

**CITY OF TROY, NEW YORK**  
**STATUTORY BASIS FINANCIAL STATEMENTS**  
**and**  
**REPORT OF INDEPENDENT CERTIFIED**  
**PUBLIC ACCOUNTANTS**

**December 31, 2006**

**CITY OF TROY, NEW YORK**  
**STATUTORY BASIS FINANCIAL STATEMENTS**  
**and**  
**REPORT OF INDEPENDENT CERTIFIED**  
**PUBLIC ACCOUNTANTS**

**December 31, 2006**

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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 statutory basis financial statements of the City of Troy, New York (City), as of and for the year ended December 31, 2006. These statutory basis financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these statutory basis financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 statutory basis financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory basis financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

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

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 prescribed by the Office of the Comptroller of the State of New York for reporting to that office.

In our opinion, the statutory basis financial statements referred to above, except for the effect on these financial statements of any required adjustment to the liability for post-employment benefits calculated using a methodology acceptable to these accounting principles, present fairly, in all material respects, the financial position of the City of Troy, New York, as of December 31, 2006, and the results of its operations for the year then ended, on the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have issued our report dated September 21, 2007, on our consideration of the City of Troy, New York's internal control over financial reporting and 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.

As there are differences between financial statements prepared on the statutory basis versus financial statements prepared using GAAP, these financial statements should not be relied upon by parties that are not informed of such differences.

*Bollam Sheedy Torani & Co. LLP*

Albany, New York  
September 21, 2007

CITY OF TROY, NEW YORK

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
December 31, 2006

	Governmental Fund Types			Fiduciary	Account Groups		Total (Memorandum Only)	
	Combined	Special	Debt	Trust	Non-current	Non-current		
	General	Revenue Funds	Service	and Agency	Governmental Assets	Governmental Liabilities		
<b>ASSETS AND OTHER DEBITS</b>								
<b>ASSETS</b>								
Cash and cash equivalents	\$ 8,965,005	\$ 4,102,688	\$ 5,219	\$ 1,182,670	\$ 1,568,692	\$ -	\$ -	\$ 15,824,274
Cash with fiscal agent	7,658,429	-	3,413,456	126,105	-	-	-	11,197,990
Taxes receivable, net	7,180,898	-	-	-	-	-	-	7,180,898
Other receivables	1,669,403	1,176,609	-	-	-	-	-	2,846,012
Due from other governments	4,231,244	3,262,752	-	881,998	-	-	-	8,375,994
Due from other funds	1,704,423	919,301	55,647	168,683	22,867	-	-	2,870,921
Prepaid and other assets	2,444	-	-	-	36,338	-	-	38,782
Fixed assets	-	-	-	-	-	59,718,664	-	59,718,664
Loans receivable	-	488,578	-	-	-	-	-	488,578
	<u>31,411,846</u>	<u>9,949,928</u>	<u>3,474,322</u>	<u>2,359,456</u>	<u>1,627,897</u>	<u>59,718,664</u>	<u>-</u>	<u>108,542,113</u>
<b>OTHER DEBITS</b>								
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	159,936,926	159,936,926
	<u>\$ 31,411,846</u>	<u>\$ 9,949,928</u>	<u>\$ 3,474,322</u>	<u>\$ 2,359,456</u>	<u>\$ 1,627,897</u>	<u>\$ 59,718,664</u>	<u>\$ 159,936,926</u>	<u>\$ 268,479,039</u>
<b>LIABILITIES, OTHER CREDITS, AND FUND BALANCE</b>								
<b>LIABILITIES</b>								
Accounts payable	\$ 1,800,723	\$ 270,425	\$ -	191,898	\$ -	\$ -	\$ -	\$ 2,263,046
Retainage payable	-	-	-	2,237	-	-	-	2,237
Accrued liabilities	1,107,083	142,677	-	-	-	-	-	1,249,760
Other liabilities	734,852	16,617	-	-	768,468	-	84,410,981	85,930,918
Due to other governments	5,202,860	121,274	-	-	-	-	5,686,774	11,010,908
Due to other funds	585,516	1,206,318	-	220,647	858,440	-	-	2,870,921
Repayment agreements	-	-	-	-	-	-	64,843,300	64,843,300
Bond anticipation note payable	-	-	-	900,000	-	-	-	900,000
Bonds payable	-	-	-	-	-	-	4,995,871	4,995,871
Bond interest and matured bonds payable	-	41,365	-	-	-	-	-	41,365
Deferred revenue	5,678,359	2,457,190	-	482,380	-	-	-	8,617,929
	<u>15,109,393</u>	<u>4,255,866</u>	<u>-</u>	<u>1,797,162</u>	<u>1,626,908</u>	<u>-</u>	<u>159,936,926</u>	<u>182,726,255</u>
<b>OTHER CREDITS</b>								
Investment in general fixed assets	-	-	-	-	-	59,718,664	-	59,718,664
<b>FUND BALANCE</b>								
Reserved								
Encumbrances	182,815	464,971	-	1,232,506	-	-	-	1,880,292
Special reserves	15,038,127	-	-	-	-	-	-	15,038,127
Bonded debt	-	-	3,474,322	-	-	-	-	3,474,322
Unreserved - unappropriated	1,081,511	5,229,091	-	(670,212)	989	-	-	5,641,379
	<u>16,302,453</u>	<u>5,694,062</u>	<u>3,474,322</u>	<u>562,294</u>	<u>989</u>	<u>-</u>	<u>-</u>	<u>26,034,120</u>
	<u>\$ 31,411,846</u>	<u>\$ 9,949,928</u>	<u>\$ 3,474,322</u>	<u>\$ 2,359,456</u>	<u>\$ 1,627,897</u>	<u>\$ 59,718,664</u>	<u>\$ 159,936,926</u>	<u>\$ 268,479,039</u>

