

CITY OF TROY, NEW YORK

FINANCIAL REPORT

December 31, 2004

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mayor and Members of the City Council
City of Troy, New York

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Troy, New York (City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As more fully described in Note L, the methodology used to calculate and record the liability for post-employment benefits is not in accordance with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the basic financial statements of recording the liability and annual expenses of post-employment benefits, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 1 through 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bollam Sheedy Torani & Co. LLP

Albany, New York
September 12, 2005, except for the government-wide financial statements,
the date of which is December 5, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The City of Troy, New York's (City) discussion and analysis is written by management and designed to offer readers of the City's financial statements an overview and analysis of the City's financial activities for the fiscal year ended December 31, 2004. Specifically, this narrative will help the reader focus on the City's significant financial issues, identify any changes in the City's financial position with respect to current and subsequent years' budgets, address any material deviations from the approved fiscal year budget, and, lastly, identify specific fund related issues and concerns.

In this section, all amounts are expressed in thousands of dollars (000's), unless otherwise noted.

FINANCIAL HIGHLIGHTS

- The provisions of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) were first adopted by the City in the year ended December 31, 2003, and will continue as applicable.
- The liabilities of the City exceeded its assets at the close of fiscal year 2004 by \$35,476 (negative net assets) mainly because the City, since the mid-1990s, chose to recognize the liability for post-employment benefits by recording a non-actuarially determined approximation of the liability and related annual expense. However, the methodology used to determine the liability did not comply with the subsequently issued Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. The City recorded an estimated liability of \$72,598 as of December 31, 2004, for projected health insurance benefits for its retirees. This liability causes net assets to be a positive balance of \$37,122 rather than a negative balance of \$35,476. At year-end, \$14,504 was restricted for various purposes.
- In the governmental funds, General Fund revenues increased by \$655, or 1.3%, when compared with fiscal year 2003. General Fund expenditures increased by \$308, or .6%, during this same period. Revenues exceeded expenditures in the General Fund by \$1,778, which represents 3.6% of the total expenditures for the year.
- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$18,089 and the City's business-type funds reported net assets of \$50,450. The City changed its reporting of water and sewer activities from special revenue funds in 2002 to enterprise funds in 2003. This year is the second year of reporting in this manner. Consequently, readers will be able to make meaningful comparisons of balances in this report to the previous fiscal year for both the governmental funds and the business-type funds.
- The City's total outstanding non-current liabilities, which include (\$72,958) the estimate for project health insurance benefits for retirees, are \$153,117.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and budgetary comparison, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements. The perspective addressed within the three components allows the reader to address relevant questions, broaden a basis for comparison (year-to-year or government entity to government entity), and enhance the City's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide the reader with a broad overview of the City's financial position in a manner similar to a private sector business.

The *statement of net assets* is designed to be similar to bottom line results for the City and its governmental and business-type activities. This statement presents information on all of the City's assets and liabilities with the difference between each being reported as *net assets*. Over time, changes in the net assets may serve as a useful indicator of the City's future financial position (increasing or decreasing).

The *statement of activities* is focused on both the gross and net costs of various activities, which are supported by the government's general tax and other revenues. The information presented in this statement shows how the City's net assets changed during the reporting year. The changes in the net assets are reported as soon as the activity occurs, without regard to the timing of related cash flows. Thus, revenues and expenses are reported in this statement for certain items that will result in future cash flow periods.

Both of the government-wide financial statements distinguish functions of the City that are primarily supported by taxes and other intergovernmental revenues (*governmental activities*) from other City functions that are intended to recover a significant portion of its costs through user fees and user charges (*business-type activities*). The governmental activities reflect the City's basic services, including general government, public safety (police, fire prevention and emergency rescue, traffic control, and code enforcement), health, transportation, culture and recreation, sanitation, community development and other services. The business-type activities of the City include a water and a sewer utility, whereby the fees for services typically cover all or most of the cost of operation, including depreciation.

The *government-wide financial statements* can be found on the pages immediately following this section as the first two pages of the basic financial statements.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like many other local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental, business-type, and fiduciary.

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 measurement focus is based upon determination of financial position, and changes in financial position rather than upon net income. The City's governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year.

Additionally, because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The financial statements for governmental funds can be found on pages 13 to 17, immediately following the government-wide financial statements.

Compliance with the City's annual General Fund operating budget for the year ended December 31, 2004, is reported in the combined statement of revenues, expenditures, and changes in fund balance - budget and actual.

Business-Type Funds are maintained to account for the City's water and sewer activities. The City's Water Fund is used to account for 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. The City's Sewer Fund is used to account for operations of the City's wastewater treatment facilities and sanitary sewer system that is provided to all City residents. Capital projects for water and/or sewer activities are also accounted for in the business-type funds.

The business-type financial statements can be found on pages 18 to 20.

Fiduciary Funds are used to account for resources held for the benefit of parties outside of the City. These funds are used to account for money (and/or property) received and held in the capacity of trustee, custodian, or agent. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the City's initiatives.

The Fiduciary Fund financial statements can be found on pages 21 to 22.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statements of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets by \$35,476 at the close of fiscal year ended December 31, 2004.

The largest portion of the City's net assets reflects its investment in capital assets (i.e., land, buildings, improvements, equipment, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services and, as a result, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources necessary to repay this debt must be provided from other sources, as the capital assets themselves cannot be used to liquidate these liabilities. Certain capital accounts have been reclassified to facilitate more meaningful year-to-year comparisons.

CONDENSED COMPARATIVE DATA

Comparative data provides an invaluable context for understanding the full impact of the basic financial statements of the current fiscal period. This year is the City's second year implementing GASB 34, and we provide condensed comparative data for discussion and analysis.

The following schedule reflects the City's condensed net assets:

City of Troy, New York's Net Assets (000's Omitted)

	Governmental Activities			Business-Type Activities			Total Activities		
	2004	2003	Change	2004	2003 *	Change	2004	2003 *	Change
Current assets	\$ 33,687	\$ 34,795	\$ (1,108)	\$ 6,466	\$ 7,348	\$ (882)	\$ 40,153	\$ 42,143	\$ (1,990)
Capital assets	42,349	44,349	(2,000)	51,134	52,580	(1,446)	93,483	96,929	(3,446)
Total assets	76,036	79,144	(3,108)	57,600	59,928	(2,328)	133,636	139,072	(5,436)
Current liabilities	14,619	14,907	(288)	1,377	5,795	(4,418)	15,996	20,702	(4,706)
Non-current liabilities	147,344	141,027	6,317	5,773	4,187	1,586	153,117	145,214	7,903
Total liabilities	161,963	155,934	6,029	7,150	9,982	(2,832)	169,113	165,916	3,197
Net assets									
Invested in capital assets net of related debt	38,014	36,819	1,195	45,701	45,364	337	83,715	82,183	1,532
Restricted	14,504	16,620	(2,116)	-	619	(619)	14,504	17,239	(2,735)
Unrestricted	(138,444)	(130,229)	(8,215)	4,749	3,963	786	(133,695)	(126,266)	(7,429)
Total net assets	\$ (85,926)	\$ (76,790)	\$ (9,136)	\$ 50,450	\$ 49,946	\$ 504	\$ (35,476)	\$ (26,844)	\$ (8,632)

* As adjusted to reflect the 2004 prior period adjustment related to the revaluation of the water treatment facility.

A portion of the City's net assets (\$14,504) represents resources that are subject to external and internal restrictions on how they may be used. At the end of the current fiscal year, the City is able to report positive balances in the business-type activities, but negative balances in the governmental activities and its total operations.

The City's total net assets decreased by \$8,632 primarily due to a \$7,963 increase in projected future health insurance costs for retirees, and the accretion of debt interest on the City's repayment agreements amounting to \$1,354. Neither of these expenses requires a cash outlay in the current year, and accordingly, current resources were not provided in the City's annual budget process. The annual costs for these expenses are included in the governmental activities under general government support and interest on long-term debt, respectively. Otherwise, the City's activities were within budget expectations.

The following schedule presents the City's condensed revenues and expenses for years ended 2004 and 2003:

