



CITY OF PHENIX CITY, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

**Albright, Fortenberry  
& Ninas, LLP**

CERTIFIED PUBLIC ACCOUNTANTS  
COLUMBUS, GEORGIA / PHENIX CITY, ALABAMA

CITY OF PHENIX CITY, ALABAMA  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

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# Albright, Fortenberry & Ninas, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
City of Phenix City, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Phenix City Board of Education - a discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Phenix City, Alabama, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Phenix City, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the government of the City of Phenix City, Alabama, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Capital Improvement Fund, and 7 Mill Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note T, the 2008 financial statements have been restated to correct a misstatement.

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

In accordance with *Government Auditing Standards*, we have also issued reports dated July 17, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws and 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Phenix City, Alabama's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Albright, Fortenberry & Ninas, LLP*

Columbus, Georgia  
July 17, 2009



# **CITY OF PHENIX CITY ALABAMA**

**FINANCE DEPARTMENT  
601 - 12<sup>TH</sup> STREET  
PHENIX CITY, ALABAMA 36867  
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**H.S. (SONNY) COULTER  
MAYOR**

**JAMES (JIMMY) WETZEL  
COUNCIL MEMBER AT LARGE**

**MAX WILKES  
COUNCIL MEMBER DISTRICT 1**

**MICHELLE E. WALKER  
COUNCIL MEMBER DISTRICT 2**

**ARTHUR SUMBRY  
COUNCIL MEMBER DISTRICT 3**

**WALLACE HUNTER  
CITY MANAGER**

**STEPHEN C. SMITH  
DIRECTOR OF FINANCE**

**CHARLOTTE SIERRA  
CITY CLERK**

**City of Phenix City, Alabama  
Management Discussion and Analysis  
Fiscal year 2008  
October 1, 2007 to September 30, 2008**

This report represents management's discussion and analysis of the City's financial statements and financial performance for the fiscal year which ended September 30, 2008. This report should be read in conjunction with the City's financial statements, which follow:

The City implemented, in fiscal 2003, the accounting principles established by Governmental Accounting Standards Board Statement No. 34.

The City's financial statements consist of three parts: the management's discussion and analysis (this section) the basic financial statements and supplementary information. The basic financial statements provide government-wide financial information about the City's overall financial status.

The Financial statements also include narrative notes that explain some of the information in the financial statements and provide more detailed data.

## **Government-Wide Statements**

The government-wide financial statements report information about the City as a whole, using accounting methods similar to those used by private-sector companies.

- The statement of net assets includes all of the government's assets and liabilities, with the difference between the two reported as net assets.
- All of the current year's revenues and expenses are accounted for in the statement of activities and changes in net assets regardless of when cash is received or paid. This represents a change in net assets in the most recent fiscal year. All changes in net assets, revenues or expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

To assess the overall economic health of the City, additional non-financial factors such as changes in the City's tax base and the condition of the City's infrastructure should be considered.

The government-wide financial statements of the City are divided into three categories:

- Governmental Activities - most of the City's basic services are included here, such as General Government (which includes Administration, Personnel, Finance, and the City Courts) Public Safety, Public Works, Parks and Recreation and Interest and Fees on Long-Term Debt;
- Business-Type Activities - the City's Golf Course and Water and Sewer Services are included here; and
- Discretely Presented Component Units - financial information on the Phenix City Board of Education and the Phenix City/Russell County Library are presented here.

### **Fund Financial Statements**

State law and /or accounting rules require certain revenue sources or types of expenditures to be accounted for separately in special funds. Fund Financial Statements provide more detailed information about the City's most significant funds, rather than the City as a whole.

- State law requires the various gas taxes to be accounted for separately because their expenditures are restricted to specific uses.
- The City Council has established Debt Service and Capital Projects Funds to better control the use of monies dedicated to a particular purpose such as the Seven Mill Tax Fund used for general obligation debt service.
- The City Council has also established funds to show compliance with certain legally restricted revenue sources, such as the Corrections Fund and Confiscated Property Funds which must be used for public safety related expenses.

### **The City's Funds are separated into two types**

- Governmental Funds; Most of the City's basic services are accounted for in governmental funds, which focus on:
  - How cash and other financial assets that can be readily converted to cash flow in and out and,
  - Balances left at fiscal year-end that are available for spending in future years.Consequently, governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's services. A comparison of the short-term governmental funds focus of accounting and the government-wide long-term focus of accounting can provide useful information and a better understanding of the long-term impact of the City's short-term funding decisions.
- Proprietary Funds; Services provided to the general public for which customers are charged a fee are generally reported in Enterprise funds, which are called proprietary funds in the financial statements. The City of Phenix City has two proprietary funds:
  - The Utility Fund which provides water and sewer services to residential, commercial and industrial customers residing within the City's utility district and,



- The Golf Fund which accounts for the operations of the city owned Lakewood Golf Course.

