

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

FINANCIAL REPORT

December 31, 2011 and 2010

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

FINANCIAL REPORT

December 31, 2011 and 2010

C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-3
FINANCIAL STATEMENTS	
Statement of Net Assets (Deficit) and Governmental Fund Balance Sheet, December 31, 2011	4
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, December 31, 2011	5
Statement of Net Assets (Deficit) and Governmental Fund Balance Sheet, December 31, 2010	6
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, December 31, 2010	7
Notes to the Basic Financial Statements	8-16
SUPPLEMENTAL INFORMATION	
Debt Service Funding Requirements	17
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	18
Schedule of Findings and Responses	19

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Municipal Assistance Corporation for the City of Troy
New York, New York

We have audited the accompanying financial statements of the governmental activities and each major fund for the Municipal Assistance Corporation for the City of Troy (Corporation) as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Municipal Assistance Corporation for the City of Troy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the changes in financial position for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2012, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 and 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on page 17 is for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bollam Sheedy Torani & Co LLP

Albany, New York
March 19, 2012

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

This section of the report presents a discussion and analysis of the financial performance of the Municipal Assistance Corporation for the City of Troy (Corporation) for the fiscal years ended December 31, 2011 and 2010. Please read it in conjunction with the basic financial statements that appear on pages 4 through 16 of this report.

Overview of the Financial Statements

The financial statements consist of three parts - management's discussion and analysis (this section), the basic financial statements, and other supplemental information. The basic financial statements consist of two statements that present different views of the Corporation:

- The governmental fund financial statements that focus on individual activities of the Corporation and report how its operations were financed in the short term as well as what remains available for future spending.
- The government-wide financial statements that provide both long-term and short-term information about the Corporation's overall financial status.

For most governmental entities, the two types of financial statements are presented separately. However, for financial reporting purposes, the Corporation is considered to be a special purpose government engaged in a single governmental program. As permitted by accounting principles generally accepted in the United States of America (GAAP), the two kinds of financial statements of the Corporation are presented together and include a reconciliation of the amounts reported in each. The financial report also includes notes that explain some of the information in the financial statements in more detail.

Financial Analysis of the Corporation

The deficit decreased by approximately \$3,984,000, \$3,229,000, and \$3,528,000 for the years ended December 31, 2011, 2010, and 2009, respectively, as follows:

CONDENSED STATEMENT OF NET ASSETS (DEFICIT) (In Thousands)

	December 31,				
	2011	2011 vs. 2010	2010	2010 vs. 2009	2009
Current assets	\$ 11,394	2.44%	\$ 11,123	-2.99%	\$ 11,466
Long-term assets	345	-16.87%	415	135.80%	176
Total assets	<u>\$ 11,739</u>	-1.74%	<u>\$ 11,538</u>	-0.89%	<u>\$ 11,642</u>
Current liabilities	\$ 5,538	-4.98%	\$ 5,828	0.43%	\$ 5,803
Long-term liabilities	43,953	-7.36%	47,446	-6.61%	50,804
Total liabilities	<u>49,491</u>	-12.34%	<u>53,274</u>	-6.18%	<u>56,607</u>
Net assets (deficit)	<u>(37,752)</u>	-9.55%	<u>(41,736)</u>	-7.18%	<u>(44,965)</u>
Total liabilities and net assets (deficit)	<u>\$ 11,739</u>	1.74%	<u>\$ 11,538</u>	-0.89%	<u>\$ 11,642</u>

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011 and 2010**

Financial Analysis of the Corporation - Continued

**CONDENSED STATEMENT OF NET ACTIVITIES
(In Thousands)**

	December 31,				
	<u>2011</u>	<u>2011 vs. 2010</u>	<u>2010</u>	<u>2010 vs. 2009</u>	<u>2009</u>
Revenues	\$ 6,572	2.40%	\$ 6,418	-0.94%	\$ 6,479
Expenses	<u>2,588</u>	-18.85%	<u>3,189</u>	8.07%	<u>2,951</u>
Net revenues	3,984	23.38%	3,229	-8.48%	3,528
Net assets (deficit), beginning of year	<u>(41,736)</u>	-7.18%	<u>(44,965)</u>	-7.28%	<u>(48,493)</u>
Net assets (deficit), end of year	<u>\$ (37,752)</u>	-9.54%	<u>\$ (41,736)</u>	-7.18%	<u>\$ (44,965)</u>

Concerning the Corporation's Financial Management

The financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the revenues it receives. If you have any questions about this report or need additional financial information, contact the Corporation at 123 William Street, Floor 23, New York, New York 10038.