**City of Troy, New York's Changes in Net Assets
(000's Omitted)**

	Governmental Activities			Business-Type Activities			Total Activities		
	2004	2003	Change	2004	2003	Change	2004	2003	Change
Revenues									
Program revenues									
Charges for services	\$ 6,288	\$ 6,253	\$ 35	\$ 11,726	\$ 10,507	\$ 1,219	\$ 18,014	\$ 16,760	\$ 1,254
Operating grants and contributions	4,063	3,531	532	30	21	9	4,093	3,552	541
Capital grants and contributions	1,260	1,052	208	283	166	117	1,543	1,218	325
General revenues									
Real property taxes	17,140	17,815	(675)	-	-	-	17,140	17,815	(675)
Non-property taxes	12,473	12,702	(229)	-	-	-	12,473	12,702	(229)
Unrestricted grants and contributions	8,851	8,069	782	-	-	-	8,851	8,069	782
Other	1,151	1,000	151	26	36	(10)	1,177	1,036	141
Total revenues	<u>51,226</u>	<u>50,422</u>	<u>804</u>	<u>12,065</u>	<u>10,730</u>	<u>1,335</u>	<u>63,291</u>	<u>61,152</u>	<u>2,139</u>
Expenses									
Governmental activities									
General government support	17,842	16,220	1,622	-	-	-	17,842	16,220	1,622
Police services	12,319	10,841	1,478	-	-	-	12,319	10,841	1,478
Fire protection and emergency rescue services	12,114	9,934	2,180	-	-	-	12,114	9,934	2,180
Traffic control and code enforcement	549	1,408	(859)	-	-	-	549	1,408	(859)
Health	119	121	(2)	-	-	-	119	121	(2)
Transportation	5,945	5,427	518	-	-	-	5,945	5,427	518
Culture and recreation	2,364	3,023	(659)	-	-	-	2,364	3,023	(659)
Sanitation	2,750	2,660	90	-	-	-	2,750	2,660	90
Community development and other services	3,249	2,855	394	-	-	-	3,249	2,855	394
Interest on long-term debt	3,694	4,041	(347)	-	-	-	3,694	4,041	(347)
Business-type activities									
Water	-	-	-	8,237	7,511	726	8,237	7,511	726
Sewer	-	-	-	2,741	2,361	380	2,741	2,361	380
Total expenses	<u>60,945</u>	<u>56,530</u>	<u>4,415</u>	<u>10,978</u>	<u>9,872</u>	<u>1,106</u>	<u>71,923</u>	<u>66,402</u>	<u>5,521</u>
Transfers from governmental to business-type activities	(345)	-	-	345	-	-	-	-	-
Transfers from business-type to governmental activities	928	1,595	-	(928)	(1,595)	-	-	-	-
Increase (decrease) in net assets	(9,136)	(4,513)	(3,611)	504	(737)	229	(8,632)	(5,250)	(3,382)
Prior period adjustment - water treatment plant	-	-	(3,611)	7,565	-	229	7,565	-	(3,382)
NET ASSETS, <i>beginning of year</i>	<u>(76,790)</u>	<u>(72,277)</u>	<u>(4,513)</u>	<u>42,381</u>	<u>43,118</u>	<u>(737)</u>	<u>(34,409)</u>	<u>(29,159)</u>	<u>(5,250)</u>
NET ASSETS, <i>end of year</i>	<u>\$ (85,926)</u>	<u>\$ (76,790)</u>	<u>\$ (11,735)</u>	<u>\$ 50,450</u>	<u>\$ 42,381</u>	<u>\$ 8,069</u>	<u>\$ (35,476)</u>	<u>\$ (34,409)</u>	<u>\$ (1,067)</u>

IMPACTS ON REVENUES AND EXPENSES

Following are some basic conditions that may impact the City's revenues and expenses:

Revenues

- *Economic Condition* - reflects a declining, stable, or growing economic environment and has a substantial impact on property, sales, and other tax revenue as well as public spending habits for building permits, user fees, and volumes of consumption.
- *Increase/Decrease in Council Approved Rates* - while statutes set certain tax rates, the City Council has significant authority to impose and periodically increase/decrease certain rates (recycling, water, permits, recreation user fees, parking and traffic tickets, facility rental fees, etc.).
- *Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring)* - certain recurring revenues (state revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.

- *Contribution from the Water and Sewer Fund* - the City owns and operates the water and sewer utility systems and provides administrative and support services for the utility. In return, the City receives payments from the utility. Therefore, the ongoing competitiveness and vitality of the utility is important to the City's well being.
- *Market Impacts on Investment Income* - due to varying maturities on the City's investments and the varying nature of the market in general, City investment income may fluctuate from year-to-year.

Expenses

- *Introduction of New Programs* - within the functional activity categories (general government support, police services, fire protection and emergency rescue services, and the various other activities), individual programs may be added or deleted to meet changing community needs.
- *Increase/Decrease in Authorized Personnel* - changes in service demand may cause the Council to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent a significant portion of the City's General Fund budget and overall activities.
- *Inflation* - while overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities, such as chemicals and supplies, fuel, and parts. Some functions may experience unusual commodity specific increases (for example, fuel prices).

BUDGETARY HIGHLIGHTS

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

1. 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 1st.
2. The operating budget includes proposed expenditures and the means of financing them.
3. Public hearings are conducted to obtain taxpayer comments.
4. Not later than December 1, the budget is legally enacted through the passage of a legislative resolution.

The City's annual budget is prepared on an operating basis and includes estimated revenues and appropriations for the General, Water, and Sewer Funds. The Capital Projects Fund and Special Grant Funds, which include community development block grants, have their own separate budget and management process and are thus excluded from the general operating annual budget. Budgets for using resources from the federal proceeds of crime and confiscated moneys funds are established on an as-needed basis.

Budget Variances in the General Fund

In 2004, the City's original General Fund budget totaled \$49,126 (expenditures equal to revenues). Over the course of the year, several budget line items required modifications necessary to cover unanticipated expenses. The Mayor is authorized to approve all budget transfer requests not exceeding five hundred dollars between the major fund codes within individual departments. Budget modifications (amendments) over five hundred dollars must be approved by the City Council.

Modifications were made periodically to the original 2004 General Fund budget per the provision above. As a result, as of December 31, 2004, the City's General Fund budget was increased to \$50,139. Actual expenses totaled \$49,571. Actual revenue, including interfund transfers, totaled \$51,350.

Additional Budgetary/Fiscal Information

The City has made significant efforts to control expenditures and improve operating efficiencies despite a declining tax base. This is evidenced by the fact that the City has ended eight consecutive years with an operating surplus. The surpluses have largely been the result of sales tax in excess of budget despite certain difficult expenditures (e.g., overtime) exceeding budget. Sales tax revenue, which the City receives through a share agreement with Rensselaer County, has shown strong growth, 27% between 1998 and 2004.

Furthermore, the City has benefited from additional State aid since 1997. Up until fiscal 2003, the City had used these funds, mainly for capital investment. Since 2003, the City's management decided growing expenditure pressures required the full amount of State aid to be applied to operations. Management has delineated budget cuts that would be made to ensure structural balance in the event of reductions in State aid.

ASSETS AND DEBT ADMINISTRATION

Capital Assets

Historically, prior to implementation of GASB 34, a government's largest group of assets (infrastructure - roads, curbs, sidewalks, bridges, dams, water and sewer lines, and other similar assets unique to government) have not been reported nor depreciated in government financial statements. This new standard requires that these assets be valued and reported within the *government-wide financial statements*. In accordance with GASB 34, the City has recorded depreciation expense associated with all of its capital assets, including infrastructure. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2004, amounted to \$93,483 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, and infrastructure. A summary of the City's capital assets follows:

City of Troy, New York's Capital Assets Net of Depreciation (000's Omitted)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 811	\$ 102	\$ 913
Buildings	16,581	10,042	26,623
Improvements other than buildings	3,459	31	3,490
Machinery and equipment	2,637	1,699	4,336
Infrastructure	18,059	39,260	57,319
Work in progress	<u>802</u>	<u>0</u>	<u>802</u>
Total	<u>\$ 42,349</u>	<u>\$ 51,134</u>	<u>\$ 93,483</u>

Bonds, Notes, and State Loans Payable

The creation of Troy Municipal Assistance Corporation in 1996 has enabled the City to refinance a significant portion of its outstanding obligations at more favorable interest rates, with its final issuance on behalf of the City occurring at the end of July 1999. The City's success in implementing three consecutive balanced budgets and restoring market access resulted in the decision in 1999 to dismantle the Troy Supervisory Board as a "control board," established in 1994 to oversee the City's finances. The Troy Supervisory Board remains active as an advisory board holding quarterly meetings to discuss and comment on the fiscal situation of the City.

At December 31, 2004, the City had total outstanding liabilities for bonds, notes, and state loans of \$75,276. Of the total amount, \$5,784 is general obligation debt, and \$69,492 is Troy Municipal Assistance Corporation (MAC) debt.

Moody's Investor Service upgraded the general obligation rating of the City in early 2004 to a Baa3 from a Ba1, which affects \$7.2 million of outstanding general obligation debt. The rating upgrade reflects a trend of satisfactory financial operations despite the expenditure challenges facing all New York municipalities (health care, pension, and salaries). The Baa3 rating also reflects the City's current high debt burden and limited local tax base.

**City of Troy, New York's Outstanding Debt
(000's Omitted)**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General obligation	\$ 350	\$ 5,434	\$ 5,784
MAC debt	<u>69,492</u>	<u>-</u>	<u>69,492</u>
Total	<u>\$69,842</u>	<u>\$ 5,434</u>	<u>\$75,276</u>

Economic Trends

Economic trends facing the City include the declining role of manufacturing, increases in state workers, increasing unemployment and underemployment of under-skilled residents, job loss, retail sales constriction, and loss of establishments. Growing emphasis on new technology in the region and expansion of Rensselaer Polytechnic Institute's (RPI) role as a leader in biotechnology and advanced media, represent important new development opportunities. Workforce development will be critical to ensure the City captures its share of new technology development.

The largest employers in the City include RPI, Hudson Valley Community College, Seton Health, Northeast Health (Samaritan and St. Mary's Hospitals, and "The Eddy"), New York State, Rensselaer County, and the Troy City School District. The City is also home to many small businesses which remain important to the local economy. While downtown Troy contains the City's central business district, concentrations of commercial activity can be found throughout the entire City, especially along Hoosick Street (Route 7), Second and Fifth Avenues in Lansingburgh, and throughout the area surrounding Hudson Valley Community College.

Over the past few years, the State of New York has become a major employer in the City by relocating some 2,000 state workers to office space now rented in the City. (State offices are located in the Uncle Sam Atrium, the Frear Building, the Hendrick Hudson Hotel building, Hedley Park Place (formerly the Cluett building), Flanigan Square, and many more.) This endeavor is a positive one both for New York State as it takes advantage of less expensive office space and the City through potentially increased economic vitality.

