December 31, 2010, totaling \$646,899, will be paid only after they have been collected.

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

- c. As with the School District and County, the City acts as a collection agent for taxes levied by the Troy Public Library. Also, as with the County, the Library will only be paid after their liens are collected. A liability of \$48,658 represents the amount owed at December 31, 2010.

Special Grant Fund

- d. The balance of \$87,000 is due to other governments in relation to the Home Investment Partnership Program.
- e. Other miscellaneous items due to other governments totaling \$16,500 do not relate to (a), (b) and (c).

3. Self-Insurance

The City has established self-insurance programs for workers' compensation, unemployment, health benefits, and personal injury. The purpose of establishing various self-insurance programs was to minimize the total insurance costs to the City. Management budgets the expenditures in the related funds to the extent they can be projected.

The City uses an outside administrator to process and pay claims made under the health insurance and workers' compensation programs. The health administrator receives \$33.60 per contract per month of claims and a \$48.03 pooling (stop loss) charge per contract per month for health and \$3.25 per contract per month for dental. The City also pays a fee of \$2,965 per month for medical consulting services and \$3,965 per month for workers' compensation consulting services. The health insurance program covers all eligible City employees and their covered dependents up to \$150,000 per year per covered individual.

As of December 31, 2010, the City has recognized a liability of approximately \$419,854 in the General, Water, and Sewer Funds, representing claims incurred prior to December 31, 2010, but disbursed by the administrator during 2011.

4. Lawsuits

The City is a defendant in a number of lawsuits. The City has recognized an accrued non-current liability for judgments and claims of \$144,000 to allow for future claims on certain pending matters.

5. Grant Programs

The City participates in a number of grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The City believes, based upon its review of current activity and prior experience, the amount of disallowances resulting from these audits, if any, will not be significant to the City's financial position or results of operations.

6. Housing Trust Fund Corporation

The City has several program agreements with the State of New York Housing Trust Fund Corporation (HTFC). Under these program agreements, HTFC funds are awarded to the City on a conditional basis. The City and its subrecipients must satisfy certain conditions prior to HTFC granting a forgiveness of these conditional awards. Until HTFC grants this forgiveness, a contingent liability exists. The City believes that the conditions set forth in the program agreement will be satisfied, resulting in no significant adverse effects on the City's financial position or results of operations.

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

7. Federal Loan Guarantee Program

The City has obtained funds from the United States Department of Housing and Urban Development (HUD) under a federally-sponsored loan guarantee program. The City has loaned these funds for the purpose of community development activities and expects to receive repayment in the future. The City is responsible for repayment to HUD and has pledged future community development block grants to secure repayment.

8. City Hall Lease Agreement

At a special City Council meeting on August 20, 2008, the City Council authorized the Mayor to negotiate and enter into a lease agreement with Judge Development Corporation for the lease of 1776 Sixth Avenue for use as an interim City Hall. On November 17, 2008 the City of Troy and 1666 Sixth Avenue, Troy, LLC for a initial three (3) year term at annual fixed rate of Three-Hundred-Thousand-Seven-Hundred-Twenty-eight Dollars (\$307,728) payable in equal monthly payments to be paid by the first day of every month. Additionally, the tenant (the City of Troy) shall as additional rent, pay and discharge punctually all Real estate taxes, assessments, payments in lieu of taxes, water and sewer rents, rates and charges and all other governmental impositions and charges of every kind. A full copy of the Lease Agreement shall be on file in the City of Troy Corporation Counsel's Office and the City Comptroller's Office.

9. Employee Union

On December 18, 2009, the United Public Service Employees Union was certified as the exclusive representative of several positions previously non-covered by a bargaining unit. The titles included for exclusive representative include the Assessor, Assistant to the City Clerk, Assistant Operations Manager, City Water Plant Operator, City Auditor, City Engineer, Commissioner of Planning and Community Development, Deputy City Clerk, Deputy Comptroller for Financial Operations, Grants Writing Specialist, Personnel Associate, Recreation Director, and Superintendent of Water and Sewer in the City of Troy. As of May 2011, this newly formed UPSEU unit is currently conducting negotiations with City Management in anticipation of settling a retroactive agreement with an effective date of January 1, 2010. Presently, this UPSEU unit is the sole City union without a settled bargaining agreement.