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

CITY OF TROY, NEW YORK

COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE -  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
Year Ended December 31, 2006

	Governmental Fund Types				Fiduciary	Total (Memorandum Only)
	General	Combined Special Revenue Funds	Debt Service	Capital Projects	Fund Type Expensible Trust	
<b>REVENUES</b>						
Real property taxes and tax items	\$ 19,697,502	\$ -	\$ -	\$ -	\$ -	\$ 19,697,502
Nonproperty taxes	13,337,732	-	-	-	-	13,337,732
Departmental income	4,949,858	9,137,656	-	-	-	14,087,514
Intergovernmental charges	296,614	25,200	-	-	-	321,814
Use of money and property	641,626	221,145	207,804	43,302	-	1,113,877
License and permits	803,011	12,290	-	-	-	815,301
Fines and forfeitures	1,009,087	12,429	-	-	-	1,021,516
Sale of property and compensation for loss	605,429	47,920	-	-	-	653,349
Miscellaneous local sources	221,152	69,905	-	150,002	41,256	482,315
Interfund	1,911,462	327,000	-	-	-	2,238,462
State aid	13,749,404	56,675	-	164,531	-	13,970,610
Federal aid	316,231	6,391,884	-	759,662	-	7,467,777
Total revenues	<u>57,539,108</u>	<u>16,302,104</u>	<u>207,804</u>	<u>1,117,497</u>	<u>41,256</u>	<u>75,207,769</u>
<b>EXPENDITURES</b>						
General governmental support	8,090,476	288,862	5,647	-	-	8,384,985
Public safety	26,411,688	-	-	-	-	26,411,688
Health	135,270	-	-	-	-	135,270
Transportation	3,186,065	-	-	-	-	3,186,065
Cultural and recreation	2,618,758	-	-	-	-	2,618,758
Home and community services	3,793,135	15,347,819	-	-	-	19,140,954
Employee benefits	3,871,034	-	-	-	41,456	3,912,490
<b>CAPITAL EXPENDITURES</b>						
General government support	84,221	14,711	-	604	-	99,536
Public safety	370,622	-	-	813,499	-	1,184,121
Transportation	148,808	-	-	439,993	-	588,801
Culture and recreation	39,486	-	-	-	-	39,486
Home and community service	110,598	10,308	-	662,859	-	783,765
<b>DEBT SERVICE</b>						
Principal	3,473,746	210,987	-	-	-	3,684,733
Interest	2,505,828	134,824	-	-	-	2,640,652
Total expenditures	<u>54,839,735</u>	<u>16,007,511</u>	<u>5,647</u>	<u>1,916,955</u>	<u>41,456</u>	<u>72,811,304</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,699,373</u>	<u>294,593</u>	<u>202,157</u>	<u>(799,458)</u>	<u>(200)</u>	<u>2,396,465</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	54,162	-	55,646	11,601	-	121,409
Operating transfers out	(11,601)	(27,475)	-	(82,333)	-	(121,409)
Total other financing sources (uses)	<u>42,561</u>	<u>(27,475)</u>	<u>55,646</u>	<u>(70,732)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>2,741,934</u>	<u>267,118</u>	<u>257,803</u>	<u>(870,190)</u>	<u>(200)</u>	<u>2,396,465</u>
<b>FUND BALANCE, beginning of year</b>	13,560,519	5,426,944	3,216,519	1,432,484	1,189	23,637,655
<b>FUND BALANCE, end of year</b>	<u>\$ 16,302,453</u>	<u>\$ 5,694,062</u>	<u>\$ 3,474,322</u>	<u>\$ 562,294</u>	<u>\$ 989</u>	<u>\$ 26,034,120</u>