These two funds function like business activities, so their financial statements provide different information than those of the governmental funds, such as depreciation expense and cash flows.

## **Financial Analysis of the City (Primary Government)**

### **Assets**

Most of the Governmental Activities net assets are invested in capital assets (land, buildings, equipment, and roads etc.). Total assets of the City were \$118,333,110 for 2008 compared to \$120,728,987 for 2007. The City's investment in such capital assets as of September 30, 2008 was \$93,293,636 which is an increase of \$7,015,064 from September 30, 2007 of \$86,278,572. The City has recorded \$52,445,539 in depreciation against these capital assets leaving a net asset book value of \$40,848,097. Debt outstanding related to capital assets was \$28,362,347 leaving an investment in capital assets of \$12,685,750 compared to \$5,308,341 for 2007.

The City's Business-type Activities had capital assets as of September 30, 2008 of \$94,582,888 an increase of \$2,811,576 from September 2007 of \$91,771,312. Net of \$28,685,738 in depreciation the City's Business-type Activities had \$65,897,150 in capital assets most of which were related to Public Utilities (water and sewer). The City's water and sewer system had an outstanding revenue debt of \$26,245,500. The investment in capital assets for 2008 was \$40,811,868 compared to \$38,947,312 for 2007.

### **Revenues**

The City's total revenue from Governmental Activities was \$27,307,963 a decrease of less than .1% from the previous year of \$27,311,318. The largest revenue source for the City is the sales and use tax which represents \$12,535,448 or 46% of the total. Charges for service totaled \$1,801,343, property taxes totaled \$4,267,281, other taxes \$2,295,359 and investment earnings totaled \$171,227. The property tax rate for the City is 19 mills with seven mills dedicated for education and seven mills dedicated for debt service the remaining 5 mills is for operations. Of the total property taxes \$1,502,971 is dedicated to debt service and \$1,684,797 for education.

### **Expenses**

Departmental operating expenditures totaled \$21,541,764 or 79.03% of total non-capital expenditures of \$27,254,838. The City transferred \$1,688,214 to the Phenix City Board of Education and debt service on general obligation debt totaled \$3,473,963. Capital outlays during the fiscal year were \$7,386,188.

Public Safety (police and fire departments) is the largest category of departmental operating expenses totaling \$10,682,998 or 48.81%. Public Works is second at \$4,510,680 or 20.61%, General government, which includes the City Managers Office, City Clerk, Finance, Personnel, and Municipal Court, is third with a total of \$4,142,199 or 18.46% with Parks & Recreation at \$2,205,887 or 10.08% representing most of the balance of departmental operating expenditures.

### **Business-Type Activities**

The City operates two Business-type Activities, the Lakewood Golf Course and a Public Utility which provides water and sewer services.

Operating Revenues were \$579,589 for fiscal 2008 compared to \$788,602 in 2007. Operating expenses exceeded operating revenues at the Lakewood Golf Course by \$362,007 in 2008 compared to \$172,619 in 2007, with total expenses including depreciation exceeding revenues by \$389,038 in 2008 compared to \$254,400 in 2007. Net cash flow of 2008 was a negative \$391,329 compared to a negative 23,616 in 2007. The golf course was closed for renovations much of fiscal 2008 after the greens had died. The course was reopened in late July of 2008 with new greens and other improvements. The course has never been profitable on a sustained basis but we expect to operate at or near break even for fiscal 2009 not including depreciation.

Operating revenues of \$9,673,891 were up \$758,062 in 2008 compared to \$8,915,829 in 2007. Operating expenses of \$6,300,398 compared to \$5,715,057 were up \$585,341 primarily due to extensive repairs and equipment upgrades at the wastewater treatment plant. Operating income increased \$172,721 to \$3,373,493 in 2008 compared to \$3,200,772 in 2007. Depreciation and amortization expenses of \$2,093,256 increased \$328,175 from \$1,765,081 in 2007, interest expense was \$1,502,955 in 2008 compared to \$1,375,821 in 2007 interest income was \$110,272 in 2008 compared to \$283,141 in 2007 and contributed assets were \$1,515,371 in 2008 compared to \$1,491,329 in 2007. Net income was \$1,402,925 for 2008 which was down from \$1,834,340 in 2007 due to the increase in depreciation and amortization and the reduction in interest income. Contributed assets are capital assets constructed by private developers and contributed to the City when the City accepts a new development. The utility raised water rates by 15% and sewer rates by 40% in April of 2008 to account for increased operating expenses and planned capital improvements and renovations. The City plans capital spending of 12 and 15 million dollars over the next 3 years primarily in improvements to the wastewater plant and collection system to accommodate expected growth.

### **Fund Balances**

The General Fund Balance decreased \$1,876,756 to \$3,708,652 in 2008 compared to \$5,585,408 in 2007 due to funds advanced for a land purchase, the City intends to repay fund balance when bonds are issued in fiscal 2009 to fund this purchase and other capital projects. The fund balance for the City's Other Governmental Funds decreased \$5,844,699 to \$1,123,120 in 2008 compared to \$6,967,819 in 2007 due to spending down of bond proceeds as the city neared completion of several capital projects.