Jeffrey Sommer, Executive Director

Jewel Douglas, Deputy Director of Finance

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

STATEMENT OF NET ASSETS (DEFICIT) AND GOVERNMENT FUND BALANCE SHEET

	December 31, 2011					
	Operating Fund	Debt Service Fund	Debt Service Reserve Fund	Total Governmental Funds	Adjustments Note 1	Total Governmental Activities
ASSETS						
Cash	\$ 10,067	\$ 2,938,021	\$ -	\$ 2,948,088	\$ -	\$ 2,948,088
Investment in securities	-	5,372,979	3,230,620	8,603,599	-	8,603,599
Accrued interest on securities	-	-	18,407	18,407	-	18,407
Prepaid expense	167	-	-	167	-	167
Bond issuance costs, net	-	-	-	-	168,817	168,817
Total assets	<u>10,234</u>	<u>8,311,000</u>	<u>3,249,027</u>	<u>11,570,261</u>	<u>168,817</u>	<u>11,739,078</u>
LIABILITIES						
Accrued interest on bonds	-	309,300	-	309,300	-	309,300
Accounts payable	4,755	-	-	4,755	-	4,755
Accrued liabilities	-	-	-	-	17,572	17,572
Bonds and loans payable						
Due within one year	-	-	-	-	5,201,253	5,201,253
Due after one year	-	-	-	-	43,957,929	43,957,929
Total liabilities	<u>4,755</u>	<u>309,300</u>	<u>-</u>	<u>314,055</u>	<u>49,176,754</u>	<u>49,490,809</u>
FUND BALANCE						
Nonspendable	167	-	-	167	(167)	-
Restricted	-	8,001,700	3,249,027	11,250,727	(11,419,544)	-
Unassigned	5,312	-	-	5,312	(5,312)	-
Total fund balance	<u>5,479</u>	<u>8,001,700</u>	<u>3,249,027</u>	<u>11,256,206</u>	<u>(11,425,023)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 10,234</u>	<u>\$ 8,311,000</u>	<u>\$ 3,249,027</u>	<u>\$ 11,570,261</u>		
Total net assets (deficit)					<u>\$ (37,751,731)</u>	<u>\$ (37,751,731)</u>

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

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**STATEMENT OF ACTIVITIES AND GOVERNMENT FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE**

	Year Ended December 31, 2011					
	Operating Fund	Debt Service Fund	Debt Service Reserve Fund	Total Governmental Funds	Adjustments Note 1	
PROGRAM REVENUES						
Income from investments, net	\$ -	\$ 3,269	\$ 163,304	\$ 166,573	\$ 199,591	\$ 366,164
Draws on pledge revenues	-	5,804,551	-	5,804,551	-	5,804,551
Receipts from escrow agent for defeasance of bonds	-	401,556	-	401,556	-	401,556
Total program revenue	<u>-</u>	<u>6,209,376</u>	<u>163,304</u>	<u>6,372,680</u>	<u>199,591</u>	<u>6,572,271</u>
EXPENDITURES/EXPENSES						
Debt service						
Principal paid on bonds	-	5,165,000	-	5,165,000	(5,165,000)	-
Interest and accretion on bonds	-	760,107	-	760,107	1,712,810	2,472,917
Amortization of bond issuance costs	-	-	-	-	69,775	69,775
Debt administration	10,866	-	-	10,866	-	10,866
General administration	34,713	-	-	34,713	-	34,713
Total expenditures	<u>45,579</u>	<u>5,925,107</u>	<u>-</u>	<u>5,970,686</u>	<u>(3,382,415)</u>	<u>2,588,271</u>
Excess (deficiency) of revenues over expenditures/expenses	(45,579)	284,269	163,304	401,994	3,582,006	3,984,000
OTHER FINANCING SOURCES (USES)						
Transfers from (to) operating fund	66,500	(66,500)	-	-	-	-
Transfers from (to) debt service	-	164,468	(164,468)	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures/expenses and other financing uses	20,921	382,237	(1,164)	401,994	3,582,006	3,984,000
FUND BALANCE/NET ASSETS (DEFICIT), beginning of year	<u>(15,442)</u>	<u>7,619,463</u>	<u>3,250,191</u>	<u>10,854,212</u>	<u>(52,589,943)</u>	<u>(41,735,731)</u>
FUND BALANCE/NET ASSETS (DEFICIT), end of year	<u>\$ 5,479</u>	<u>\$ 8,001,700</u>	<u>\$ 3,249,027</u>	<u>\$ 11,256,206</u>	<u>\$ (49,007,937)</u>	<u>\$ (37,751,731)</u>