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

CITY OF TROY, NEW YORK

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
COMBINED SPECIAL REVENUE FUND TYPES  
Year Ended December 31, 2006

	General Fund			Special Revenue Funds*			Totals (Memorandum Only)		
	Modified Budget	Actual	Variance Favorable (Unfavorable)	Modified Budget	Actual	Variance Favorable (Unfavorable)	Modified Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>									
Real property taxes and tax items	\$19,121,015	\$19,697,502	\$ 576,487	\$ -	\$ -	\$ -	\$19,121,015	\$19,697,502	\$ 576,487
Nonproperty taxes	13,351,000	13,337,732	(13,268)	-	-	-	13,351,000	13,337,732	(13,268)
Departmental income	4,089,050	4,949,858	860,808	10,584,340	8,957,323	(1,627,017)	14,673,390	13,907,181	(766,209)
Intergovernmental charges	281,255	296,614	15,359	22,500	25,200	2,700	303,755	321,814	18,059
Use of money and property	237,500	641,626	404,126	95,350	185,104	89,754	332,850	826,730	493,880
Licenses and permits	549,600	803,011	253,411	12,500	12,290	(210)	562,100	815,301	253,201
Fines and forfeitures	1,143,500	1,009,087	(134,413)	317	-	(317)	1,143,817	1,009,087	(134,730)
Sale of property and compensation for loss	502,450	605,429	102,979	61,000	47,920	(13,080)	563,450	653,349	89,899
Miscellaneous local sources	290,000	221,152	(68,848)	38,785	62,205	23,420	328,785	283,357	(45,428)
Interfund	1,911,542	1,911,462	(80)	327,000	327,000	-	2,238,542	2,238,462	(80)
State aid	10,920,545	13,749,404	2,828,859	2,118	2,118	-	10,922,663	13,751,522	2,828,859
Federal aid	328,126	316,231	(11,895)	6,525	6,525	-	334,651	322,756	(11,895)
Total revenues	<u>52,725,583</u>	<u>57,539,108</u>	<u>4,813,525</u>	<u>11,150,435</u>	<u>9,625,685</u>	<u>(1,524,750)</u>	<u>63,876,018</u>	<u>67,164,793</u>	<u>3,288,775</u>
<b>EXPENDITURES</b>									
General governmental support	8,598,570	8,174,697	423,873	347,921	303,573	44,348	8,946,491	8,478,270	468,221
Public safety	26,496,574	26,782,310	(285,736)	-	-	-	26,496,574	26,782,310	(285,736)
Health	146,720	135,270	11,450	-	-	-	146,720	135,270	11,450
Transportation	3,315,272	3,334,873	(19,601)	-	-	-	3,315,272	3,334,873	(19,601)
Culture and recreation	2,614,499	2,658,244	(43,745)	-	-	-	2,614,499	2,658,244	(43,745)
Home and community services	3,877,664	3,903,733	(26,069)	10,731,539	8,781,875	1,949,664	14,609,203	12,685,608	1,923,595
Employee benefits	4,087,711	3,871,034	216,677	-	-	-	4,087,711	3,871,034	216,677
Debt service									
Principal	3,473,746	3,473,746	-	210,987	210,987	-	3,684,733	3,684,733	-
Interest	2,506,111	2,505,828	283	134,824	134,824	-	2,640,935	2,640,652	283
Total expenditures	<u>55,116,867</u>	<u>54,839,735</u>	<u>277,132</u>	<u>11,425,271</u>	<u>9,431,259</u>	<u>1,994,012</u>	<u>66,542,138</u>	<u>64,270,994</u>	<u>2,271,144</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,391,284)</u>	<u>2,699,373</u>	<u>5,090,657</u>	<u>(274,836)</u>	<u>194,426</u>	<u>469,262</u>	<u>(2,666,120)</u>	<u>2,893,799</u>	<u>5,559,919</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Appropriated fund balance	867,597	-	(867,597)	274,736	-	(274,736)	1,142,333	-	(1,142,333)
Operating transfers in	1,523,687	54,162	(1,469,525)	100	-	(100)	1,523,787	54,162	(1,469,625)
Operating transfers out	-	(11,601)	(11,601)	-	-	-	-	(11,601)	(11,601)
Total other financing sources (uses)	<u>2,391,284</u>	<u>42,561</u>	<u>(2,348,723)</u>	<u>274,836</u>	<u>-</u>	<u>(274,836)</u>	<u>2,666,120</u>	<u>42,561</u>	<u>(2,623,559)</u>
Excess of revenues and other financing sources over expenditures and other financing sources	<u>\$ -</u>	<u>2,741,934</u>	<u>\$ 2,741,934</u>	<u>\$ -</u>	<u>194,426</u>	<u>\$ 194,426</u>	<u>\$ -</u>	<u>2,936,360</u>	<u>\$ 2,936,360</u>
FUND BALANCE, beginning of year		<u>13,560,519</u>			<u>4,516,895</u>			<u>18,077,414</u>	
FUND BALANCE, end of year		<u>\$16,302,453</u>			<u>\$ 4,711,321</u>			<u>\$21,013,774</u>	