Net assets in the Public Utilities Fund increased \$1,402,925 to \$43,565,279 in 2008 compared to \$42,162,354 in 2007 and net assets declined in the Non-Major Enterprise (Lakewood Golf Course) Fund by \$389,038 to \$404,081 in 2008 compared to \$793,119 in 2007. Net assets increased \$581,556 in all Business-type Funds to \$43,969,360 in 2008 compared to \$42,955,473 in 2007.

### **Budgetary Highlights**

The City adopts annual budgets for the General Fund, Utility Fund and Golf Course Fund.

Total operating revenues were \$2,295,659 or 9% less than budgetary projections in the General Fund, however; \$1,266,780 of this was grant funds for a capital project that was delayed the \$1,028,879 balance in the shortfall was primarily reduced sales tax. Two large commercial developments, one in Auburn, Alabama and the other in Columbus Georgia pulled a significant amount of retail sales away from Phenix City. Sales tax revenues have stabilized and we expect them to return to normal levels in

2009. Departmental expenditures were \$723,521 less than budgeted as the City reduced spending due to revenue shortfalls. Capital expenditures were \$581,556 less than budgeted due to a delay in the Riverwalk Extension Project.

Golf course revenues were down sharply as the City closed the course for extensive renovation, the course reopened in late July of 2008 and revenues have rebounded strongly. Water and sewer revenues in the Utility Fund were up sharply; the City raised water rates 15% and sewer rates 40% and increased development fees in April of 2008 in anticipation of increased operating expenses and to fund the departments Capital Improvement Plan. The City expects to have a 15% to 18% growth in customers over the next two years due to the increase in personnel and civilian jobs at Fort Benning from the Base Realignment and Closure Act. The City has become much less reliant on its largest commercial and industrial users due to strong residential growth throughout the City and increased sales to the Russell County Water Authority. Revenues were greater than expected as growth in the City's residential connections continued at a strong pace.

### **Capital Asset and Debt Management**

The City included infrastructure capital assets in its financial statement for the first time as required by the Governmental Accounting Standards Board (GASB) Statement Number 34 for September 30, 2003. The City inventoried all infrastructure assets during the fiscal year ended September 30, 2003, monitored additions and deletions closely and the Statement of Net Assets in this report complies with GASB Statement No. 34.

The City did not issue any GO debt and retired \$2,235,000 in Fiscal 2008 and had \$28,362,347 outstanding in long-term general obligation debt at Fiscal 2008 year end compared to \$30,598,347 in 2007. General Fund Debt of \$20,372,347 or 71.8% of the total outstanding in 2008 will be retired by the end of 2018.

General obligation debt is payable from the City's general revenues. Some of the long-term debt is payable from legally restricted funds. Revenue from the City's 7-Mill Tax Fund has been dedicated for debt service.

The City did not issue revenue debt in Fiscal 2008 and retired \$1,200,000 the City had \$26,245,000 in revenue debt outstanding at the end of Fiscal 2008 compared to \$27,445,000 in 2007. Of the \$26,245,000 in Revenue Warrants payable from the Utility Fund revenues outstanding at Fiscal 2008 year-end \$10,340,000 or 39.4% will be retired by 2018 year end.

### **Bond Ratings**

The City received its most recent bond rating an A+ rating from Standard & Poors on its general obligation warrants.

### **Economic Factors and Expectations**

The local economy has grown in terms of housing, jobs and retail development but the development of large retail developments in near-by cities has reduced the amount of retail traffic from west Georgia and Lee County in east Alabama. The City has maintained a steadily growing property tax base for the last 4 years however; the increase in retail development in nearby cities negatively impacted

sales tax revenues in 2007 and in 2008. The revenues have stabilized and begun to grow again and we expect growth to accelerate in 2009 and 2010. The unemployment rate is lower than the state average and has increased at a slower rate than the state and nation due to continued though slower growth. New housing starts spurred by faster than expected population growth have continued while the rate of new starts is slower than it has been it was higher than expected given the state of the housing market nationally. The construction of a new KIA automotive plant 30 miles north of the city and the coming expansion of Fort Benning and announced expansion of AFLAC in Columbus, Georgia is expected to increase population in the metro area by more than 15% in the next 3 years. With the expected continued growth in the regional economy and the continued population growth and new retail development currently planned the City's revenues should increase sufficiently to fund planned services for at least the next three to five years.

The City completed a study of water and sewer rates in 2008 and raised rates and fees to cover planned operations and capital expenditures over the next five years as well as expansion of the water and sewer distribution system to accommodate the expected new growth. Both the water and sewer treatment systems currently operate at just under one-half capacity leaving ample room for growth. The City has entered into an agreement to provide water to Fort Mitchell, Alabama, sewer service to the City of Smith's, Alabama and both water and sewer service to the Russell County Utility System which should result in steady revenue growth from these sources at little cost to the City. The Russell County Utility System is now the City's largest customer.