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

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**STATEMENT OF NET ASSETS (DEFICIT)
AND GOVERNMENTAL FUND BALANCE SHEET**

	December 31, 2010					
	Operating Fund	Debt Service Fund	Debt Service Reserve Fund	Total Governmental Funds	Adjustments Note 1	Total Governmental Activities
ASSETS						
Cash	\$ 3,208	\$ 3,070,948	\$ -	\$ 3,074,156	\$ -	\$ 3,074,156
Investment in securities	-	4,970,902	3,188,183	8,159,085	-	8,159,085
Accrued interest on securities	-	-	62,008	62,008	-	62,008
Prepaid expense	3,500	-	-	3,500	-	3,500
Bond issuance costs	-	-	-	-	238,592	238,592
Total assets	<u>6,708</u>	<u>8,041,850</u>	<u>3,250,191</u>	<u>11,298,749</u>	<u>238,592</u>	<u>11,537,341</u>
LIABILITIES						
Accrued interest on bonds payable	-	422,387	-	422,387	-	422,387
Accounts payable	22,150	-	-	22,150	-	22,150
Accrued liabilities	-	-	-	-	29,868	29,868
Bonds and loans payable						
Due within one year	-	-	-	-	5,352,295	5,352,295
Due after one year	-	-	-	-	47,446,372	47,446,372
Total liabilities	<u>22,150</u>	<u>422,387</u>	<u>-</u>	<u>444,537</u>	<u>52,828,535</u>	<u>53,273,072</u>
FUND BALANCE (DEFICIT)						
Nonspendable	3,500	-	-	3,500	(3,500)	-
Restricted	-	7,619,463	3,250,191	10,869,654	(11,108,246)	-
Unassigned	(18,942)	-	-	(18,942)	18,942	-
Total fund balance	<u>(15,442)</u>	<u>7,619,463</u>	<u>3,250,191</u>	<u>10,854,212</u>	<u>(11,092,804)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 6,708</u>	<u>\$ 8,041,850</u>	<u>\$ 3,250,191</u>	<u>\$ 11,298,749</u>		
Total net assets (deficit)					<u>\$ (41,735,731)</u>	<u>\$ (41,735,731)</u>

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

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**STATEMENT OF ACTIVITIES AND GOVERNMENT FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

	Year Ended December 31, 2010					
	Operating Fund	Debt Service Fund	Debt Service Reserve Fund	Total Governmental Funds	Adjustments Note 1	Governmental Activities
PROGRAM REVENUES						
Income from investments, net	\$ -	\$ 6,317	\$ 199,638	\$ 205,955	\$ (5,646)	\$ 200,309
Draws on pledge revenues	-	6,218,230	-	6,218,230	-	6,218,230
Total program revenue	-	6,224,547	199,638	6,424,185	(5,646)	6,418,539
Proceeds from bond refunding and loan refinancing	-	18,305,000	-	18,305,000	(18,305,000)	-
Premium on bond refunding	-	640,444	-	640,444	(640,444)	-
Total proceeds from debt service activities	-	18,945,444	-	18,945,444	(18,945,444)	-
Total revenue	-	25,169,991	199,638	25,369,629	(18,951,090)	6,418,539
EXPENDITURES/EXPENSES						
Debt service						
Principal paid on bonds and loans	-	5,310,000	-	5,310,000	(5,310,000)	-
Interest and accretion on bonds and loans	-	929,338	-	929,338	1,793,674	2,723,012
Payment of proceeds for loan refinancing	-	2,685,000	-	2,685,000	(2,685,000)	-
Payment to escrow agent for defeasance of bonds	-	16,422,771	11,300	16,434,071	(16,035,000)	399,071
Bond issuance costs	-	238,592	-	238,592	(238,592)	-
Debt administration	10,443	-	-	10,443	-	10,443
General administration	56,518	-	-	56,518	-	56,518
Total expenditures	66,961	25,585,701	11,300	25,663,962	(22,474,918)	3,189,044
Excess (deficiency) of revenues over expenditures/expenses	(66,961)	(415,710)	188,338	(294,333)	3,523,828	3,229,495
OTHER FINANCING SOURCES (USES)						
Transfers from (to) operating fund	47,000	(47,000)	-	-	-	-
Transfers from (to) debt service	-	199,921	(199,921)	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures/expenses and other financing uses	(19,961)	(262,789)	(11,583)	(294,333)	3,523,828	3,229,495
FUND BALANCE/NET ASSETS (DEFICIT), beginning of year	4,519	7,882,252	3,261,774	11,148,545	(56,113,771)	(44,965,226)
FUND BALANCE/NET ASSETS (DEFICIT), end of year	\$ (15,442)	\$ 7,619,463	\$ 3,250,191	\$ 10,854,212	\$ (52,589,943)	\$ (41,735,731)