\* Excludes Special Grant Fund and Troy Urban Renewal Agency, see Note A4

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

## CITY OF TROY, NEW YORK

### NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS December 31, 2006

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Troy, New York (City) has elected to prepare its financial statements on the statutory basis required by the Office of the Comptroller of the State of New York for Annual Reports to that office. This statutory basis varies from accounting principles generally accepted in the United States of America primarily because it does not reflect the adoption of GASB 34 and GASB 38. The statutory method is the same method used by the City for fiscal year ends prior to December 31, 2003, which was consistent with accounting principles generally accepted in the United States of America applicable to the City prior to that date. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

##### *1. Financial Reporting Entity*

The City 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 STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*1. Financial Reporting Entity - Continued*

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

Troy Local Development Corporation

The Troy Local Development Corporation (LDC) was incorporated in the State of New York in November 1988. The LDC's primary purpose is to maintain and develop the economic climate of the City through the promotion of employment and attraction of new businesses.

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.



**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*1. Financial Reporting Entity - Continued*

Excluded From the Reporting Entity - Continued

Troy Housing Authority

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

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

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

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

The City also reports deferred revenue for certain revenues other than property taxes. Deferred revenues arise when potential revenue does not meet both of the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the 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.

## CITY OF TROY, NEW YORK

### NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS December 31, 2006

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### 2. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued*

- Principal and interest on indebtedness are recorded as expenditures when the related debt service amounts are due and payable, which normally approximates the date the debt is paid.
- Compensated absences, such as vacation leave and compensation time, which vest or accumulate with eligible employees, are recorded as expenditures in the payroll period that the leave credits are used by employees.
- Current pension costs payable to the New York State Retirement Systems are recorded as expenditures when billed by the Systems.
- Costs of acquiring fixed assets are recorded as expenditures when the related acquisition amounts are due and payable.

##### 3. *Fund Accounting*

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The activities of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. The City's fund types 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.
- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the City include the following:

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

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

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

## CITY OF TROY, NEW YORK

### NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS December 31, 2006

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### 3. *Fund Accounting* - Continued

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

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

- a. 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 maintains schedules of non-current governmental assets and non-current governmental liabilities. Non-current governmental assets include capital assets used in governmental activities, and non-current governmental liabilities include bonds, state loans, and other long-term debt used to finance governmental activities.

##### 4. *Budgets*

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

- a. Not later than October 1, the City Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1.
- b. The operating budget includes proposed expenditures and the means of financing them.
- c. Public hearings are conducted to obtain taxpayer comments.
- d. Not later than December 1, the budget is legally enacted through the passage of a legislative resolution.
- e. Total expenditures for each object may not legally exceed the total appropriations for that object.

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*4. Budgets - Continued*

A summary of the functions exceeding budgeted appropriations for the year ended December 31, 2006, is as follows:

	<u>Budgeted</u> <u>Appropriations</u>	<u>Actual</u> <u>Expenditures</u>	<u>Unfavorable</u> <u>Variance</u>
General Fund			
Public safety	\$26,496,574	\$26,782,310	\$ (285,736)
Transportation	3,315,272	3,334,873	(19,601)
Culture and recreation	2,614,499	2,658,244	(43,745)
Home and community services	3,877,664	3,903,733	(26,069)

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

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

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

*5. Cash and Cash Equivalents*

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

## CITY OF TROY, NEW YORK

### NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS December 31, 2006

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### 5. *Cash and Cash Equivalents - Continued*

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.

##### 6. *Interfund Transactions*

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

##### 7. *Fixed Assets*

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

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

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

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutter, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in non-current assets are not depreciated nor has interest on general fixed assets construction in progress been capitalized.

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*8. Compensated Absences*

During 2006, accumulated vacation for General, Water, and Sewer Fund personnel totaled \$3,852,982, \$260,211, and \$42,439, respectively. The amounts of vested accumulated vacation leave and compensation time are recorded in the schedule of non-current governmental liabilities. No liability is recorded for nonvesting accumulated rights to receive sick and personal pay benefits.

*9. 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 \$3.7 million was paid on behalf of approximately 453 retirees and survivors and recorded as expenditures in the General Fund. During the year, \$328,446 was collected for premiums from these retirees and survivors and recorded as revenue of the General Fund.