The expiration status of the remaining City units include the UFA – December 31, 2010, PBA – December 31, 2010, UFCA – December 31, 2010, COATS – December 31, 2010, and CSEA – December 31, 2011.

NOTE L - ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED

During June 1999, GASB issued Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). GASB No. 34 established new financial reporting requirements for state and local governments throughout the United States. If implemented, GASB No. 34 creates new information and restructures much of the information that governments have presented in the past. These new requirements were developed to make annual reports more comprehensive and easier to understand and use. GASB No. 34 was effective for the City as of January 1, 2003, but is not required by the New York State Office of the State Comptroller.

NOTE L - ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED (Continued)

During June 2001, GASB issued Statement 38, *Certain Financial Statement Note Disclosures* (GASB No. 38). GASB No. 38 established and modified disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, desegregations of receivable and payable balances, and interfund balances and transfers. GASB No. 38 applies to all state and local governments. GASB No. 38 was effective for the City as of January 1, 2003, but is not required by the New York State Office of the State Comptroller.

GASB Statement No 51, *Accounting and Financial Reporting for Intangible Assets* (GASB No. 51), establishes accounting and financial reporting requirements for intangible assets in an effort to reduce inconsistencies in accounting and financial reporting of intangible assets. GASB No. 51 is effective for the City as of January 1, 2010.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement is effective for the City as of January 1, 2009.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is effective for the City as of January 1, 2010.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes accounting and financial reporting requirements intended to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is effective for the City as of January 1, 2011. Management is not able to estimate the extent of the potential impact of these Statements on the City's financial statements.

NOTE M - SUBSEQUENT EVENTS

On January 6, 2011, the City Council passed an ordinance to establish and to appropriate funds of \$249,274 per the agreement between the City of Troy and NYS Department of Transportation for the purpose of bridge replacement (Spring Avenue over the Poestenkill).

On January 6, 2011, the City Council passed an ordinance amending 2011 General Fund City Budget to re-appropriate an unexpended balance of \$101,208 from the 2010 Budget of monies received from the NYS Urban Area Supplemental Program Grant and to re-appropriate a balance of \$148,000 from the 2010 Budget for unexpended monies received the NYS Urban Security Initiative/Urban Area Work Group Grant for the development, purchase of upgraded and enhanced security communications and computer system equipment and training.

On February 3, 2011, the City Council passed an ordinance to amend the 2011 General Fund Budget to accept an additional \$279,800 from the NYS Urban Area Security Initiative/Urban Working Group (Homeland Security) for the purchase of communication equipment and training.

NOTE M - SUBSEQUENT EVENTS (Continued)

On March 3, 2011, the City Council passed a resolution authorizing the implementation of an additional \$9,421,000 in funding in the first instance 100% of the federal aid and NYS Marchiselli for the reconstruction of Route 2, 11th Street to Pawling Avenue, P.I.N. 1753.39 Project and that such project is eligible for funding under Title 23 U.S. Code as amended. This calls for the apportionment of the costs of such program to be borne at the ration of 80% federal funds and 20% non-federal funds.

On April 7, 2011, the City Council passed a resolution authorizing the Mayor to enter into a three (3) year contract with Barton & Loguidice, P.C. for landfill post closure sampling analysis.

On April 7, 2011, the City Council passed a resolution authorizing the Mayor to execute an amendment for an addition of \$201,600 in funding for state assistance contract # C30376 to further efforts to remediate the former Scolite property said amount equates to 90% of the estimated additional eligible expenses.