Other Significant Matters

In addition to providing pension 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 \$3.2 million was paid on behalf of approximately 430 retirees and survivors and recorded as expenditures in the General Fund. During the year, \$286 in health insurance premiums was collected from these retirees and survivors. An additional expense of \$7,963 related to health insurance costs was recorded in the government-wide financial statements.

As indicated above, the City recognizes an approximation of the unfunded net liability for future health insurance benefits for retirees (\$72,598) as another non-current liability in the basic financial statements. This liability is significant for the City, as it will be for other governments throughout the country. Readers of this report, when comparing our financial information with other comparable governments throughout New York and the country, should understand that the City has chosen to report this liability earlier than required, which has the effect of significantly reducing our net assets.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about the report or need additional financial information, contact the City Comptroller at City Hall, One Monument Square, Troy, New York 12180 or visit the City of Troy website at www.troyny.org.

CITY OF TROY, NEW YORK

**GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
December 31, 2004**

	Governmental	Business-Type	Total
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Cash and cash equivalents	\$ 10,195,124	\$ 1,197,306	\$ 11,392,430
Receivables, net of allowance for uncollectibles	13,365,004	4,259,919	17,624,923
Due from other funds	286,537	197,089	483,626
Inventories	-	240,839	240,839
Prepaid expenses	-	166,526	166,526
Restricted assets:			
Cash and cash equivalents with fiscal agent	9,840,155	404,509	10,244,664
Capital assets, net of accumulated depreciation:			
Land	811,458	101,948	913,406
Buildings	16,580,791	10,042,109	26,622,900
Improvements other than buildings	3,458,697	31,584	3,490,281
Machinery and equipment	2,637,588	1,698,551	4,336,139
Infrastructure	18,059,216	39,260,009	57,319,225
Work in progress	801,723	-	801,723
Total assets	<u>76,036,293</u>	<u>57,600,389</u>	<u>133,636,682</u>
LIABILITIES			
Accounts payable and other current liabilities	14,493,759	893,687	15,387,446
Due to other funds	30	483,626	483,656
Bond anticipation notes payable	125,000	-	125,000
Noncurrent liabilities			
Due within one year	4,742,031	291,899	5,033,930
Due in more than one year	142,601,925	5,481,190	148,083,115
Total liabilities	<u>161,962,745</u>	<u>7,150,402</u>	<u>169,113,147</u>
NET ASSETS			
Invested in capital assets, net of related debt	38,014,473	45,700,525	83,714,998
Restricted for			
Capital improvements	5,010,523	-	5,010,523
Debt	9,390,807	-	9,390,807
Law enforcement activities	102,427	-	102,427
Unrestricted	<u>(138,444,682)</u>	<u>4,749,462</u>	<u>(133,695,220)</u>
Total net assets	<u>\$ (85,926,452)</u>	<u>\$ 50,449,987</u>	<u>\$ (35,476,465)</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF TROY, NEW YORK
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expenses) Revenues And Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
General government support	\$ 17,841,815	\$ 1,136,716	\$ 778,229	\$ -	\$ (15,926,870)	\$ -	\$ (15,926,870)
Police services	12,318,892	1,249,705	293,514	-	(10,775,673)	-	(10,775,673)
Fire protection and emergency rescue services	12,114,058	1,446,908	-	-	(10,667,150)	-	(10,667,150)
Traffic control and code enforcement	548,636	40	116,507	-	(432,089)	-	(432,089)
Health	118,555	-	-	-	(118,555)	-	(118,555)
Transportation	5,944,799	750,258	-	1,140,922	(4,053,619)	-	(4,053,619)
Culture and recreation	2,364,471	1,056,764	-	83,162	(1,224,545)	-	(1,224,545)
Sanitation	2,750,195	469,889	-	-	(2,280,306)	-	(2,280,306)
Community development and other services	3,249,314	178,091	2,874,645	35,610	(160,968)	-	(160,968)
Interest on long-term debt	3,694,184	-	-	-	(3,694,184)	-	(3,694,184)
Total governmental activities	<u>60,944,919</u>	<u>6,288,371</u>	<u>4,062,895</u>	<u>1,259,694</u>	<u>(49,333,959)</u>	<u>-</u>	<u>(49,333,959)</u>
Business-type activities							
Water	8,236,508	10,092,113	30,290	-	-	1,885,895	1,885,895
Sewer	2,741,127	1,633,379	-	282,810	-	(824,938)	(824,938)
Total business-type activities	<u>10,977,635</u>	<u>11,725,492</u>	<u>30,290</u>	<u>282,810</u>	<u>-</u>	<u>1,060,957</u>	<u>1,060,957</u>
	<u>\$ 71,922,554</u>	<u>\$ 18,013,863</u>	<u>\$ 4,093,185</u>	<u>\$ 1,542,504</u>	<u>(49,333,959)</u>	<u>1,060,957</u>	<u>(48,273,002)</u>
GENERAL REVENUES							
Real property tax and related tax items					17,139,905	-	17,139,905
Non-property tax items					12,473,233	-	12,473,233
Interest earnings					401,764	25,566	427,330
General state aid and mortgage taxes					8,851,264	-	8,851,264
Other general revenues					749,301	-	749,301
Total general revenues					<u>39,615,467</u>	<u>25,566</u>	<u>39,641,033</u>
Transfers from governmental to business-type activities					(345,599)	345,599	-
Transfers from business-type to governmental activities					927,911	(927,911)	-
Total general revenues and transfers					<u>582,312</u>	<u>(582,312)</u>	<u>-</u>
CHANGE IN NET ASSETS					<u>(9,136,180)</u>	<u>504,211</u>	<u>(8,631,969)</u>
NET ASSETS, beginning of year					(76,790,272)	42,380,704	(34,409,568)
Prior period adjustments							
Revaluation of water treatment facility (See Note E)					-	7,565,072	7,565,072
NET ASSETS, beginning of year, as restated					<u>(76,790,272)</u>	<u>49,945,776</u>	<u>(26,844,496)</u>
NET ASSETS, end of year					<u>\$ (85,926,452)</u>	<u>\$ 50,449,987</u>	<u>\$ (35,476,465)</u>

CITY OF TROY, NEW YORK
FUND FINANCIAL STATEMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Community Development</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 7,820,382	\$ 837,988	\$ 1,351,669	\$ 185,085	\$ 10,195,124
Cash and cash equivalents with fiscal agent	6,600,028	-	-	3,240,127	9,840,155
Receivables, net of allowance for uncollectibles	7,983,616	1,625	328,116	-	8,313,357
Receivables from other governments	3,806,513	850,834	522,384	-	5,179,731
Due from other funds	<u>1,174,683</u>	<u>1,775,207</u>	<u>1,358,468</u>	<u>-</u>	<u>4,308,358</u>
Total assets	<u>\$ 27,385,222</u>	<u>\$3,465,654</u>	<u>\$ 3,560,637</u>	<u>\$ 3,425,212</u>	<u>\$ 37,836,725</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	\$ 4,867,850	\$ 400,308	\$ 358,746	\$ 25,730	\$ 5,652,634
Notes payable	-	125,000	-	-	125,000
Due to other governments	4,427,697	-	31,350	-	4,459,047
Due to other funds	2,642,917	165,000	1,188,934	25,000	4,021,851
Deferred tax revenue	4,063,986	-	-	-	4,063,986
Other deferred revenue	<u>536,371</u>	<u>-</u>	<u>888,354</u>	<u>-</u>	<u>1,424,725</u>
Total liabilities	<u>16,538,821</u>	<u>690,308</u>	<u>2,467,384</u>	<u>50,730</u>	<u>19,747,243</u>
Fund balances					
Reserved for					
Encumbrances	185,270	1,291,170	1,841,369	-	3,317,809
Capital improvements	3,526,347	1,484,176	-	-	5,010,523
Debt	6,145,460	-	-	3,245,347	9,390,807
Law enforcement activities	-	-	-	102,427	102,427
Unreserved					
Unappropriated	<u>989,324</u>	<u>-</u>	<u>(748,116)</u>	<u>26,708</u>	<u>267,916</u>
Total fund balances	<u>10,846,401</u>	<u>2,775,346</u>	<u>1,093,253</u>	<u>3,374,482</u>	<u>18,089,482</u>
Total liabilities and fund balances	<u>\$ 27,385,222</u>	<u>\$3,465,654</u>	<u>\$ 3,560,637</u>	<u>\$ 3,425,212</u>	<u>\$ 37,836,725</u>

CITY OF TROY, NEW YORK

FUND FINANCIAL STATEMENTS
RECONCILIATION OF THE TOTAL FUND BALANCES IN
THE GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
December 31, 2004

Total fund balances in the fund financial statements for the governmental funds	\$ 18,089,482
This amount differs from the amount of net assets shown in the statement of net assets due to the following:	
Capital assets are included as assets in the government-wide statements and are added, net of accumulated depreciation.	42,349,473
Long-term liabilities for bonds payable, state loans, repayment agreements, retirement debt, retiree health insurance, landfill post-closure costs, and other long-term liabilities are included as liabilities in the government-wide statements and are deducted.	(145,230,906)
Deferred real property taxes and other deferred revenues that were earned, measurable but not available in prior years, are recorded as additions to net assets in the government-wide statements, net of uncollectibles, and are eliminated as deferred revenues.	4,401,640
Net receivables for revenues earned, measurable but not available to provide financial resources, are included in the government-wide statements as assets and are added.	216,244
Other current liabilities for compensated absences, judgments and claims, and amounts due to Rensselaer County are recorded as liabilities in the government-wide statements and are deducted.	(4,674,305)
Current liabilities for interest payable on long-term debt are included in the government-wide statements as liabilities and are deducted.	<u>(1,078,080)</u>
Total net assets, end of year	<u>\$ (85,926,452)</u>
Fund balances in the governmental funds	\$ 18,089,482
Additions to the government-wide statements	46,967,357
Deductions to the government-wide statements	<u>(150,983,291)</u>
Net Assets in the government-wide statements	<u>\$ (85,926,452)</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF TROY, NEW YORK