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

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Functions of the Corporation

The Municipal Assistance Corporation for the City of Troy (Corporation) is a corporate governmental agency and instrumentality of the State of New York, constituting a public benefit corporation. The Corporation was created on July 19, 1995, under Titles I, II, and IV of Article 10 of the Public Authorities Law of the State (Act). Titles may be amended from time to time for purposes of providing financing assistance and fiscal oversight for the City of Troy, New York (City). To carry out such purposes, the Corporation was authorized to sell bonds and notes to provide funds for various purposes, including the repayment of certain of the City's obligations.

The Corporation is administered by a seven-member Board of Directors, five of whom are appointed by the Governor, one by the Majority Leader of the Senate, and one by the Speaker of the Assembly. The Chairman is designated by the governor from among his appointees. There are currently four directors of the Corporation. The remaining three seats are vacant.

The Act provides that the Corporation shall continue for a term of one year after all its liabilities have been fully paid and discharged.

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

b. Basis of Accounting and Financial Presentation

The Corporation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for governmental accounting and financial reporting. The Corporation is considered to be a special-purpose government engaged in a single governmental program.

In accordance with the Act, the Corporation's fiscal year is the same as the City's, whose fiscal year is the calendar year.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental 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 governmental fund 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.

c. Financial Statement Presentation

The adjustment columns in the accompanying financial statements present the items necessary to convert the "fund" to the "government-wide" financial statements. For the years ended December 31, 2011 and 2010, the entries recorded in the "government-wide" financial statements are the Corporation's General Resolution bonds which are not recorded in the "fund" financial statements under the modified accrual basis of accounting. Further, the entries convert fund balances properly reported in the "fund" financial statements to net assets (deficit) balances properly reported in the "government-wide" financial statements; record the bond premium, bond issuance costs, and the related amortization, as well as the accrual of the arbitrage rebate liability.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

d. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

e. Investments in Securities

Investments in securities in the Debt Service Reserve Fund are carried at amortized cost, and investments in securities in the Debt Service Fund are carried at the lower of cost or market value. Investments, if any, in securities in the Operating Fund would be carried at the lower of cost or market value. Investments may consist of direct obligations of, or obligations guaranteed by, the State of New York or the United States of America, repurchase agreements pursuant to master agreements with certain authorized financial institutions, certain obligations of U.S. Government agencies, and certain other investment obligations, as permitted under the Corporation's General Bond Resolution.

f. Bonds and Loans Payable

The Corporation's debt (except for capital appreciation bonds) is recorded at the principal amount of the obligations outstanding. Capital appreciation bonds are recorded at their accreted values. Original issue discounts on current-interest bonds are charged to the Debt Service Fund as incurred and become part of the funding requirement. The amount required for the payment of debt service due on January 15 is accounted for as if paid on the immediately preceding December 31, if by that date such amount has been segregated for that purpose by the Trustee under the Corporation's General Bond Resolution. The deficit of the Corporation reported in the Statement of Activities does not include future requirements for the payment of interest or future accretions in the values of capital appreciation bonds. Nor does such requirement include accrued but unpaid supplemental interest on the Corporation's Series 1996C Bonds.