### **Contacting the City's Financial Management**

This financial report is designed to provide the City of Phenix City's citizens, taxpayers, investors, customers and creditors with a general overview of the City's finances. It is also designed to demonstrate the City's accountability for the public assets under management. Please contact the City of Phenix City Finance Department, 601 12<sup>th</sup> Street, Phenix City, Alabama 36867, with any questions or to request additional information.

Stephen C. Smith  
Director of Finance

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008

	Primary Government			Component Units		
	Governmental Activities		Business-Type Activities	Total	Phenix City Board of Education	Non-Major Component Unit
	\$	\$				
<b>ASSETS</b>						
Cash	4,773,825	620,015	5,393,840	1,002,173	44,019	
Investments	--	--	--	4,244,435	--	
Receivables:						
Accounts receivable	332,058	1,973,104	2,305,162	659,205	11,312	
Taxes receivable	262,226	--	262,226	--	--	
Intergovernmental receivable	300,012	--	300,012	--	--	
Notes receivable	390,000	--	390,000	--	--	
Interest receivable	--	52,443	52,443	--	--	
Internal balances	455,408	(455,408)	--	--	--	
Prepaid expenses	194,476	65,716	260,192	39,309	--	
Inventories	116,570	222,078	338,648	289,401	--	
Capital assets, net of accumulated depreciation	40,848,097	65,897,150	106,745,247	54,454,378	20,193	
Deferred outflow for interest rate swap agreement	--	907,263	907,263	--	--	
Bond issue costs	527,892	385,703	913,595	588,489	--	
Restricted assets:						
Cash	--	1,371,745	1,371,745	645,986	--	
Investments	--	--	--	3,005,865	--	
Accounts receivable	--	--	--	508,746	--	
<b>TOTAL ASSETS</b>	<b>48,200,564</b>	<b>71,039,809</b>	<b>119,240,373</b>	<b>65,437,987</b>	<b>75,524</b>	
<b>LIABILITIES</b>						
Accounts payable	1,287,214	572,977	1,860,191	999,442	1,758	
Accrued liabilities	839,565	--	839,565	--	--	
Accrued payroll and employee benefits	380,942	80,861	461,803	3,880,481	1,738	
Compensated absences	675,880	154,584	830,464	--	--	
Customer deposits	--	103,318	103,318	--	--	
Deferred revenue	--	24,618	24,618	--	--	
Liabilities payable from restricted assets	--	1,286,760	1,286,760	--	--	
Unamortized premium paid	--	--	--	856,340	--	
Warrants and debt payable, current portion	2,357,184	--	2,357,184	705,577	--	
Noncurrent liabilities:						
Claims payable, less current portion	330,000	--	330,000	--	--	
Fair value of swap agreement	--	907,263	907,263	--	--	
Warrants and debt payable, less current portion	25,922,162	23,940,068	49,862,230	34,368,642	--	
<b>TOTAL LIABILITIES</b>	<b>31,792,947</b>	<b>27,070,449</b>	<b>58,863,396</b>	<b>40,810,482</b>	<b>3,496</b>	
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	12,665,750	40,811,868	53,477,618	18,642,300	20,193	
Restricted for capital projects	794,015	--	794,015	3,285,118	--	
Restricted for debt service	28,278	1,371,745	1,400,023	423	--	
Unrestricted	2,899,574	1,785,747	4,685,321	2,699,664	51,835	
<b>TOTAL NET ASSETS</b>	<b>15,407,617</b>	<b>43,969,360</b>	<b>60,376,977</b>	<b>24,627,505</b>	<b>72,028</b>	

Notes to the financial statements are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
Year Ended September 30, 2008