FUND FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Community Development</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES					
Real property taxes	\$ 16,484,252	\$ -	\$ -	\$ -	\$ 16,484,252
Real property tax items	1,629,803	-	-	-	1,629,803
Non-property taxes	12,473,233	-	-	-	12,473,233
Departmental income	4,332,645	-	129,789	-	4,462,434
Intergovernmental charges	390,030	-	-	-	390,030
Use of money and property	242,751	4,379	10,708	179,288	437,126
Licenses and permits	618,674	-	-	-	618,674
Fines and forfeitures	1,030,608	-	-	21,347	1,051,955
Sale of property and compensation for loss	152,553	-	-	-	152,553
Miscellaneous	783,770	17,782	56,336	-	857,888
Interfund revenues	1,829,451	-	-	-	1,829,451
State aid	9,902,918	104,845	167,669	-	10,175,432
Federal aid	304,271	567,952	3,027,196	-	3,899,419
Total revenues	<u>50,174,959</u>	<u>694,958</u>	<u>3,391,698</u>	<u>200,635</u>	<u>54,462,250</u>
EXPENDITURES					
Current					
General government support	7,523,707	67,434	-	5,646	7,596,787
Public safety	23,595,898	-	-	-	23,595,898
Health	118,986	-	-	-	118,986
Transportation	3,002,316	287,529	-	-	3,289,845
Culture and recreation	2,208,961	-	-	-	2,208,961
Home and community service	3,415,333	3,924	2,900,412	-	6,319,669
Employee benefits	3,324,033	-	-	-	3,324,033
Debt Service					
Principal	3,944,287	-	-	-	3,944,287
Interest	2,305,649	-	-	-	2,305,649
Capital outlay					
General government support	23,079	-	-	-	23,079
Public safety	108,827	640,098	-	-	748,925
Transportation	-	391,765	-	-	391,765
Culture and recreation	-	88,121	-	-	88,121
Home and community service	-	101,188	-	-	101,188
Total expenditures	<u>49,571,076</u>	<u>1,580,059</u>	<u>2,900,412</u>	<u>5,646</u>	<u>54,057,193</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	1,174,183	70,986	25,000	-	1,270,169
Bond anticipation notes redeemed from appropriations	-	125,000	-	-	125,000
Interfund transfers out	-	(34,260)	(98,523)	(209,475)	(342,258)
Total other financing sources and uses	<u>1,174,183</u>	<u>161,726</u>	<u>(73,523)</u>	<u>(209,475)</u>	<u>1,052,911</u>
Net change in fund balances	1,778,066	(723,375)	417,763	(14,486)	1,457,968
FUND BALANCE, beginning of year	<u>9,068,335</u>	<u>3,498,721</u>	<u>675,490</u>	<u>3,388,968</u>	<u>16,631,514</u>
FUND BALANCE, end of year	<u>\$ 10,846,401</u>	<u>\$2,775,346</u>	<u>\$ 1,093,253</u>	<u>\$ 3,374,482</u>	<u>\$ 18,089,482</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF TROY, NEW YORK

**FUND FINANCIAL STATEMENTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE CHANGE IN NET ASSETS SHOWN IN THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2004**

Net change in fund balances shown for total governmental funds. This amount differs from the change in net assets shown in the statement of activities because of the following: \$ 1,457,968

Capital outlays for acquisition of capital assets are recorded in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which expenditures for acquisition of capital assets exceeded depreciation expense for the period.

Capital expenditures	1,353,078	
Depreciation expense	<u>(3,352,300)</u>	(1,999,222)

Real property taxes are recorded in the governmental funds when they are available for collection, which includes the first 60 days after the end of the fiscal year. Amounts not considered available are recorded as deferred revenue in the year levied and actual revenue in the year collected.

Collections of deferred revenues are shown in the statement of net assets as collections on prior year receivables and not as revenue. These amounts are excluded from revenue in the statement of activities. (644,697)

Major revenues are recorded in the governmental funds when they become susceptible to accrual, that is when they are earned, measurable, and available to provide current financial resources. In the statement of activities, major revenues are recognized when they are earned and measurable, regardless of when they become available. This is the amount by which earned revenues for the current period exceeded the amount of prior year earned revenues not recognized as being available until the current period.

Current year revenues	263,399	
Prior year revenues	<u>(923,463)</u>	(660,064)

Payments on the principal of debt are shown as expenditures in the governmental funds. These payments are shown in the statement of net assets as a reduction of the related liabilities and are not shown as expenses in the statement of activities. This amount was the principal payments made during the current year. 3,654,287

Payments of liabilities for prior years' landfill closure costs, judgments, and claims are recorded as expenditures in the governmental funds when they are due. These payments are shown in the statement of net assets as reductions of the related liabilities and are not shown as expenses in the statement of activities. This amount is the applicable payment made during the current year. 371,500

Payments for compensated absences are recorded in the governmental funds as expenditures when the applicable leave credits are used by employees and are paid on payroll. In the statement of activities, these costs are allocated over the applicable payroll periods that they pertain to. This amount represents the increase in costs for compensated absences added during 2004. (525,450)

The amount of accretion on the repayment agreements for the MAC debt is added to the schedule of non-current liabilities and is not shown as an expenditure in the governmental funds. This accretion is shown in the statement of activities as an interest expense and is included in the statement of net assets as a long-term liability. This is the accretion amount for the current year. (1,354,379)

The accompanying Notes to Financial Statements are an integral part of these statements.

The additional amount of estimated future health insurance costs for retirees is added to the schedule of non-current liabilities and is not shown as an expenditure in the governmental funds. This amount is shown as an expense under general government support in the statement of activities, and the related liabilities are shown in the statement of net assets. This is the estimate for the current year. (7,963,034)

Payments for retirement system contributions are recorded in the governmental funds as expenditures when the amounts due are billed by the retirement systems. In the statement of activities, retirement costs are allocated over the applicable payroll periods that they pertain to. With the change in payment date described in Note H, no payments were made during 2004. However, the City recorded current liabilities for the amounts due. These are the amounts by which current costs allocated over the 2004 payroll periods exceed expenditures recorded in the governmental funds.

Contributions	(872,675)	
Interest on retirement debt	<u>(220,659)</u>	(1,093,334)

Payments for interest on debt are recorded in the governmental funds as expenditures when the payments are due. In the statement of activities, interest costs are allocated over the applicable time period they pertain to. These are the amounts by which current period expenditures exceed costs allocated over the applicable periods.

Current year interest allocation	(1,078,080)	
Prior year interest allocation	<u>1,043,924</u>	(34,156)

Corrections were made in the government-wide statements to show contributions from the governmental funds to capital projects for water and sewer activities. This amount represents those costs during 2004. (345,599)

Interfund transactions are eliminated in the statement of net assets and the statement of activities. The amounts offset and have a zero effect of operations.

Interfund Revenues	1,829,451	
Offsetting Expenditures	<u>(1,829,451)</u>	-
Transfers in	342,258	
Transfers out	<u>(342,258)</u>	-

Change in net assets of governmental activities shown in the statement of activities. **\$ (9,136,180)**

Change in fund balances	\$ 1,457,968
Additions to the government-wide statements	4,025,787
Deductions to the government-wide statements	<u>(14,619,935)</u>

Change in net assets in the government-wide statements **\$ (9,136,180)**

CITY OF TROY, NEW YORK

**FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
Year Ended December 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Revised - Positive (Negative)</u>
	<u>Adopted</u>	<u>Revised</u>		
REVENUES				
Real property taxes	\$15,762,614	\$ 16,840,803	\$ 16,484,252	\$ (356,551)
Real property tax items	1,901,000	1,911,000	1,629,803	(281,197)
Non-property taxes	11,725,100	11,735,100	12,473,233	738,133
Departmental income	3,800,000	3,785,000	4,332,645	547,645
Intergovernmental charges	316,130	314,130	390,030	75,900
Use of money and property	357,500	282,500	242,751	(39,749)
Licenses and permits	515,576	514,300	618,674	104,374
Fines and forfeitures	1,170,000	1,140,000	1,030,608	(109,392)
Sale of property and compensation for loss	23,000	15,000	152,553	137,553
Miscellaneous	220,000	218,667	783,770	565,103
Interfund revenues	1,994,002	1,990,725	1,829,451	(161,274)
State aid	9,469,794	9,519,794	9,902,918	383,124
Federal aid	241,500	241,500	304,271	62,771
Total revenues	<u>47,496,216</u>	<u>48,508,519</u>	<u>50,174,959</u>	<u>1,666,440</u>
EXPENDITURES				
General government support	7,631,450	7,534,578	7,546,786	(12,208)
Public safety	23,775,362	24,271,835	23,704,725	567,110
Health	127,688	133,960	118,986	14,974
Transportation	3,024,488	3,036,212	3,002,316	33,896
Culture and recreation	2,205,934	2,260,101	2,208,961	51,140
Home and community service	3,395,758	3,532,146	3,415,333	116,813
Employee benefits	2,872,100	3,339,533	3,324,033	15,500
Debt service	6,093,609	6,030,327	6,249,936	(219,609)
Total expenditures	<u>49,126,389</u>	<u>50,138,692</u>	<u>49,571,076</u>	<u>567,616</u>
OTHER FUNDING SOURCES (USES)				
Interfund transfers in	<u>1,630,173</u>	<u>1,630,173</u>	<u>1,174,183</u>	<u>(455,990)</u>
Appropriated fund balance (budget) and net change in fund balances (actual)	-	-	1,778,066	1,778,066
FUND BALANCE, beginning of year	<u>-</u>	<u>-</u>	<u>9,068,335</u>	<u>9,068,335</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,846,401</u>	<u>\$ 10,846,401</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF TROY, NEW YORK

**FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2004**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,110,419	\$ 86,887	\$ 1,197,306
Receivables, net of allowance for uncollectibles	3,707,347	552,572	4,259,919
Due from other funds	197,089	-	197,089
Inventories	240,839	-	240,839
Prepaid expenses	166,526	-	166,526
Restricted assets			
Cash and cash equivalents with fiscal agent	179,509	225,000	404,509
Capital assets, net of accumulated depreciation			
Land	100,961	987	101,948
Buildings	9,991,886	50,223	10,042,109
Improvements other than buildings	21,600	9,984	31,584
Machinery and equipment	626,533	1,072,018	1,698,551
Infrastructure	19,391,383	19,868,626	39,260,009
Total assets	<u>35,734,092</u>	<u>21,866,297</u>	<u>57,600,389</u>
LIABILITIES			
Accounts payable and other current liabilities	732,517	161,170	893,687
Due to other funds	-	483,626	483,626
Non-current liabilities:			
Due within one year	227,385	64,514	291,899
Due in more than one year	3,872,386	1,608,804	5,481,190
Total liabilities	<u>4,832,288</u>	<u>2,318,114</u>	<u>7,150,402</u>
NET ASSETS			
Invested in capital assets, net of related debt	26,324,577	19,375,948	45,700,525
Unrestricted	<u>4,577,227</u>	<u>172,235</u>	<u>4,749,462</u>
Total net assets	<u>\$30,901,804</u>	<u>\$ 19,548,183</u>	<u>\$50,449,987</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF TROY, NEW YORK

**FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
Year Ended December 31, 2004**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Rents and charges for sales and services	\$ 7,786,367	\$ 1,628,488	\$ 9,414,855
Rental of real property	93,457	-	93,457
Permits	12,099	-	12,099
Sales of unneeded materials and equipment	64,885	-	64,885
Refund of prior year expenses	2,113,596	-	2,113,596
Miscellaneous	21,709	4,891	26,600
State aid for capital projects	-	282,810	282,810
Federal aid for capital projects	30,290	-	30,290
Total operating revenues	<u>10,122,403</u>	<u>1,916,189</u>	<u>12,038,592</u>
OPERATING EXPENSES			
Costs of sales and services	7,122,545	1,825,009	8,947,554
Depreciation	1,113,963	916,118	2,030,081
Total operating expenses	<u>8,236,508</u>	<u>2,741,127</u>	<u>10,977,635</u>
Operating income (loss)	<u>1,885,895</u>	<u>(824,938)</u>	<u>1,060,957</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and earnings	25,566	-	25,566
Transfer from governmental activities	83,075	262,524	345,599
Transfer to governmental activities	(900,000)	(27,911)	(927,911)
Transfer from/to business-type activities	197,089	(197,089)	-
Total nonoperating revenues	<u>(594,270)</u>	<u>37,524</u>	<u>(556,746)</u>
CHANGE IN NET ASSETS	<u>1,291,625</u>	<u>(787,414)</u>	<u>504,211</u>
NET ASSETS, beginning of year	22,045,107	20,335,597	42,380,704
Prior period adjustment - water treatment plant (See Note E)	7,565,072	-	7,565,072
NET ASSETS, beginning of year, as restated	<u>29,610,179</u>	<u>20,335,597</u>	<u>49,945,776</u>
NET ASSETS, end of year	<u>\$ 30,901,804</u>	<u>\$ 19,548,183</u>	<u>\$ 50,449,987</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF TROY, NEW YORK

**FUND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended December 31, 2004**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES			
Charges for services	\$7,252,669	\$1,702,703	\$8,955,372
Operating grants, contributions, and other revenue	2,135,305	1,742,500	3,877,805
Payments to suppliers and vendors	(3,969,597)	(1,012,075)	(4,981,672)
Payments to employees, payroll taxes and benefits	<u>(3,460,287)</u>	<u>(794,248)</u>	<u>(4,254,535)</u>
	<u>1,958,090</u>	<u>1,638,880</u>	<u>3,596,970</u>
CASH FLOWS PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES			
Advances from governmental activities	-	286,537	286,537
Contributions from other activities	280,164	262,524	542,688
Contributions to governmental activities	<u>(2,075,697)</u>	<u>(27,911)</u>	<u>(2,103,608)</u>
	<u>(1,795,533)</u>	<u>521,150</u>	<u>(1,274,383)</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds of capital debt	-	1,625,890	1,625,890
Acquisition of capital assets	(85,540)	(498,668)	(584,208)
Payment of bond anticipation notes	-	(3,242,500)	(3,242,500)
Payment of interest on capital debt	(106,225)	-	(106,225)
Payment of principal on capital debt	<u>(165,652)</u>	<u>-</u>	<u>(165,652)</u>
	<u>(357,417)</u>	<u>(2,115,278)</u>	<u>(2,472,695)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES			
Interest earnings	<u>25,566</u>	<u>-</u>	<u>25,566</u>
Net increase (decrease) in cash and cash equivalents	<u>(169,294)</u>	<u>44,752</u>	<u>(124,542)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,459,222</u>	<u>267,135</u>	<u>1,726,357</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$1,289,928</u>	<u>\$ 311,887</u>	<u>\$1,601,815</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	1,885,895	(824,938)	1,060,957
(Increase) decrease in receivables net of allowances	149,814	69,324	219,138
(Increase) decrease in receivables from other governments	(748,397)	1,459,690	711,293
(Increase) decrease in inventory	(68,425)	-	(68,425)
(Increase) decrease in prepaid expenses	87,372	5,108	92,480
Increase (decrease) in accounts payable and other liabilities	(462,132)	13,578	(448,554)
Depreciation expense	<u>1,113,963</u>	<u>916,118</u>	<u>2,030,081</u>
Net cash provided (used) by operating activities	<u>\$1,958,090</u>	<u>\$1,638,880</u>	<u>\$3,596,970</u>

CITY OF TROY, NEW YORK

**FUND FINANCIAL STATEMENTS
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
December 31, 2004**

	Agency Funds	Local Police Pension Fund	Local Fire Pension Fund	Total Fiduciary Funds
ASSETS				
Cash and cash equivalents	\$ 261,655	\$ 873	\$ 516	\$ 263,044
Securities	36,339	-	-	36,339
Due from other funds	<u>30</u>	<u>-</u>	<u>-</u>	<u>30</u>
Total assets	<u>298,024</u>	<u>873</u>	<u>516</u>	<u>299,413</u>
LIABILITIES				
Accounts payable	<u>298,024</u>	<u>-</u>	<u>-</u>	<u>298,024</u>
Total liabilities	<u>298,024</u>	<u>-</u>	<u>-</u>	<u>298,024</u>
NET ASSETS	<u><u>\$ -</u></u>	<u><u>\$ 873</u></u>	<u><u>\$ 516</u></u>	<u><u>\$ 1,389</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF TROY, NEW YORK

**FUND FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
Year Ended December 31, 2004**

	Local Police Pension <u>Fund</u>	Local Fire Pension <u>Fund</u>	<u>Total</u>
ADDITIONS			
Contributions from the City	\$ 29,600	\$ 27,550	\$ 57,150
DEDUCTIONS			
Benefits and awards	29,024	27,644	56,668
Administrative services	<u>100</u>	<u>100</u>	<u>200</u>
Total expenses	<u>29,124</u>	<u>27,744</u>	<u>56,868</u>
CHANGE IN NET ASSETS	476	(194)	282
NET ASSETS, beginning of year	<u>397</u>	<u>710</u>	<u>1,107</u>
NEW ASSETS, end of year	<u>\$ 873</u>	<u>\$ 516</u>	<u>\$ 1,389</u>

CITY OF TROY, NEW YORK

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Troy, New York have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

In preparing the basic financial statements in conformity with accounting principles generally accepted in the United States of America, 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

1. Financial Reporting Entity

The City of Troy, New York (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.

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

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. Financial Reporting Entity - Continued

Included In the Reporting Entity:

Troy Urban Renewal Agency

The Troy Urban Renewal Agency is a separate entity established by Chapter 239 of the Laws of 1966 as a governmental agency. Significant factors affecting the decision to include the Agency are as follows:

- a. The members of the City Council serve as members of the Urban Renewal Agency.
- b. The Agency's activities are solely for the benefit of the City and its residents.
- c. The Agency is currently inactive and has not met as an Agency in over eight (8) calendar years (January 1, 1996 through December 31, 2004).

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 Public Authorities Law (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 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 the 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.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. Financial Reporting Entity - Continued

Excluded From the Reporting Entity - Continued

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.