The City recognizes an unfunded net liability for future health benefits totaling \$79,417,349, as an other liability in the schedule of non-current governmental liabilities.

*10. 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. There were no designated fund balances at December 31, 2006.

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

**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.

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE B - CASH AND CASH EQUIVALENTS - Continued**

Bank <u>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	\$ 10,896,052	\$ 100,000	\$ 11,014,787	\$ -	\$ 10,331,240
 <u>Non-Pooled Deposits</u>					
Non-Pooled Cash and Cash Equivalents					
General Fund	1,048,048	375,000	842,065	39,866	1,048,083
Special Revenue Funds	1,757,284	125,000	2,155,000	-	1,717,109
Capital Projects	1,169,402	-	1,550,000	-	1,169,402
Trust and Agency	2,037,331	200,000	2,077,500	-	1,548,312
Debt Service	5,220	-	10,000	-	5,220
Petty Cash	-	-	-	-	4,908
	<u>\$ 16,913,337</u>	<u>\$ 800,000</u>	<u>\$ 17,649,352</u>	<u>\$ 39,866</u>	<u>\$ 15,824,274</u>

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

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

**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.

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE C - PROPERTY TAXES - Continued**

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 \$425,000 at December 31, 2006.

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

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

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 2006 is approximately \$253.2 million. The effective tax rate on this value is approximately \$71.06 per thousand. The statutory maximum tax rate is 2% of the five-year average of the equalized assessment. The 2006 levy represents approximately 63% of the maximum statutory levy.

**NOTE D - INTERFUND RECEIVABLES AND PAYABLES**

The following is a summary of interfund receivables and payables at December 31, 2006:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 1,704,423	\$ 585,516
Special revenue	919,301	1,206,318
Capital projects	168,683	220,647
Debt service	55,647	-
Agency	<u>22,867</u>	<u>858,440</u>
Totals	<u>\$ 2,870,921</u>	<u>\$ 2,870,921</u>



**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE E - FIXED ASSETS**

The following schedule identifies changes in the City's fixed assets for the year ended December 31, 2006:

<u>Category</u>	Balance January 1, <u>2006</u>	<u>Additions</u>	Retirements/ Reclassifi- <u>cations</u>	Balance December 31, <u>2006</u>
Fixed assets				
Land	\$ 913,406	\$ 398,578	\$ -	\$ 1,311,984
Buildings	47,875,162	232,894	-	48,108,056
Machinery and equipment	<u>11,632,916</u>	<u>1,787,582</u>	<u>3,121,874</u>	<u>10,298,624</u>
	<u>\$ 60,421,484</u>	<u>\$ 2,419,054</u>	<u>\$ 3,121,874</u>	<u>\$ 59,718,664</u>

**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 \$488,578 at December 31, 2006. At year-end, the City believes that all of the rehabilitation loans are fully collectible.

**NOTE G - INDEBTEDNESS**

*1. Bonds Payable*

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

<u>Water Fund</u>	<u>Original Date Issued</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Final Maturity</u>	December 31, <u>2006</u>
General Obligation	09/99	855,297	0.000	12/19	\$ 585,000
General Obligation	12/01	3,390,000	3.250	12/22	<u>2,878,661</u>
					3,463,661
<u>Sewer Fund</u>					
General Obligation	09/04	1,625,890	2.380	04/34	<u>1,532,210</u>
					<u>\$ 4,995,871</u>

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE G - INDEBTEDNESS - Continued**

*1. Bonds Payable - Continued*

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 \$55,878,300, \$1,775,000, \$3,715,000, and \$3,475,000 at December 31, 2006, respectively.

*3. State Clean Water Program*

The City has entered into loan agreements with the New York State Environmental Facilities Corporation (EFC) to finance the cost of improvements to the City's sewer system which were necessary to eliminate the discharge of untreated sewage into the Hudson River. The general obligation serial bonds shown above under the Sewer Fund represent the unpaid balance of these bonds at December 31, 2006.

*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, 2006.

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE G - INDEBTEDNESS - Continued**

*5. Maturity Information*

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2006, are as follows:

<u>Year Ending December 31,</u>	<u>Bonds Payable</u>	<u>Repayment Agreements (a)</u>	<u>Total</u>
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	239,001	4,945,000	5,184,001
2011	245,236	5,165,000	5,410,236
2012 through 2016	1,326,844	26,875,000	28,201,844
2017 through 2021	1,435,719	29,740,000	31,175,719
2022	283,585	4,655,000	4,938,585
2023 through 2034	<u>793,910</u>	<u>-</u>	<u>793,910</u>
Liability as of December 31, 2006	<u>\$ 4,995,871</u>	<u>\$ 85,890,000</u>	<u>\$ 90,885,871</u>

(a) Repayment agreements include accretion on Capital Appreciation Bonds of \$21,046,700.