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets				Net (Expense) Revenue and Changes in Net Assets		
	Primary Government				Component Units		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Phenix City Board of Education
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
General Government	\$ 4,682,132	\$ 4,253,237	\$ --	\$ --	\$ (428,895)	\$ --	\$ --
Public Safety	11,057,422	997,701	--	--	(10,059,721)	--	--
Public Works	8,384,205	1,801,343	865,853	--	(5,717,009)	--	--
Parks and Recreation	2,875,594	120,514	--	--	(2,755,080)	--	--
Education	1,688,214	--	--	--	(1,688,214)	--	--
Interest and fees on Long-term debt	1,316,078	--	--	--	(1,316,078)	--	--
<b>Total Governmental Activities</b>	<b>30,003,645</b>	<b>7,172,795</b>	<b>865,853</b>	<b>--</b>	<b>(21,964,997)</b>	<b>--</b>	<b>--</b>
<b>Business-Type Activities:</b>							
Utilities	9,896,609	9,626,558	--	1,562,704	--	1,292,653	--
Golf Course	1,024,482	579,589	--	55,600	--	(389,293)	--
<b>Total Business-Type Activities</b>	<b>10,921,091</b>	<b>10,206,147</b>	<b>--</b>	<b>1,618,304</b>	<b>--</b>	<b>903,360</b>	<b>--</b>
<b>Total Primary Government</b>	<b>\$ 40,924,736</b>	<b>\$ 17,378,942</b>	<b>\$ 865,853</b>	<b>\$ 1,618,304</b>	<b>\$ (21,964,997)</b>	<b>\$ 903,360</b>	<b>\$ (21,061,637)</b>
<b>Component Units:</b>							
Phenix City Board of Education	\$ 60,065,230	\$ 1,917,576	\$ 47,880,329	\$ --	\$ --	\$ --	\$ (10,267,325)
Non-Major Component Units	297,778	21,917	251,839	--	--	--	(24,022)
<b>Total Component Units</b>	<b>\$ 60,363,008</b>	<b>\$ 1,939,493</b>	<b>\$ 48,132,168</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ (24,022)</b>
<b>General revenues:</b>							
Property taxes					\$ 6,562,640	\$ --	\$ 6,815,543
Sales taxes					12,535,448	--	3,035,353
Other revenue					171,227	110,527	565,087
Investment earnings					1,938,570	--	--
Contributions not restricted to specific program					--	--	--
<b>Total general revenues</b>					<b>21,207,885</b>	<b>110,527</b>	<b>10,415,983</b>
<b>Change in net assets</b>					<b>(757,112)</b>	<b>1,013,887</b>	<b>148,656</b>
<b>Net assets - beginning - as restated</b>					<b>17,164,729</b>	<b>42,955,473</b>	<b>24,478,847</b>
<b>Net assets - ending</b>					<b>\$ 16,407,617</b>	<b>\$ 43,969,360</b>	<b>\$ 24,627,503</b>

Notes to the financial statements are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008

	General Fund	Capital Improvement Fund	7 Mill Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,160,220	\$ 604,927	\$ 43,886	\$ 960,110	\$ 4,769,143
Receivables:					
Accounts receivable	62,317	--	--	269,741	332,058
Intergovernmental receivable	300,012	--	--	--	300,012
Taxes receivable	200,281	--	17,934	44,011	262,226
Notes receivable	--	--	--	390,000	390,000
Due from other funds	1,892,990	--	--	51	1,893,041
Prepaid expenses	194,476	--	--	--	194,476
Inventories	116,570	--	--	--	116,570
<b>TOTAL ASSETS</b>	<b>\$ 5,926,866</b>	<b>\$ 604,927</b>	<b>\$ 61,820</b>	<b>\$ 1,663,913</b>	<b>\$ 8,257,526</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 811,346	\$ 195,990	\$ 1,059	\$ 64,219	\$ 1,072,614
Accrued liabilities	839,565	--	--	--	839,565
Accrued payroll and employee benefits	358,608	--	--	--	358,608
Payroll withholdings	22,334	--	--	--	22,334
Due to other funds	186,361	--	941,155	5,117	1,132,633
<b>TOTAL LIABILITIES</b>	<b>2,218,214</b>	<b>195,990</b>	<b>942,214</b>	<b>69,336</b>	<b>3,425,754</b>
<b>FUND BALANCES</b>					
Reserved:					
Special Revenue Funds	--	--	--	906,558	906,558
Debt Service Funds	--	--	--	28,278	28,278
Inventories	116,570	--	--	--	116,570
Self insurance	439,588	--	--	--	439,588
Projects	394,470	408,937	--	--	803,407
Receivables	--	--	--	659,741	659,741
Encumbrances	282,612	--	--	--	282,612
Unreserved:					
Undesignated	2,475,412	--	(880,394)	--	1,595,018
<b>TOTAL FUND BALANCES</b>	<b>3,708,652</b>	<b>408,937</b>	<b>(880,394)</b>	<b>1,594,577</b>	<b>4,831,772</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,926,866</b>	<b>\$ 604,927</b>	<b>\$ 61,820</b>	<b>\$ 1,663,913</b>	<b>\$ 8,257,526</b>

Notes to the financial statements are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2008

Total fund balances - governmental funds \$ 4,831,772

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$92,556,996 and the accumulated depreciation is \$52,445,539. 40,848,097

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Warrants and debt payable	\$28,279,346	
Compensated absences	675,880	
Claims payable	<u>330,000</u>	(29,285,226)

Unamortized bond cost are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet 527,892

Internal Service Funds are used by management to charge the costs of certain activities such as insurance to individual funds. The assets and liabilities are included in the governmental activities in the Government-Wide Statements of Net Assets. (514,918)

\$16,407,617

Notes to the financial statements are an integral part of these financial statements.



CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General	Capital Improvement Fund	7 Mill Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
General Taxes	\$ 2,917,136	\$ --	\$ 1,502,971	\$ 2,142,533	\$ 6,562,640
Sales and Use Taxes	12,535,448	--	--	--	12,535,448
Parks and recreation	120,514	--	--	--	120,514
Intergovernmental Revenues	594,838	271,015	--	--	865,853
License, Permits and Fees	3,784,290	--	--	--	3,784,290
Fines and Forfeitures	755,170	--	--	242,531	997,701
Interest Revenues	55,250	47,229	2,610	66,138	171,227
Sales of Property	--	--	--	4,220	4,220
Charges for Services	1,801,343	--	--	--	1,801,343
Miscellaneous Revenues	435,189	--	25	29,513	464,727
<b>TOTAL REVENUES</b>	<b>22,999,178</b>	<b>318,244</b>	<b>1,505,606</b>	<b>2,484,935</b>	<b>27,307,963</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
General Government	4,142,199	--	277,115	--	4,419,314
Public Safety	10,682,998	--	--	--	10,682,998
Public Works	4,510,680	--	--	273,782	4,784,462
Parks and Recreation	2,205,887	--	--	--	2,205,887
Education	--	--	--	1,688,214	1,688,214
Capital Outlay	1,182,555	6,201,104	--	2,529	7,386,188
<b>Debt Service:</b>					
Principal	--	--	2,235,000	--	2,235,000
Interest and fiscal charges	--	--	1,219,830	--	1,219,830
Agent fees	--	--	19,133	--	19,133
<b>TOTAL EXPENDITURES</b>	<b>22,724,319</b>	<b>6,201,104</b>	<b>3,751,078</b>	<b>1,964,525</b>	<b>34,641,026</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>274,859</b>	<b>(5,882,860)</b>	<b>(2,245,472)</b>	<b>520,410</b>	<b>(7,333,063)</b>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Transfers in	136,777	1,390,242	2,205,000	25,000	3,757,019
Transfers out	(1,900,000)	--	--	(1,857,019)	(3,757,019)
<b>NET OTHER FINANCING SOURCES (USES)</b>	<b>(1,763,223)</b>	<b>1,390,242</b>	<b>2,205,000</b>	<b>(1,832,019)</b>	<b>--</b>
<b>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(1,488,364)</b>	<b>(4,492,618)</b>	<b>(40,472)</b>	<b>(1,311,609)</b>	<b>(7,333,063)</b>
<b>FUND BALANCE - OCTOBER 1, 2007</b>	<b>5,585,408</b>	<b>4,901,555</b>	<b>(839,922)</b>	<b>2,906,186</b>	<b>12,553,227</b>
Prior period Adjustment	(388,392)	--	--	--	(388,392)
<b>FUND BALANCE - OCTOBER 1, 2007 as restated</b>	<b>5,197,016</b>	<b>4,901,555</b>	<b>(839,922)</b>	<b>2,906,186</b>	<b>12,164,835</b>
<b>FUND BALANCE - SEPTEMBER 30, 2008</b>	<b>\$ 3,708,652</b>	<b>\$ 408,937</b>	<b>\$ (880,394)</b>	<b>\$ 1,594,577</b>	<b>\$ 4,831,772</b>

Notes to the financial statements are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES  
 For the Year Ended September 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (7,333,063)

Amounts reported for governmental activities in the  
 Statement of Activities are different because:

Governmental funds report capital outlay as expenditures.  
 However, in the Government-Wide Statement of Activities  
 and Changes in Net Assets, the cost of those assets is  
 allocated over their estimated useful lives as depreciation  
 expense. This is the amount of capital assets recorded in  
 the current period. 9,863,065

Fixed asset contributed to Troy State University (2,965,000)

Depreciation expense on capital assets is reported in the  
 Government-Wide Statement of Activities and Changes in Net  
 Assets, but they do not require the use of current financial  
 resources. Therefore, depreciation expense is not reported  
 as expenditures in Governmental Funds. (2,072,655)

Long-term compensated absences and claims payable are  
 reported in the Government-Wide Statement of Activities and  
 Changes in Net Assets, but they do not require the use of  
 current financial resources. Therefore, long-term compensated  
 absences and claims are not reported as expenditures in  
 Governmental Funds. (377,318)

Bond proceeds provide current financial resources to Governmental  
 Funds, but issuing debt increases long-term liabilities in the  
 Government-Wide Statement of Net Assets. Repayment of bond  
 principal is an expenditure in Governmental Funds, but the  
 repayment reduces long-term liabilities in the Government-Wide  
 Statement of Net Assets.