On May 5, 2011, the City Council passed an ordinance appropriating \$1,390,000 of the Water Fund balance and amending the Water Fund 2011 Budget for the purpose of funding Phase I of the Department of Public Utilities five (5) year capital plan.

On May 12, 2011, the City Council passed an ordinance appropriating approximately \$2.7 M in funds for the 2011-2012 program year pursuant to the Housing and Community Development Act of 1974, the McKinney Act Emergency Shelter Grant Program and the Home Investment Partnership Program.

REQUIRED REPORTS UNDER OMB CIRCULAR A-133

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

September 29, 2011

To the City Council of
City of Troy, New York:

We have audited the accompanying balance sheet – all fund types and account groups – statutory basis of the City of Troy, New York (the City), and the statements of revenues, expenditures and changes in fund balance – all governmental fund types and trust funds – statutory basis and revenues, expenditures and changes in fund balance – budget and actual – general, water and sewer funds- statutory basis as of and for the year ended December 31, 2010, which collectively comprise the City’s basic financial statements and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’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’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

(Continued)

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* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

We noted certain matters that we have reported to management of the City in a separate letter dated September 29, 2011.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 29, 2011

To the City Council of
City of Troy, New York:

Compliance

We have audited City of Troy, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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(Continued)

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)**

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

This report is intended solely for the information and use of management, others within the entity, the City Council, 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.

CITY OF TROY, NEW YORK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identification Number | Expenditures |
|---|---------------------------|---|----------------------|
| Department of Housing and Urban Development/ CDBG - Entitlement Grants Cluster | | | |
| Community Development Block Grants - Entitlement Grant | 14.218 | B-00MC-36-0109 | \$ 1,847,789 |
| ARRA - Community Development Block Grant - Entitlement Cluster | 14.253 | B-09MC-36-0109 | 473,155 |
| Community Development Block Grants/Special Purpose Grants/ Insular Areas - ARRA Entitlement Cluster | 14.254 | 2009-NSP1009 | <u>516,969</u> |
| | | | <u>2,837,913</u> |
| Emergency Shelter Grants Program | 14.231 | S-00MC-36-0007 | 104,783 |
| Community Development Block Grants - Brownsfield Economic Development Initiative - Section 108 Loan Guarantees | 14.248 | B-00MC-36-0109 | 2,666,000 |
| City of Schenectady/ HOME Investment Partnership Program | 14.239 | B-00MC-36-0510 | <u>199,847</u> |
| Total Department of Housing and Urban Development/ CDBG - Entitlement Grants Cluster | | | <u>5,808,543</u> |
| Department of Justice Drug Enforcement Administration/ Federal Equitable Sharing Program | | | |
| | 16.*** | N/A | <u>365,721</u> |
| Department of Justice/ New York State Department of Criminal Justice Services | | | |
| Edward Byrne memorial Formula Grant Program | 16.579 | C484125, C484065 | 273,637 |
| Community Capacity Development Office | 16.595 | 2009-WS-QX-0120, 2010-WS- QX-0076 | 128,520 |
| Bulletproof Vest Partnership Program | 16.607 | OMB#1121-0235 | 2,773 |
| Edward Byrne Memorial Justice Assistant Grant Program | 16.738 | 2009-DJ-BX-1472, 2010-DJ-BX- 1439, 2009-SB-B9-0816, BJ_09632174 / T632174 | <u>334,213</u> |
| Total Department of Justice/ New York State Department of Criminal Justice Services | | | <u>739,143</u> |
| Department of Transportation/ New York State Department of Transportation/ Highway Planning and Construction Cluster | | | |
| Highway Planning and Construction | 20.205 | NYS-PIN-Various | 1,365,135 |
| ARRA - Highway Planning and Construction | 20.205 | NYS-PIN-Various | <u>4,764,782</u> |
| Total Department of Transportation/ New York State Department of Transportation/ Highway Planning and Construction Cluster | | | <u>6,129,917</u> |
| Department of Transportation National highway Traffic Safety Administration/ New York State Governor's Traffic Safety/ Highway Safety Cluster | | | |
| State and Community Highway Safety | 20.600 | PD 00197-(42), TR 4202181 | 13,470 |
| Occupant Protection Incentive Grants | 20.602 | PD - 00143-(042) | 4,932 |
| Safety Incentive Grants for Use of Seatbelts | 20.604 | PD00184-(42) | <u>10,400</u> |
| Total Department of Transportation National Highway Traffic Safety Administration/ New York State Governor's Traffic Safety/ Highway Safety Cluster | | | <u>28,802</u> |
| Environmental Protection Agency/ Office of Solid Waste and Emergency Response/ Brownfield Pilots Cooperative Agreement | 66.811 | BP97287504 | <u>484</u> |
| Department of Homeland Security/ Assistance to Firefighters Grant | 97.044 | EMW-2009-FO06510 | <u>286,697</u> |
| US Department of Energy/ Energy Efficiency and Conservation Block Grant | 81.128 | DE-EE0002384 | <u>86,743</u> |
| New York State Office of Homeland Security/ Homeland Security Grant Program | 97.067 | C835454, C175283 | <u>208,000</u> |
| Total expenditures of federal awards | | | <u>\$ 13,654,050</u> |