Of the total outstanding principal indebtedness of the City in the sum of \$55,409,736, \$1,502,210 was subject to the statutory debt limit and represented 1.79% of the City's \$84,050,787 statutory debt limit.

*5. Non-Current Governmental Liabilities*

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

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Debt Retirements/ Adjustments</u>	<u>Balance December 31, 2006</u>
Bonds payable	\$ 5,206,858	\$ -	\$ 210,987	\$ 4,995,871
Landfill closure	660,000	-	30,000	630,000
Judgments and claims payable	324,000	-	116,000	208,000
Retirement debt (b)	2,161,849	-	418,446	1,743,403
Retirement debt (c)	2,986,118	1,083,685	258,432	3,811,371
Due to County (a)	148,500	-	16,500	132,000
Repayment agreements (d)	67,355,038	945,508	3,457,246	64,843,300
Post-employment health insurance	73,116,044	6,301,305	-	79,417,349
Compensated absences	<u>4,019,395</u>	<u>136,237</u>	<u>-</u>	<u>4,155,632</u>
Total non-current governmental liabilities	<u>\$ 155,977,802</u>	<u>\$ 8,466,735</u>	<u>\$ 4,507,611</u>	<u>\$ 159,936,926</u>

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE G - INDEBTEDNESS - Continued**

5. *Non-Current Governmental Liabilities - Continued*

- (a) \$16,500 adjustment was reclassified as a current liability in General Fund and was paid in the first quarter of 2007.
- (b) Represents debt for the 2002 incentive and §443 plans for police and fire. See Note H.
- (c) Represents debt for the 2004 amortization covering the period April 1, 2004 to December 31, 2004; 2005 amortization covering the period April 1, 2005 to December 31, 2005; and 2006 amortization covering the period April 1, 2006 to December 31, 2006. See Note H.
- (d) Repayment agreements include accreted interest of \$945,508 added during 2006 and \$15,329,435 to date.

**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.

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.

	<u>ERS</u>	<u>PFRS</u>
2006	\$ 1,428,491	\$ 2,342,771
2005	1,287,795	2,089,543
2004	1,046,530	1,489,520

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE H - NEW YORK STATE RETIREMENT SYSTEMS - Continued**

2. *Funding Policy* - Continued

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 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 and included payment of principal only. The maturity schedule for this debt is as follows:

Due February 1, 2008	<u>\$ 186,546</u>
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The City also opted into the §443 plans for both police and fire personnel covered under the New York State Local Police and Fire Retirement System. The total past service costs for fire and police were \$1,652,837 and \$1,172,901, respectively, for a total of \$2,825,738. The City opted to pay for this program over a ten-year term with interest starting the second year at 8% per annum. The maturity schedule for this debt is as follows:

	<u>Fire</u>	<u>Police</u>	<u>Total</u>
February 1, 2007	\$ 155,224	\$ 110,152	\$ 265,376
2008	167,642	118,964	286,606
2009	181,058	128,481	309,539
2010	195,537	138,759	334,296
2011	<u>211,180</u>	<u>149,860</u>	<u>361,040</u>
 Total	 <u>\$ 910,641</u>	 <u>\$ 646,216</u>	 <u>\$1,556,857</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 an 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, 2006 to December 31, 2006, \$441,839 and \$1,267,094, respectively, are included in the financial statements as non-current governmental liabilities.

## CITY OF TROY, NEW YORK

### NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS December 31, 2006

#### 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.
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;

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE I - CITY AND STATE ACTIONS - Continued**

- 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.

**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-one years, for a total of \$630,000.

**NOTE K - COMMITMENTS AND CONTINGENCIES**

*1. Sales and Use Tax*

On February 28, 2005, the City and County renewed their 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 from December 1, 2004 through November 30, 2009;
- 2. Receive 18.07% of the local share of the 3% County-wide sales and use tax;

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE K - COMMITMENTS AND CONTINGENCIES - Continued**

*1. Sales and Use Tax - Continued*

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 was deducted by the County from the March 15, 2005 sales and use tax distribution due to the City. The remaining balance of \$165,000, after the March 15, 2005 payment, shall be paid by the City to the County without interest over a period of ten (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 \$1,838,308 and \$3,062,540, respectively, represents the amount owed to these entities at December 31, 2006.
2. The amount of uncollected 1985-2006 County taxes totaling \$1,814,208, and the amount of uncollected sewer rent at December 31, 2006, totaling \$387,430, will be paid only after they have been collected.