This amount represents: Long-term debt repayments 2,435,000  
 Amortization of issuance costs (36,430)

Internal Service Funds are used by management to charge cost  
 of certain activities, such as insurance, to individual funds.  
 The net revenue of the Internal Revenue Service Funds is  
 reported with Governmental Activities. (270,711)

Change in Net Assets of Governmental Activities \$ (757,112)

Notes to the financial statements are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
 Year Ended September 30, 2008

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,105,613	\$ 2,105,613	\$ 2,917,136	\$ 811,523
Sales tax	15,041,250	15,041,250	12,535,448	(2,505,802)
Licenses, permits and fees	3,480,500	3,480,500	3,784,290	303,790
Charges for services	1,650,523	1,650,523	1,801,343	150,820
Fines and forfeitures	645,000	645,000	755,170	110,170
Parks and Recreation	101,550	101,550	120,514	18,964
Intergovernmental revenue	1,763,618	1,861,618	594,838	(1,266,780)
Investment income	255,000	255,000	55,250	(199,750)
Miscellaneous revenues	153,783	153,783	435,189	281,406
<b>TOTAL REVENUES</b>	<b>25,196,837</b>	<b>25,294,837</b>	<b>22,999,178</b>	<b>(2,295,659)</b>
<b>EXPENDITURES</b>				
Current:				
General Government	3,916,697	4,019,847	4,142,199	122,352
Public Safety	10,866,954	11,244,305	10,682,998	(561,307)
Public Works	4,938,183	4,495,283	4,510,680	15,397
Parks and Recreation	2,402,925	2,402,925	2,205,887	(197,038)
Capital Outlay	1,764,111	1,764,111	1,182,555	(581,556)
<b>TOTAL EXPENDITURES</b>	<b>23,888,870</b>	<b>23,926,471</b>	<b>22,724,319</b>	<b>(1,202,152)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,307,967</b>	<b>1,368,366</b>	<b>274,859</b>	<b>(1,093,507)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	305,000	305,000	136,777	(168,223)
Operating transfers out	--	(1,720,000)	(1,900,000)	180,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>305,000</b>	<b>(1,415,000)</b>	<b>(1,763,223)</b>	<b>(348,223)</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>1,612,967</b>	<b>(46,634)</b>	<b>(1,488,364)</b>	<b>(1,441,730)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR AS RESTATED</b>	<b>5,197,016</b>	<b>5,197,016</b>	<b>5,197,016</b>	<b>--</b>
<b>FUND BALANCES AT YEAR END</b>	<b>\$ 6,809,983</b>	<b>\$ 5,150,382</b>	<b>\$ 3,708,652</b>	<b>\$ (1,441,730)</b>

The notes to the financial statements are an integral part of this statement.

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
CAPITAL IMPROVEMENT FUND  
Year Ended September 30, 2008

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ --	\$ --	\$ 271,015	\$ 271,015
Investment income	25,000	25,000	47,229	22,229
TOTAL REVENUES	25,000	25,000	318,244	293,244
EXPENDITURES				
Current:				
Capital outlay	2,590,000	2,590,000	6,201,104	3,611,104
TOTAL EXPENDITURES	2,590,000	2,590,000	6,201,104	3,611,104
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,565,000)	(2,565,000)	(5,882,860)	(3,317,860)
OTHER FINANCING SOURCES (USES)				
Transfer In	--	--	1,390,242	1,390,242
TOTAL OTHER FINANCING SOURCES (USES)	--	--	1,390,242	1,390,242
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(2,565,000)	(2,565,000)	(4,492,618)	(1,927,618)
FUND BALANCES AT BEGINNING OF YEAR	4,901,555	4,901,555	4,901,555	--
FUND BALANCES AT YEAR END	\$ 2,336,555	\$ 2,336,555	\$ 408,937	\$ (1,927,618)

The notes to the financial statements are an integral part of this statement.

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
7 MILL FUND  
Year Ended September 30, 2008

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,536,900	\$ 1,536,900	\$ 1,502,971	\$ (33,929)
Investment income	15,000	15,000	2,610	(12,390)
Miscellaneous	--	--	25	25
<b>TOTAL REVENUES</b>	<b>1,551,900</b>	<b>1,551,900</b>	<b>1,505,606</b>	<b>(46,319)</b>
<b>EXPENDITURES</b>				
General government	277,115	277,115	277,115	--
Debt service:				
Principal	2,235,000	2,235,000	2,235,000	--
Interest	1,186,543	1,186,543	1,219,830	33,287
Agent fees	15,000	15,000	19,133	4,133
<b>TOTAL EXPENDITURES</b>	<b>3,713,658</b>	<b>3,713,658</b>	<b>3,751,078</b>	<b>37,420</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,161,758)</b>	<b>(2,161,758)</b>	<b>(2,245,472)</b>	<b>(83,714)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,995,000	1,995,000	2,205,000	210,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,995,000</b>	<b>1,995,000</b>	<b>2,205,000</b>	<b>210,000</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>(166,758)</b>	<b>(166,758)</b>	<b>(40,472)</b>	<b>126,286</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>(839,922)</b>	<b>(839,922)</b>	<b>(839,922)</b>	<b>--</b>
<b>FUND BALANCES AT YEAR END</b>	<b>\$ (1,006,680)</b>	<b>\$ (1,006,680)</b>	<b>\$ (880,394)</b>	<b>\$ 126,286</b>

The notes to the financial statements are an integral part of this statement.