During 2010, the Corporation refinanced the Corporation's Series 1996A and Series 1999B Bonds with Series 2010A Bonds. As a result, bonds and loans payable include the bond premium of \$640,444 that is being amortized over the life of the bond using the effective interest rate method. The annual amortization will be offset against interest expense over the life of the bond.

g. Fund Balance

For the year ended December 31, 2011, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement establishes accounting and financial reporting standards for governments that report governmental funds as well as criteria for classifying fund balances into specifically defined classifications. Fund balances for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five fund balance classifications fall into two categories, Restricted and Unrestricted, and are as follows:

Restricted Fund Balance:

Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form, or (b) are legally or contractually required to be maintained intact. The Corporation's nonspendable fund balance consists of amounts for prepaid expenses at December 31, 2011.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

g. Fund Balance - Continued

Restricted - Amounts that have restraints that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Corporation's restricted fund balance consists of amounts for debt service requirements at December 31, 2011.

Unrestricted Fund Balance:

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action such as legislation, resolution, or ordinance by the government's highest level of decision-making authority. The Corporation had no committed funds at December 31, 2011.

Assigned - Amounts that are constrained only by the government's *intent* to be used for a specified purpose, but are not restricted or committed in any manner. The Corporation had no assigned funds at December 31, 2011.

Unassigned - The residual amount in the general fund after all of the other classifications have been established. In a special revenue fund, if expenditures and other financing uses exceed the amounts restricted, committed or assigned for those purposes, then a negative unassigned fund balance will occur.

Fund balances as of December 31, 2010, have been restated to conform to the provisions of this statement.

h. Federal Income Taxes

The Authority is exempt from federal income taxes under Internal Revenue Service Code Section 115.

i. Revenue Recognition

In the Debt Service Fund, draws on pledge revenues are derived from sales tax and State aid and are recorded when received. Interest income from investments and interest expense on the Corporation's debt are recorded in the month they are earned or paid. Income from investments includes realized gains and losses from sales of investments. With respect to the Debt Service and the 1996 Debt Service Reserve Fund, income from investments is net of any accrued rebate to the United States of America of certain excess earnings. Income from investments, if any, in the Debt Service Fund will include unrealized losses on investments. Income from investments includes the accrual of the federal arbitrage rebate and amortization of the bond premium. Receipts from escrow agent represent monies returned to the Corporation as a result of the 2010 bond defeasance and were subsequently used to make interest payments on the defeased bonds.

j. Subsequent Events

The Corporation has evaluated subsequent events that provide additional evidence about conditions that existed at the financial statement date through March 19, 2012, the date the financial statements were available to be issued.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 - INVESTMENTS IN SECURITIES

	December 31, 2011		
	<u>Principal</u>	<u>Market</u>	<u>Cost</u>
Marketable Securities			
Debt Service Fund			
U.S. Treasury obligations maturing in less than one year	<u>\$ 5,373,000</u>	<u>\$ 5,373,352</u>	<u>\$ 5,372,979</u>
Debt Service Reserve Fund			
U.S. Treasury obligations maturing in less than one year	3,060,000	3,061,071	3,054,620
U.S. Treasury obligations maturing in five years or greater	<u>176,000</u>	<u>176,000</u>	<u>176,000</u>
Total	<u>\$ 3,236,000</u>	<u>\$ 3,237,071</u>	<u>\$ 3,230,620</u>
	December 31, 2010		
	<u>Principal</u>	<u>Market</u>	<u>Cost</u>
Marketable Securities			
Debt Service Fund			
U.S. Treasury obligations maturing in less than one year	<u>\$ 4,971,000</u>	<u>\$ 4,970,987</u>	<u>\$ 4,970,902</u>
Debt Service Reserve Fund			
U.S. Treasury obligations maturing in less than one year	3,014,000	3,017,768	3,012,183
U.S. Treasury obligations maturing in five years or greater	<u>176,000</u>	<u>176,000</u>	<u>176,000</u>
Total	<u>\$ 3,190,000</u>	<u>\$ 3,193,768</u>	<u>\$ 3,188,183</u>

NOTE 3 - BONDS AND LOANS PAYABLE

a. Debt Authority

The Act authorizes the Corporation to provide financing assistance to the City by issuing bonds and notes for specified purposes in an aggregate principal amount of up to \$71 million. The Act further authorizes the Corporation to issue up to \$2 million of bonds and notes to fund City capital projects and to issue up to \$2 million of notes to fund City operating expenses. The principal amounts of bonds and notes issued to pay costs of issuance, to fund reserve funds, and to refund outstanding bonds are excluded from the Act's dollar limits. Through December 31, 2011, the Corporation had issued approximately \$68 million of bonds and notes of the \$71 million authorized bonds and notes under the Act.