*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 \$23.14 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, 2006, the City has recognized a liability of approximately \$350,000 in the General, Water, and Sewer Funds, representing claims incurred prior to December 31, 2006, but disbursed by the administrator during 2006.

Management has developed an approximation of the net unfunded liability for future health benefits of current retirees. This approximation, \$79.4 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 liabilities. Although management has been unable to approximate the future unfunded liabilities as of December 31, 2006, 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.



## CITY OF TROY, NEW YORK

### NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS December 31, 2006

#### NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

##### 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 \$208,000 to allow for future claims on certain pending matters.

##### 5. *Grant Programs*

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

##### 6. *Housing Trust Fund Corporation*

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

##### 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 - ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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.

## CITY OF TROY, NEW YORK

### NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS December 31, 2006

#### **NOTE L - ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED - Continued**

GASB Statement No 49, *Accounting for Pollution Remediation Obligations*, established standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This statement is effective for the City as of January 1, 2008.

GASB Statement No. 50, *Pension Disclosures*, an amendment of GASB Statement Nos. 25 and 27, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and enhances information disclosed in the notes to the financial statements or presented as required supplementary information by employers that provide pension benefits. This statement amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pension by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*. This statement is effective for the City as of January 1, 2008.

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

Management is not able to estimate the extent of the potential impact of these statements on the City's financial statements.

#### **NOTE M - SUBSEQUENT EVENTS**

On January 4, 2007, the City Council approved amending the General Fund in the amount of \$131,375 to accept funds from the U.S. Department of Justice to fund expenses outlined in the 2006/2007 Weed and Seed budget so that the City is able to provide services in support of the objectives of the Weed and Seed program.

On January 4, 2007, the City Council approved amending the General Fund Police Department budget in the amount of \$113,204 to accept grant monies from the New York State Department of Criminal Justice Services for the purpose of furthering the implementation of the City of Troy and Rensselaer County Joint Task Force.

On January 4, 2007, the City Council authorized the Mayor to enter into an agreement with Camp, Dresser, and McKee (CDM) for Amendment #1, of the task order #2, of the Master Services Agreement for professional services for the design, bidding, and construction of a sludge dewatering facility for the John B. Buckley Water Treatment Plant. In a separate ordinance on January 4, 2007, the City Council authorized the Mayor to enter into an agreement with the qualified low bidder as recommended by CDM for construction of the Sludge Dewatering Facility.

On February 1, 2007, the City Council authorized the Mayor to submit a request to HUD to amend the one-year action plan for the 2006-2007 CDBG program year to transfer \$258,655 in unused Section 108 dollars to fund a new CDBG Down Payment Assistance Program.

**CITY OF TROY, NEW YORK**

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
December 31, 2006**

**NOTE M - SUBSEQUENT EVENTS - Continued**

On February 1, 2007, the City Council authorized the Mayor to submit a request to HUD to amend the one-year action plan, renaming the existing 2006-2007 Troy HOME account containing \$429,579 as the "Troy HOME Single Family Phase I Project" and transferring \$475,926 of unused 2005/2006 CEO Rehabilitation Program monies into this account.

On March 1, 2007, the City Council authorized the amendment of the Special Revenue Fund to accept grant monies in the amount of \$150,000 from New York State under the Quality Communities Grant Program to create a master plan to guide an inter-municipal and multi-partner collaboration downtown revitalization initiative on the Congress/Ferry Street Project.

On March 1, 2007, the City Council authorized the amendment of the Special Revenue Fund to accept grant monies in the amount of \$200,000 from the Division of Coastal Resources Environmental Protection Fund Title II for the purpose of planning and design related to the Riverfront Park and Downtown Redevelopment Project.

On March 1, 2007, the City Council authorized the amendment of the Special Revenue Fund to reimburse the Hudson-Mohawk Industrial Gateway in the amount of \$270,000 as per the TEA-21 City of Troy Contract and the agreement as authorized by Resolution #2 of the April 6, 2006, City Council meeting.

On March 1, 2007, the City Council authorized the Mayor to execute a revised agreement with the City of Schenectady for the Reallocation and Redistribution of Consortium HOME funds allocated to Troy for Fiscal Years Prior to 2004 and 2004 Community Housing Development Organization funds for a total sum of \$1,108,519.

On April 4, 2007, the City Council approved the establishment of a Capital Account in the amount of \$2,500,000 to fund construction costs associated with the construction of the Sludge Dewatering Facility at the John P. Buckley Water Treatment Facility. The Sludge Dewatering Facility Capital Account was funded through a \$2,500,000 Bond Anticipation Note and is under proposal for long-term financing by the NYS Environmental Facilities Corporation Clean Water State Revolving Fund.