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 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. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report all of the City's non-fiduciary activities and eliminate most of the interfund activity normally included in the City's separate fund financial statements. Governmental activities, which are the City's main activities financed primarily by taxes and other intergovernmental revenues, are reported separately from business-type activities, which are intended to be self-sustaining activities financed by charges to customers using the services.

The statement of net assets presents the financial condition of the City's activities at year-end. The statement of activities presents a comparison between direct expenses needed to provide specific services and the program revenues that are generated by those services. Program revenues include charges for services, operating grants and contributions, and capital grants and contributions generated by and related to the applicable activity. General revenues are revenues such as real property taxes, sales taxes, interest earnings, and unrestricted intergovernmental revenues that generally can be used to finance most applicable activities. The statement of activities identifies the net expense or revenue from each activity and identifies the amount of general revenues needed to help finance the specific activities.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Government-Wide and Fund Financial Statements - Continued

During the year, the City segregates transactions related to certain activities in separate funds in order to aid in financial management and to demonstrate compliance with Charter provisions and various state and local laws. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are not included in the government-wide statements. The focus of the fund financial statements is on the City's major funds, rather than on individual funds. The City's major governmental funds include the General Fund, Special Grant Fund, and Capital Projects Fund. Non-major funds are aggregated and presented in a separate column. The City's two enterprise funds for water and sewer activities are both considered major business-type funds. Fiduciary funds are reported by type.

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

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the proprietary funds. All assets and liabilities are recorded in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. This measurement focus and basis of accounting is similar to private sector reporting.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financial 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 follows GAAP and 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 similar 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.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The City also reports deferred revenue on its fund financial statements 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 combined 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 capital assets are recorded as expenditures when the related acquisition amounts are due and payable.

4. 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 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.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. *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.

Troy Urban Renewal Agency is used to account for funds received under the Urban Development Program to develop and/or redevelop various sections of the City.

Federal Proceeds of Crime Fund is used to account for monies received from the Federal Equitable Sharing program involving the proceeds of crime from Drug Enforcement Agency cases. This money is restricted to certain law enforcement activities.

Confiscated Moneys Fund is used to account for certain proceeds of crime monies confiscated during police actions. This money is restricted to certain law enforcement activities.

- c. Debt Service Fund is used to account for the accumulation of resources reserved for future MAC debt payments.
- 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.

Proprietary Funds represent the City's business-type activities, and include Enterprise Funds and Internal Service Funds. Enterprise funds are used to report activities for which fees are charged to external customers for goods and services provided, and the City's fee pricing policies are designed to recover the costs of providing such services, including capital costs such as depreciation or debt service. Internal Service Funds may be used to report any activity that provides goods and services to other funds or departments on a cost-reimbursement basis. The City does not maintain any Internal Service Funds, but does report the following Enterprise Funds:

- a. 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.
- b. 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.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Fund Accounting - Continued

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. Local Police and Fire Pension Funds are used to account for pension funds for former police officers and firefighters and their survivors, established by the City pursuant to Local Law #1 of 1943. These funds were in existence before the City began participation in the New York State Retirement Systems, and the benefits are no longer available to employees.
- b. 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 also maintains schedules of non-current assets and non-current liabilities. Non-current assets include capital assets used in governmental activities, and non-current liabilities include bonds, state loans, and other long-term debt used to finance governmental activities. Capital assets and long-term debt used in water and sewer activities are shown directly in the Proprietary Fund statements.

5. 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.
- d. Not later than December 1, the budget is legally enacted through the passage of a legislative resolution.

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 combined basic financial statements. Expenditures for such commitments are recorded in the period in which the liability is incurred.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Budgets - Continued

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.

The Special Grant Fund and Troy Urban Renewal Agency have been included in the governmental fund financial statements. 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.

6. 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.

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.

7. 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). In the government-wide financial statements, many transactions between the same fund types have been eliminated to reduce the doubling up affects of such transactions.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five (5) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Additions are recorded at cost and donated fixed assets are recorded at their estimated fair value as of the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Class</u>	<u>Life in Years</u>
Buildings	50
Improvements other than buildings	20
Infrastructure	15-75
Machinery and equipment	5-10

9. *Compensated Absences*

During 2004, accumulated vacation for General, Water, and Sewer Fund personnel totaled \$3,579,305, \$277,984, and \$42,027 respectively. The amounts of vested accumulated vacation leave and compensation time are recorded as current liabilities in the government-wide financial statements. No liability is recorded for nonvesting accumulated rights to receive sick and personal pay benefits.

10. *Post-Retirement Benefits*

Reporting for Fund Financial Statements

In addition to providing pension 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 \$3.2 million was paid on behalf of approximately 430 retirees and survivors and recorded as expenditures in the General Fund. During the year, \$285,874 was collected for premiums from these retirees and survivors and recorded as revenue of the General Fund.

Reporting for Government-Wide Financial Statements

The City recognizes an approximation (see Note L) of the future unfunded net liability for future health benefits, \$72,598,415, as a non-current liability in the government-wide financial statements. During 2004, the City reported an increase of \$7,963,034 as an expense under general government support in the governmental activities.

CITY OF TROY, NEW YORK

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Fund Equity

Reserves represent those portions of fund equity not available for appropriation or legally segregated for a future use. Designated fund balances represent tentative plans for future use of financial resources.

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.

<u>Bank Pooled Deposits</u>	<u>Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Pooled Cash and Cash Equivalents	\$ 1,395,303	\$ -	\$ 1,395,303	\$ -	\$ 1,217,384
 <u>Non-Pooled Deposits</u>					
Non-Pooled Cash and Cash Equivalents					
General Fund	7,926,661	578,800	7,523,621	211,002	7,726,876
Special Revenue Funds	1,420,063	21,200	1,499,638	-	1,354,063
Capital Projects	420,177	-	561,731	-	410,552
Trust and Agency	1,487,408	200,000	2,038,525	-	936,169
Debt Service	5,220	-	50,000	-	5,220
	<u>\$ 12,654,832</u>	<u>\$ 800,000</u>	<u>\$ 13,068,818</u>	<u>\$ 211,002</u>	<u>\$ 11,650,264</u>

As a provision of certain financing arrangements, certain Capital Projects Fund cash is restricted for related construction purposes. Reserved retained earnings include 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.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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 an allowance for doubtful accounts based on collection history and a review of accounts by management. Allowance for doubtful accounts was \$465,000 at December 31, 2004.

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 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.

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 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 2004 is approximately \$251.3 million. The effective tax rate on this value is approximately \$65.76 per thousand. The statutory maximum tax rate is 2% of the five-year average of the equalized assessment. The 2004 levy represents approximately 61.2% of the maximum statutory levy.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE D - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund receivables and payables in the fund financial statements:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 1,174,683	\$ 2,642,917
Special grant	1,358,468	1,188,934
Federal proceeds of crime	-	25,000
Capital projects	1,775,207	362,089
Water	197,089	-
Sewer	-	286,537
Agency	<u>30</u>	<u>-</u>
Totals	<u>\$ 4,505,477</u>	<u>\$ 4,505,477</u>

The following is a summary of interfund receivables and payables in the government-wide financial statements:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental	\$ 286,537	\$ 30
Business-type:		
Water	197,089	-
Sewer	-	483,626
Fiduciary	<u>30</u>	<u>-</u>
Totals	<u>\$ 483,656</u>	<u>\$ 483,656</u>

NOTE E - CAPITAL ASSETS

In 2003, the City contracted with a private company to conduct an inventory of the City's capital assets as of December 31, 2003, and to provide an asset management program to account for future additions, disposals, and depreciation costs. The inventory included identification of infrastructure assets, and accumulated depreciation of all applicable capital assets which had not been accounted for prior to 2003. The report produced by the company also identified certain assets that may not have been properly classified in the past, such as certain improvements to land other than buildings that were included in past land values. The City has assumed responsibility for updating capital asset records since the 2003 inventory was conducted.

In 2004, the City recognized that the cost of its water treatment facility had not been adequately determined in the initial inventory process, and did not include major improvements to the facility made in the past few years. As a result, the City revalued the water treatment during 2004, which necessitated a prior period adjustment of \$7,565,072 to the beginning net assets of the water activity.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE E - CAPITAL ASSETS - Continued

The following schedules identify changes in the City's capital assets for the year ended December 31, 2004:

<u>Governmental Activities</u>	Balance January 1, <u>2004</u>	<u>Additions</u>	Retirements/ Reclassifi- cations	Balance December 31, <u>2004</u>
<u>Category</u>				
Capital assets				
Land	\$ 811,458	\$ -	\$ -	\$ 811,458
Buildings	26,538,476	-	-	26,538,476
Improvements other than buildings	7,232,002	-	-	7,232,002
Equipment	8,042,552	551,355	-	8,593,907
Infrastructure	69,099,420	-	-	69,099,420
Work in progress	-	801,723	-	801,723
Total capital assets	<u>111,723,908</u>	<u>1,353,078</u>	<u>-</u>	<u>113,076,986</u>
Less accumulated depreciation				
Buildings	9,426,798	530,887	-	9,957,685
Improvements other than buildings	3,530,206	243,099	-	3,773,305
Equipment	5,438,381	517,938	-	5,956,319
Infrastructure	<u>48,979,828</u>	<u>2,060,376</u>	<u>-</u>	<u>51,040,204</u>
Total accumulated depreciation	<u>67,375,213</u>	<u>3,352,300</u>	<u>-</u>	<u>70,727,513</u>
Net capital assets	<u>\$ 44,348,695</u>	<u>\$ (1,999,222)</u>	<u>\$ -</u>	<u>\$ 42,349,473</u>