The \$2 million of capital borrowing authority expired on December 31, 1999. After that date, no bonds may be issued, except for the purpose of refunding. No bond or note of the Corporation may mature later than January 1, 2030.

b. Bonds Issued

No bonds were issued by the Corporation during the year ended December 31, 2011. On November 30, 2010, the Corporation refunded the Series 1996A Bonds and Series 1999B Bonds with Series 2010A General Resolution Refunding Bonds in the principal amount of \$15.620 million. Substantially all of the net proceeds together with other monies of the Corporation were used to refund \$14.080 million and \$1.955 million of those original issues. The sale generated budgetary savings totaling \$831,125 over the life of the refunding bonds, which will be passed on to the City.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 3 - BONDS AND LOANS PAYABLE - Continued

c. EFC Loans

On June 27, 1997, the Corporation entered into a Project Financing and Loan Agreement with the New York State Environmental Facilities Corporation (EFC) providing for the EFC to make periodic short-term, interest-free loans to the Corporation not to exceed \$7,087,800 in aggregate principal amount. The proceeds of these loans were used to finance the closure of the City's landfill.

On May 27, 2010, the Corporation revised the Project Financing and Loan Agreement with the EFC as a result of refinancing the \$2.685 million remaining balance to realize interest rate savings from the refunding of corresponding bonds that the EFC sold to the public. The refinancing generated \$181,756 of budgetary savings over the remaining life of the loan, which will be passed on to the City.

d. Debt Service Payment and Funding Requirements

A summary of the Corporation's bonds and loans payable is as follows:

	Balance at December 31, 2011	Balance at December 31, 2010
Series 1996A Bonds	\$ -	\$ 1,250,000
Series 1996B Capital Appreciation Bonds	12,364,982	13,881,590
Series 1996C Capital Appreciation Bonds	864,600	864,600
Series 1999A EFC loans	2,415,000	2,685,000
Series 1999B EFC loans	-	335,000
Series 2010A Refunding Bonds	15,620,000	15,620,000
	31,264,582	34,636,190
Bond accretion - Series 1996B and 1996C	17,441,451	17,522,033
Bond premium - Series 2010A	453,149	640,444
	\$ 49,159,182	\$ 52,798,667

A summary of future annual debt service payments on the Corporation's bonds and loans, based on the bonds' and loans' year ending, is as follows:

	Principal *	Interest **	Total
For the year ending January 15, 2012	\$ 5,060,000	\$ 753,381	\$ 5,813,381
2013	5,205,000	627,316	5,832,316
2014	5,155,000	568,224	5,723,224
2015	5,480,000	502,889	5,982,889
2016	5,565,000	414,761	5,979,761
2017 through 2021	29,755,000	811,321	30,566,321
2022	4,635,000	17,551	4,652,551
	\$ 60,855,000	\$ 3,695,443	\$ 64,550,443

* Includes Series 1996B and 1996C capital appreciation bonds (CABs) at their maturity values, with future bond accretion of \$11,400,941.

** The EFC subsidizes interest on the Corporation's Series 1999A Bonds Project Financing and Loan Agreement, which reduces debt service cost over the life of the loan. The amount of subsidy received from the EFC was \$27,096 and \$48,984 during the years ended December 31, 2011 and 2010, respectively.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 3 - BONDS AND LOANS PAYABLE - Continued

d. Debt Service Payment and Funding Requirements - Continued

The Corporation's Series 2010A refunding bonds were sold at a net premium of \$640,444. Unamortized premiums are included in the carrying amount of the bonds. Bond issuance costs related to the refunding totaled \$238,592.