On April 4, 2007, the City Council authorized and approved the filing of the City of Troy's application for funds pursuant to the Housing and Community Development Act of 1974, the McKinney Act Emergency Shelter Grant Program, and the Home Investment Program, in the total amount of \$2,924,141.

**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 statutory basis financial statements taken as a whole of the City of Troy, New York as of and for the year ended December 31, 2006, which are presented in the preceding section of this report. The supplemental information listed in the Contents of this report is presented for purposes of additional analysis and is 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 21, 2007

**CITY OF TROY, NEW YORK**  
**COMBINED BALANCE SHEET - SPECIAL REVENUE FUNDS**  
**December 31, 2006**

<b>ASSETS AND OTHER DEBITS</b>				
	<u>Special Grant</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,593,757	\$ 2,307,347	\$ 201,584	\$ 4,102,688
Other receivables, net	-	831,212	345,397	1,176,609
Due from other governments	313,084	2,949,668	-	3,262,752
Due from other funds	919,301	-	-	919,301
Loans receivable	488,578	-	-	488,578
	<u>\$ 3,314,720</u>	<u>\$ 6,088,227</u>	<u>\$ 546,981</u>	<u>\$ 9,949,928</u>
<b>LIABILITIES, OTHER CREDITS, AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 140,673	\$ 97,959	\$ 31,793	\$ 270,425
Accrued liabilities	-	125,596	17,081	142,677
Other liabilities	-	16,585	32	16,617
Due to other governments	121,274	-	-	121,274
Due to other funds	920,290	-	286,028	1,206,318
Bond interest and matured bonds payable	-	41,365	-	41,365
Deferred revenue	1,149,742	1,307,448	-	2,457,190
	<u>2,331,979</u>	<u>1,588,953</u>	<u>334,934</u>	<u>4,255,866</u>
<b>FUND BALANCE</b>				
Reserved				
Encumbrances	331,390	111,151	22,430	464,971
Unreserved - unappropriated	651,351	4,388,123	189,617	5,229,091
	<u>982,741</u>	<u>4,499,274</u>	<u>212,047</u>	<u>5,694,062</u>
	<u>\$ 3,314,720</u>	<u>\$ 6,088,227</u>	<u>\$ 546,981</u>	<u>\$ 9,949,928</u>

See Report of Independent Certified Public Accountants on Supplemental Information.

**CITY OF TROY, NEW YORK**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - SPECIAL REVENUE FUND TYPES  
Yea Ended December 31, 2006**

	<u>Special Grant</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>REVENUES</b>				
Departmental income	\$ 180,333	\$ 7,199,910	\$ 1,757,413	\$ 9,137,656
Intergovernmental charges	-	25,200	-	25,200
Use of money and property	36,041	167,670	17,434	221,145
License and permits	-	12,290	-	12,290
Fines and forfeitures	12,429	-	-	12,429
Sale of property and compensation for loss	-	47,695	225	47,920
Miscellaneous local sources	7,700	57,133	5,072	69,905
Interfund	-	327,000	-	327,000
State aid	54,557	2,118	-	56,675
Federal aid	6,385,359	6,525	-	6,391,884
Total revenues	<u>6,676,419</u>	<u>7,845,541</u>	<u>1,780,144</u>	<u>16,302,104</u>
<b>EXPENDITURES</b>				
General governmental support	-	288,862	-	288,862
Home and community services	6,576,252	7,050,813	1,720,754	15,347,819
<b>CAPITAL EXPENDITURES</b>				
General government support	-	14,711	-	14,711
Home and community service	-	10,308	-	10,308
Debt service				
Principal	-	174,247	36,740	210,987
Interest	-	97,920	36,904	134,824
Total expenditures	<u>6,576,252</u>	<u>7,636,861</u>	<u>1,794,398</u>	<u>16,007,511</u>
<b>Exces (deficiency) of revenues over (under) expenditures</b>	<u>100,167</u>	<u>208,680</u>	<u>(14,254)</u>	<u>294,593</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	(27,475)	-	-	(27,475)
Total other financing sources (uses)	<u>(27,475)</u>	<u>-</u>	<u>-</u>	<u>(27,475)</u>
<b>Excess (deficiency) of revenues and other financial sources over (under) expenditures and other financial sources (uses)</b>	<u>72,692</u>	<u>208,680</u>	<u>(14,254)</u>	<u>267,118</u>
<b>FUND BALANCE, beginning of year</b>	<u>910,049</u>	<u>4,290,594</u>	<u>226,301</u>	<u>5,426,944</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 982,741</u>	<u>\$ 4,499,274</u>	<u>\$ 212,047</u>	<u>\$ 5,694,062</u>

See Report of Independent Certified Public Accountants on Supplemental Information.