CITY OF TROY, NEW YORK

**NOTES TO SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010**

1. GENERAL

The preceding schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City. The City's reporting entity is defined in the basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal assistance passed through from other governments, is included in the schedule.

2. BASIS OF ACCOUNTING

The preceding schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, as described in the City's basic financial statements. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the preparation of the financial statements.

3. OTHER DISCLOSURES

No insurance is carried specifically to cover equipment purchased with federal awards. Any equipment purchased with federal funds has only a nominal value and is covered by the City's insurance policies.

4. LOANS AND LOAN GUARANTEES

The City had \$ 2,666,000 of loans outstanding to the Department of Housing and Urban Development related to the Brownfields Economic Development Initiative and Section 108 as of December 31, 2010.

5. SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, the City provided federal awards to sub recipients as follows:

| <u>Program Title</u> | <u>Federal CFDA Number</u> | <u>Amount Provided to Sub recipient</u> |
|--|--------------------------------|---|
| Emergency Shelter Grants Program | 14.231 | \$ 104,783 |
| Community Development Block Grants - Entitlement Grant | 14.218 | 223,530 |
| Community Development Block Grants - Brownfield Economic Development Initiative - Section 108 Loan Guarantees | 14.248 | 2,666,000 |

CITY OF TROY, NEW YORK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010**

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ___ Yes X No

Significant deficiencies identified not considered to be material weaknesses? ___ Yes X No

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___ Yes X No

Significant deficiencies identified not considered to be material weaknesses? ___ Yes X No

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? ___ Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| | CDBG Entitlement Grant Cluster |
| 14.218 | CDBG – Entitlement Grant |
| 14.253 | CDBG – ARRA Entitlement Grant |
| 14.254 | CDBG – ARRA |
| | Highway Planning and Construction Cluster |
| 20.205 | Highway Planning and Construction |
| 20.205 | ARRA – Highway Planning and Construction |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 409,621

Auditee qualified as low-risk auditee? _X_ Yes ___ No

CITY OF TROY, NEW YORK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED DECEMBER 31, 2010**

Section II—Financial Statement Findings

None.

Section III—Federal Award Findings and Questioned Costs

There were no instances of material weaknesses, or noncompliance, including questioned costs that are required to be reported under OMB Circular A-133.

Section IV - Status of Prior Year Comments

There were no findings required to be reported under Government Auditing Standards or OMB Circular A-133 for the year ended December 31, 2009.

CITY OF TROY, NEW YORK

**CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2010**

For the year ended December 31, 2010, there were no findings required to be reported under *Governmental Auditing Standards* or OMB Circular A-133. Accordingly, a corrective action plan is unnecessary.