The premium and issuance costs are being amortized over the life of the bonds were as follows:

	Bond Premium	Issuance Costs
For the year ending December 31, 2012	\$ 146,253	\$ 54,485
2013	110,209	41,058
2014	79,095	29,466
2015	53,196	19,818
2016	32,746	12,199
Thereafter	31,650	11,791
	\$ 453,149	\$ 168,817

A summary of future annual funding requirements for these debt service payments is provided in Exhibit 1, which is an integral part of the financial statements.

The changes in long-term liabilities were as follows:

	Balance at December 31, 2010	Additions *	Payments/ Amortization	Balance at December 31, 2011
Bonds and loans payable	\$ 52,158,223	\$ 1,712,810	\$ 5,165,000	\$ 48,706,033
Bond premium	640,444	-	187,295	453,149
	\$ 52,798,667	\$ 1,712,810	\$ 5,352,295	\$ 49,159,182
	Balance at December 31, 2009	Additions **	Payments	Balance at December 31, 2010
Bonds and loans payable	\$ 56,089,549	\$ 20,098,674	\$ 24,030,000	\$ 52,158,223
Bond premium	-	640,444	-	640,444
	\$ 56,089,549	\$ 20,739,118	\$ 24,030,000	\$ 52,798,667

* Represents bond accretion.

** Bonds and loans payable additions represents bond accretion as well as bond refunding and loan refinancing proceeds.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 4 - FUNDING METHODS

a. Sales Tax and State Aid

The Corporation has no taxing power. Its debt service requirements and operating expenses are funded primarily from the City's share of certain sales taxes imposed by Rensselaer County (County) and from State aid payments designated for the City. The State Comptroller deposits the City's share of the County imposed sales tax in the Municipal Assistance Tax Fund and State aid in the Municipal Assistance State Aid Fund for the benefit of the Corporation. The Corporation periodically certifies to the State Comptroller the amount of funding it requires, and, provided the State Legislature has enacted the necessary appropriations, the State Comptroller disburses to the Corporation the amounts it has certified. Collections of sales taxes and deposits of State aid in excess of the Corporation's needs are remitted to the City by the State Comptroller.

The amount of sales tax allocable to the City in each of the State fiscal years ended March 31, 2010, 2011, and 2012, was (will be) \$12,790,068, \$13,374,257, and \$14,664,737, respectively.

The City agreed to 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. Such payment was deducted by the County in its March 15, 2005, sales tax payment made to the City. After the March 15, 2005, payment, the \$165,000 remaining balance is being paid by the City to the County without interest over a period of ten (10) years at \$16,500 per year which started March 15, 2006.

The aggregate amount of State aid allocable to the City, which includes Aid and Incentives for Municipalities (AIM), in each of the State fiscal years ended March 31, 2010, 2011, and 2012, was (will be) \$12,927,988, \$12,530,064, and \$12,279,463, respectively.

b. State Coverage Amount

The Act requires an additional coverage amount in State aid to be provided to the Corporation upon its certification and an annual appropriation by the State Legislature when it is necessary to augment the aggregate amount of sales tax and State aid to meet the minimum debt-service-coverage ratio of 1.5 to 1. Such additional coverage amount is designated to be deposited into the Municipal Assistance State Aid Fund. Based on the Corporation's current funding requirements as well as the sales tax and State aid revenues currently available, the Corporation has not determined a need to certify to the State for a coverage amount.

c. City Sources

The Act provides that when the Corporation pays the proceeds of its bonds or notes to the City it shall receive in return City obligations (bonds, notes, and/or repayment agreements). As a general matter, the Corporation does not expect to look to the principal of and interest on the City obligations as a funding source because the Corporation expects its sales tax and State aid revenues will be sufficient to meet its funding needs. The General Bond Resolution provides that in certifying its funding needs to the State, the Corporation shall exclude from consideration any amounts due to be received from the City.

A supplemental portion of the interest on the Corporation's Series 1996C Bonds is Subordinated Indebtedness under the General Bond Resolution and is not payable from the Corporation's regular funding sources. Pursuant to the Corporation's Certificate of Determination establishing certain terms of the Series 1996C Bonds, this supplemental interest is payable solely from amounts the Corporation receives from the City for the purpose of such payment. The payment of such amounts to the Corporation is conditioned on the City's undesignated general fund balance at the end of any fiscal year exceeding the City's audited expenditures for such year by five percent and is subject to appropriation by the City.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 5 - DEBT SERVICE RESERVE FUND

The Corporation has established a Debt Service Reserve Fund, which, as provided in the General Bond Resolution, is required to be funded at an amount not less than one-half of the maximum debt service due for any 12 consecutive months commencing January 15 on all outstanding bonds (with certain exceptions that do not currently apply). At December 31, 2011 and 2010, the Debt Service Reserve Fund balance was \$3,249,027 and \$3,250,191, respectively, an amount that at least equaled the required funding level.