Depreciation expense was charged to the following governmental activities during 2004:

General government support	\$ 150,608
Police services	237,581
Fire protection and emergency rescue services	245,556
Other public safety services	10,759
Transportation	2,376,752
Culture and recreation	297,346
Sanitation	<u>33,698</u>
Total depreciation expense	<u>\$ 3,352,300</u>

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE E - CAPITAL ASSETS - Continued

<u>Water Activity</u>	Balance January 1, 2004	<u>Additions</u>	Retirements/ Reclassifi- cations	Balance December 31, 2004
<u>Category</u>				
Capital assets				
Land	\$ 100,961	\$ -	\$ -	\$ 100,961
Buildings	1,781,301	-	10,000,000	11,781,301
Improvements other than buildings	24,000	-	-	24,000
Equipment	754,950	85,540	-	840,490
Infrastructure	<u>49,812,834</u>	<u>-</u>	<u>(9,312,198)</u>	<u>40,500,636</u>
Total capital assets	<u>52,474,046</u>	<u>85,540</u>	<u>687,802</u>	<u>53,247,388</u>
Less accumulated depreciation				
Buildings	1,353,789	235,626	200,000	1,789,415
Improvements other than buildings	1,200	1,200	-	2,400
Equipment	125,889	88,068	-	213,957
Infrastructure	<u>27,397,454</u>	<u>789,069</u>	<u>(7,077,270)</u>	<u>21,109,253</u>
Total accumulated depreciation	<u>28,878,332</u>	<u>1,113,963</u>	<u>(6,877,270)</u>	<u>23,115,025</u>
Net capital assets	<u>\$ 23,595,714</u>	<u>\$(1,028,423)</u>	<u>\$ 7,565,072</u>	<u>\$ 30,132,363</u>

Depreciation expense charged to the water activity during 2004 was \$1,113,963.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE E - CAPITAL ASSETS - Continued

<u>Sewer Activity</u>	Balance January 1, <u>2004</u>	<u>Additions</u>	Retirements/ Reclassifi- <u>cations</u>	Balance December 31, <u>2004</u>
<u>Category</u>				
Capital assets				
Land	\$ 987	\$ -	\$ -	\$ 987
Buildings	228,289	-	-	228,289
Improvements other than buildings	11,093	-	-	11,093
Equipment	719,492	498,668	-	1,218,160
Infrastructure	39,105,532	-	-	39,105,532
Work in progress	-	-	-	-
Total capital assets	<u>40,065,393</u>	<u>498,668</u>	<u>-</u>	<u>40,564,061</u>
Less accumulated depreciation				
Buildings	173,500	4,566	-	178,066
Improvements other than buildings	554	554	-	1,108
Equipment	17,256	128,887	-	146,143
Infrastructure	<u>18,454,795</u>	<u>782,111</u>	<u>-</u>	<u>19,236,906</u>
Total accumulated depreciation	<u>18,646,105</u>	<u>916,118</u>	<u>-</u>	<u>19,562,223</u>
Net capital assets	<u>\$ 21,419,288</u>	<u>\$ (417,450)</u>	<u>\$ -</u>	<u>\$ 21,001,838</u>

Depreciation expense charged to the sewer activity during 2004 was \$916,118.

NOTE F - LOANS RECEIVABLE

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 \$328,116 at December 31, 2004. At year-end, the City believes that all of the rehabilitation loans are fully collectible.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE G - INDEBTEDNESS

1. 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, 2004</u>
<u>General Fund</u>					
General Obligation	09/91	\$2,867,500	6.350	09/05	<u>\$ 225,000</u>
<u>Water Fund</u>					
General Obligation	09/99	855,297	0.000	12/19	665,000
General Obligation	12/01	3,390,000	3.250	12/22	<u>3,142,786</u>
					<u>3,807,786</u>
<u>Sewer Fund</u>					
General Obligation	09/04	1,625,890	2.380	04/34	<u>1,625,890</u>
Total general obligation bonds payable					<u>\$ 5,658,676</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.

2. 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).

The outstanding balances of the repayment agreements described above were \$58,947,275, \$2,355,000, \$4,205,000, and \$3,985,000 at December 31, 2004, respectively.

3. State Clean Water Program

On September 23, 2004, the City issued \$1,625,890 in general obligation Clean Water Serial Bonds to the New York State Environmental Facilities Corporation (EFC). The proceeds of these bonds provided long-term financing 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. Total project cost amounted to \$3,000,000. Costs of construction were initially financed through a zero percent \$2,775,000 bond anticipation note issued on May 2, 2002, by the City to EFC. The City made a principal payment of \$99,110 on May 2, 2004, and received a grant in the amount of \$1,275,000 to help finance the project. The Clean Water Serial Bonds were issued to finance the remaining unfunded costs of \$1,625,890.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE G - INDEBTEDNESS - Continued

4. 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, 2004.

5. Maturity Information

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2004, are as follows:

<u>Year Ending December 31,</u>	<u>Bonds Payable</u>	<u>Repayment Agreements (a)</u>	<u>Total</u>
2005	\$ 451,818	\$ 3,955,000	\$ 4,406,818
2006	210,987	4,375,000	4,585,987
2007	216,472	4,705,000	4,921,472
2008	222,130	4,855,000	5,077,130
2009	232,974	4,950,000	5,182,974
2010 through 2014	1,259,345	26,030,000	27,289,345
2015 through 2019	1,446,525	28,820,000	30,266,525
2020 through 2022	824,515	16,530,000	17,354,515
2023 through 2034	<u>793,910</u>	<u>-</u>	<u>793,910</u>
Liability as of December 31, 2004	<u>\$ 5,658,676</u>	<u>\$ 94,220,000</u>	<u>\$ 99,878,676</u>

(a) Repayment agreements include accretion on Capital Appreciation Bonds of \$24,727,725.

Of the total outstanding principal indebtedness of the City in the sum of \$62,051,587, \$56,743,801 was subject to the statutory debt limit and represented 75.50% of the City's \$75,161,070 statutory debt limit.

5. Non-Current Liabilities and Other Liabilities

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

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Debt Retirements/ Adjustments</u>	<u>Balance December 31, 2004</u>
Bonds payable	\$ 4,773,438	\$ 1,625,890	\$ 740,652	\$ 5,658,676
Landfill closure	720,000	-	30,000	690,000
Retirement debt (b)	2,908,048	238,362	-	3,146,410
Retirement debt (c)	-	1,531,269	-	1,531,269
Repayment agreements (d)	71,217,183	1,354,379	3,079,287	69,492,275
Post-employment health insurance	<u>64,635,381</u>	<u>7,963,034</u>	<u>-</u>	<u>72,598,415</u>
Total non-current liabilities	<u>\$ 144,254,050</u>	<u>\$ 12,712,934</u>	<u>\$ 3,849,939</u>	<u>\$ 153,117,045</u>

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE G - INDEBTEDNESS - Continued

- (b) Represents debt for the 2002 incentive and §443 plans for police and fire. Additions during 2004 include interest added as of December 31, 2004. See Note H.
- (c) Represents debt for the 2004 amortization covering the period April 1, 2004 to December 31, 2004. See Note H.
- (d) Repayment agreements include accreted interest of \$1,354,379 added during 2004 and \$13,224,275 to date.

Other liabilities shown in the past as part of long-term debt, but now shown in the government-wide financial statements as current liabilities, include the following:

	Balance January 1, <u>2004</u>	<u>Additions</u>	Debt Retirements/ <u>Adjustments</u>	Balance December 31, <u>2004</u>
Due to Rensselaer County	\$ 330,000	\$ -	\$ 165,000	\$ 165,000
Judgments and claims payable	416,500	-	176,500	240,000
Compensated absences	<u>3,332,550</u>	<u>566,767</u>	<u>-</u>	<u>3,899,317</u>
Total other liabilities	<u>\$ 4,079,050</u>	<u>\$ 566,767</u>	<u>\$ 341,500</u>	<u>\$ 4,304,317</u>

NOTE H - 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.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE H - NEW YORK STATE RETIREMENT SYSTEMS - Continued

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, who contribute 3% of their salary for the first ten years of membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed as proportions of payroll members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Since 1989, the System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis. Recent legislation allowed employers to delay payment of the annual billings from December 15 to the following February 1. As a result, the City's contribution for 2004 and payment on the additional retirement debt shown below were not made until February 1, 2005. The required contributions for the current year and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2004	\$1,046,530	\$ 1,489,520
2003	721,360	1,220,576
2002	153,785	588,207

Contributions made to the Systems were equal to 100% of the contributions required for each year plus payments for retirement system debt described below.

Beginning in 1992, the State Legislature authorized local governments to make available retirement incentive programs.