A portion of the interest on the Corporation's Series 1996C Bonds is Subordinated Indebtedness under the General Bond Resolution. Subordinated Indebtedness is not secured by the Debt Service Reserve Fund and, therefore, is not taken into account in calculating the Debt Service Reserve Fund's required funding level.

NOTE 6 - OPERATING FUND

Pursuant to an April 17, 2008, resolution by the Board of the Corporation, the New York State Financial Control Board (New York State FCB) provides staffing and administrative services to the Corporation. The Corporation pays for the costs of such staffing and services from the Operating Fund upon periodic invoices submitted by the New York State FCB. For the years ended December 31, 2011 and 2010, such costs incurred totaled \$12,115 and \$26,610, respectively.

At December 31, 2011 and 2010, the assets of the Operating Fund included \$10,067 and \$3,208, respectively, in money market funds that invest in obligations guaranteed by the United States of America, as reflected in cash on the statements of net assets (deficit). Investments in money market funds are not evidenced by securities that exist in physical or book entry form.

NOTE 7 - CITY OF TROY BONDS, NOTES, AND REPAYMENT AGREEMENTS

The Act stipulates that upon providing funds to the City, the Corporation is to receive from the City evidence of the funding. This evidence may be in the form of bonds and/or notes. The evidence may also be in the form of agreements to repay the funds in annual installments that are subject to annual appropriation by the Troy City Council. Under the repayment agreements, the Corporation is authorized to deliver City obligations back to the City for cancellation without receiving payment of principal or interest.

As of December 31, 2011 and 2010, the Corporation held \$31,264,582 and \$34,636,190, respectively, in principal amounts of repayment agreements and no City bonds or notes. There are no City bonds, notes, or repayment agreements recorded in the Corporation's financial statements.

NOTE 8 - REBATES TO THE UNITED STATES GOVERNMENT

Under the Internal Revenue Code of 1986, as amended, the Corporation is required to rebate to the United States any excess earnings from the investment of the proceeds of its bonds over the yield on each issue. Under the Code and regulations issued by the Department of the Treasury, the Corporation is required to pay any such excess earnings within 60 days of the end of the fifth year following issuance and each succeeding fifth year for each issue, with a final payment required to be made within 60 days of retirement, maturity, or redemption of each issue. Arbitrage rebate is recorded as a reduction in interest income in the year paid. As of December 31, 2011 and 2010, the Corporation's rebate liability was \$17,572 and \$29,868, respectively.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 9 - CONCENTRATION OF CREDIT RISK

The Corporation maintains cash balances in a financial institution located in New York State. Accounts at the institution are insured, up to certain limits, by the Federal Deposit Insurance Corporation (FDIC). The investments in securities are backed by the full faith and credit of the United States government given the nature of the investments.

NOTE 10 - ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET IMPLEMENTED

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. This statement is effective for all state and local governments for periods beginning after December 15, 2011. Management has not estimated the extent of potential impact of this statement on the Corporation's financial statements.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY
SUPPLEMENTAL INFORMATION - DEBT SERVICE FUNDING REQUIREMENT
December 31, 2011

For the year ending December 31, 2012	\$ 5,821,215
2013	5,703,061
2014	5,964,525
2015	5,956,697
2016	6,226,080
2017	6,285,002
2018	6,812,322
2019	5,969,519
2020	5,545,559
2021	<u>3,058,163</u>
	<u>\$ 57,342,143</u>

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

Board of Directors
Municipal Assistance Corporation for the City of Troy
New York, New York

We have audited the financial statements of the Municipal Assistance Corporation for the City of Troy (Corporation) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Bollam Sheedy Torani & Co. LLP

Albany, New York
March 19, 2012

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF TROY

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements? _____ Yes X No

Section II - Financial Statement Findings

None reported.

Section III - Compliance Findings

None reported.