In 2002, the City opted into the retirement incentive program with a total cost of \$868,763 applicable to the governmental and business-type funds. The City opted to pay for this program over a five-year term, and will be charged 8% interest per annum after the first year. The first installment of this plan was paid in fiscal year 2003 in the amount of \$201,470 included payment of principal only. The maturity schedule for this debt is as follows:

Due February 1, 2005	\$ 148,086
Due February 1, 2006	159,933
Due February 1, 2007	172,728
Due February 1, 2008	<u>186,546</u>
Total	<u>\$ 667,293</u>

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:

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE H - NEW YORK STATE RETIREMENT SYSTEMS - Continued

2. Funding Policy

	<u>Fire</u>	<u>Police</u>	<u>Total</u>
February 1, 2005	\$ 123,222	\$ 87,442	\$ 210,664
2006	133,079	94,437	227,516
2007	143,726	101,992	245,718
2008	155,224	110,152	265,376
2009	167,642	118,964	286,606
2010 through 2012	587,775	417,100	1,004,875
	<u>\$1,310,668</u>	<u>\$ 930,087</u>	<u>\$ 2,240,755</u>

Chapter 49 Laws of 2003 allowed employers to amortize a certain amount of its unpaid principal balance of the December 15, 2004, retirement bill over a ten (10) year period at a interest rate to be determined by the Retirement System. The City opted to amortize the allowable amounts of \$527,873 for the Employees and \$1,513,819 for the Police and Fire Retirement Systems. The portion of these amortized liabilities covering the nine-month period April 1, 2004 to December 31, 2004, \$395,905 and \$1,135,364 respectively, are included in the financial statements as non-current governmental liabilities.

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.

CITY OF TROY, NEW YORK

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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 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.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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 30 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 G.2., 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 twenty-three years, for a total of \$690,000.

NOTE K - COMMITMENTS AND CONTINGENCIES

1. Sales and Use Tax

On February 28, 2005, the City and County renewed its current agreement that was in effect for the period December 1, 1999 through November 30, 2004, whereby the City agreed to:

1. Extend the term of the agreement to December 1, 2004 through November 30, 2009;
2. Receive 18.07% of the local share of the 3% County-wide sales and use tax;
3. Receive 24.37% of the local share of the additional 1% County-wide sales and use tax effective September 1, 1994; and,
4. 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 will be 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 (10) years at \$16,500 per year.

2. Due to Other Governments

Due to other governments includes:

1. 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 \$2,542,556 and \$1,818,345, respectively, represents the amount owed to these entities at December 31, 2004.
2. The amount of uncollected 1985-2004 County taxes totaling \$1,680,891 and the amount of uncollected sewer rent at December 31, 2004, totaling \$332,442, will be paid only after they have been collected.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

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 10.1% of claims and a \$19.42 pooling (stop loss) charge per contract per month for health and \$4.00 per contract per month for dental. The City also pays a fee of \$2,492 per month for medical consulting services and \$3,667 per month for workers compensation consulting services. The health insurance program covers all eligible City employees and their covered dependents up to \$100,000 per year per covered individual.

As of December 31, 2004, the City has recognized a liability of approximately \$420,000 in the General, Water, and Sewer Funds, representing claims incurred prior to December 31, 2004, but disbursed by the administrator during 2005.

Management has developed an approximation of the net unfunded liability for future health benefits of current retirees. This approximation, \$72.6 million, was developed using the historical net annual cost of health benefits to the City multiplied by an estimate of the average remaining life of current retirees. This liability is reflected as other non-current liabilities in the governmental activities. Although management has been unable to approximate the future unfunded liabilities as of December 31, 2004, related to unemployment, post-retirement health benefits of current employees, and future personal injuries, management is in the process of developing a reasonable and accurate basis for approximating these liabilities.

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 \$240,000 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.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

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.

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.

NOTE L - NEW ACCOUNTING STANDARDS

During June 2004, GASB issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. This Statement establishes new standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities, note disclosures, and applicable supplementary information in the financial reports of state and local government employers throughout the United States. The Statement requires that an actuary determine the total liability. The Statement also contains transition guidance regarding recognition of past service costs. The City will be required to fully implement this standard in its fiscal year beginning January 1, 2007.

The City began to recognize its OPEB liability using management estimates of the liabilities for future projected health insurance benefits for retirees. The methodology used is not in accordance with the guidelines of GASB Statement 45. The adjustment that will be required cannot be reasonably estimated.

During June 2005, GASB issued Statement 47, *Accounting for Termination Benefits*. This Statement establishes new standards for the measurement, recognition, and display of voluntary termination benefits (such as early-retirement incentives) and involuntary termination benefits (such as severance benefits). When implemented, it may require new information regarding current and long-term liabilities for applicable termination benefits. The City, if necessary, will be required to implement this standard in its fiscal year beginning January 1, 2006.

The City has estimated the liability for future projected health insurance benefits for retirees, but has not yet determined the full impact that the adoption of GASB Statements 45 and 47 will have on the basic financial statements.

CITY OF TROY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE M - SUBSEQUENT EVENTS

On March 3, 2005, the City Council authorized the Mayor to enter into an agreement with Camp, Dresser, and McKee for Task #2 of the Master Services Agreement for professional engineering services for the design, bidding, and construction of a sludge dewatering facility. Total cost of Task #2 is \$275,400 and will be funded out of the 2005 Water Fund budget.

On April 7, 2005, the City Council approved amending the 1997, 1999, 2000, 2001, 2002, 2003, and 2004 Community Development Block Grant (CDBG) budgets to transfer residual balances to the CDBG vacant building/secure account to support the City's vacant building/secure/stabilization project. The total cost of the transfer is \$110,495.

On April 7, 2005, the City Council approved a bond resolution for the issuance of \$650,000 serial bonds to finance the cost of a new ladder truck.

On April 7, 2005, the City Council approved a bond resolution for the issuance of \$250,000 serial bonds to finance the costs involved in the sidewalk and curb construction program.

On April 7, 2005, the City Council authorized amending the 2005 General Fund - Fire Department Budget to accept FEMA grant funds in the amount of \$142,794 for the purchase of equipment and capital improvements.

On May 5, 2005, the City Council authorized amending the Water Fund budget by appropriating \$364,254 from the Water Fund balance for the purpose of hiring a consultant for engineering services related to the design, bidding, and construction of the sludge dewatering facility (\$275,400), for services related to the Combined Sewer Overflow mandates as required by the U.S.E.P.A. and the N.Y.S.D.E.C. (\$46,454), for the purchase of digital leak detection equipment (\$31,000), and for the creation of GIS mapping tasks (\$11,400).

On May 5, 2005, the City Council authorized amending the 2005 City Budget to increase "Weed and Seed" funds and appropriations by \$137,500.

On May 5, 2005, the City Council authorized the transfer of \$1,089,735.26 from the Capital Projects Fund to the General Fund for the purpose of closing up prior year capital accounts originally funded by distressed cities monies and reallocating funds for purchases as outlined in the Mayor's 2005 tentative capital plan.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION**

Mayor and Members of the City Council
City of Troy, New York

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. The supplemental information listed in the Contents of this report is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Bollam Sheedy Torani & Co. LLP

Albany, New York
September 12, 2005, except for the government-wide financial statements,
the date of which is December 5, 2005

CITY OF TROY, NEW YORK

**BALANCE SHEET - NON-MAJOR GOVERNMENT FUNDS
December 31, 2004**

	Special Revenue Funds				
	<u>Debt</u>	<u>Urban</u>	<u>Federal</u>	<u>Confiscated</u>	<u>Total</u>
	<u>Service</u>	<u>Renewal</u>	<u>Proceeds of</u>	<u>Moneys</u>	
			<u>Crime</u>		
ASSETS					
Cash and cash equivalents	\$ 5,220	\$ 52,438	\$ 50,890	\$ 76,537	\$ 185,085
Cash and cash equivalents with fiscal agent	<u>3,240,127</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,240,127</u>
Total assets	<u>\$ 3,245,347</u>	<u>\$ 52,438</u>	<u>\$ 50,890</u>	<u>\$ 76,537</u>	<u>\$ 3,425,212</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ 25,730	\$ -	\$ -	\$ 25,730
Due to other funds	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total liabilities	<u>-</u>	<u>25,730</u>	<u>25,000</u>	<u>-</u>	<u>50,730</u>
Fund balances					
Reserved for					
Encumbrances	-	-	-	-	-
Debt	3,245,347	-	-	-	3,245,347
Law enforcement activities	-	-	25,890	76,537	102,427
Unreserved					
Unappropriated	<u>-</u>	<u>26,708</u>	<u>-</u>	<u>-</u>	<u>26,708</u>
Total fund balances	<u>3,245,347</u>	<u>26,708</u>	<u>25,890</u>	<u>76,537</u>	<u>3,374,482</u>
Total liabilities and fund balances	<u>\$ 3,245,347</u>	<u>\$ 52,438</u>	<u>\$ 50,890</u>	<u>\$ 76,537</u>	<u>\$ 3,425,212</u>

CITY OF TROY, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS**

Year Ended December 31, 2004

	Special Revenue Funds				<u>Total</u>
	<u>Debt Service</u>	<u>Urban Renewal</u>	<u>Federal Proceeds of Crime</u>	<u>Confiscated Moneys</u>	
REVENUES					
Interest earnings	\$ 178,261	\$ -	\$ 458	\$ 569	\$ 179,288
Fines and forfeitures	-	-	21,347	-	21,347
Total revenues	178,261	-	21,805	569	200,635
EXPENDITURES					
Current					
Administration	5,646	-	-	-	5,646
Economic and development opportunity	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	5,646	-	-	-	5,646
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	-	-
Interfund transfers out	(184,475)	-	(25,000)	-	(209,475)
Total other financing sources (uses)	(184,475)	-	(25,000)	-	(209,475)
Net change in fund balances	(11,860)	-	(3,195)	569	(14,486)
FUND BALANCE, beginning of year	3,257,207	26,708	29,085	75,968	3,388,968
FUND BALANCE, end of year	\$ 3,245,347	\$ 26,708	\$ 25,890	\$ 76,537	\$ 3,374,482