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
September 30, 2008

	Business-Type Activities			Governmental Activities Internal Service Funds
	Enterprise Funds			
	Public Utilities	Non-Major Enterprise Funds	Total	
<b>ASSETS</b>				
Cash	\$ 604,340	\$ 15,675	\$ 620,015	\$ 4,682
Accounts receivable (net of allowance \$924,490)	1,967,217	5,887	1,973,104	--
Interest receivable	52,443	--	52,443	--
Due from other funds	1,127,465	--	1,127,465	--
Inventory	183,984	38,094	222,078	--
Prepaid expenses	63,045	2,671	65,716	--
<b>TOTAL CURRENT ASSETS</b>	<b>3,998,494</b>	<b>62,327</b>	<b>4,060,821</b>	<b>4,682</b>
<b>FIXED ASSETS</b>				
Property, plant and equipment	92,153,756	2,429,131	94,582,887	--
Accumulated depreciation	(27,660,542)	(1,025,195)	(28,685,737)	--
	64,493,214	1,403,936	65,897,150	--
<b>OTHER ASSETS</b>				
Deferred outflow for interest rate swap agreement	907,263	--	907,263	--
Bond issue costs	385,703	--	385,703	--
	1,292,966	--	1,292,966	--
<b>RESTRICTED ASSETS</b>				
Cash	1,371,745	--	1,371,745	--
<b>TOTAL ASSETS</b>	<b>71,156,419</b>	<b>1,466,263</b>	<b>72,622,682</b>	<b>4,682</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>CURRENT LIABILITIES (payable from current assets):</b>				
Accounts payable	551,846	21,131	572,977	214,600
Accrued liabilities	70,421	10,440	80,861	--
Compensated absences	141,365	13,219	154,584	--
Customer deposits	103,318	--	103,318	--
Due to other funds	590,099	992,774	1,582,873	305,000
Deferred revenue	--	24,618	24,618	--
<b>TOTAL CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)</b>	<b>1,457,049</b>	<b>1,062,182</b>	<b>2,519,231</b>	<b>519,600</b>
<b>CURRENT LIABILITIES (payable from restricted assets):</b>				
Current maturities of long-term debt	1,255,000	--	1,255,000	--
Accrued interest	31,760	--	31,760	--
<b>TOTAL CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</b>	<b>1,286,760</b>	<b>--</b>	<b>1,286,760</b>	<b>--</b>
<b>LONG-TERM LIABILITIES</b>				
Long-term debt, less current maturities	23,940,068	--	23,940,068	--
Fair value of swap agreement	907,263	--	907,263	--
	24,847,331	--	24,847,331	--
<b>TOTAL LIABILITIES</b>	<b>27,591,140</b>	<b>1,062,182</b>	<b>28,653,322</b>	<b>519,600</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	39,407,932	1,403,936	40,811,868	--
Restricted for debt service	1,371,745	--	1,371,745	--
Unrestricted	2,785,602	(999,855)	1,785,747	(514,918)
<b>TOTAL NET ASSETS</b>	<b>\$ 43,565,279</b>	<b>\$ 404,081</b>	<b>\$ 43,969,360</b>	<b>\$ (514,918)</b>

Notes to the financial statements are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
Year Ended September 30, 2008

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Public Utilities	Non-Major Enterprise Funds	Total Enterprise Funds	
<b>REVENUES</b>				
Charges for services	\$ 9,390,393	\$ 579,589	\$ 9,969,982	\$ 2,404,424
Intergovernmental revenues	47,333	--	47,333	--
Miscellaneous	236,165	--	236,165	--
<b>TOTAL REVENUES</b>	<b>9,673,891</b>	<b>579,589</b>	<b>10,253,480</b>	<b>2,404,424</b>
<b>EXPENSES</b>				
Administrative	1,656,806	--	1,656,806	--
Water plant	1,669,461	--	1,669,461	--
Water distribution	402,190	--	402,190	--
Wastewater distribution	836,343	--	836,343	--
Wastewater plant	1,735,598	--	1,735,598	--
Administrative fees	--	--	--	248,018
Stop loss insurance	--	--	--	144,202
Claims	--	--	--	2,284,641
Lakewood golf course	--	941,596	941,596	--
<b>TOTAL EXPENSES</b>	<b>6,300,398</b>	<b>941,596</b>	<b>7,241,994</b>	<b>2,676,861</b>
<b>OPERATING INCOME (LOSS)</b>	<b>3,373,493</b>	<b>(362,007)</b>	<b>3,011,486</b>	<b>(272,437)</b>
<b>NONOPERATING INCOME (EXPENSES)</b>				
Investment income	110,272	255	110,527	1,726
Depreciation and amortization	(2,093,256)	(82,886)	(2,176,142)	--
Interest expense	(1,502,955)	--	(1,502,955)	--
Contributed assets	1,515,371	55,600	1,570,971	--
<b>TOTAL NONOPERATING INCOME (EXPENSES)</b>	<b>(1,970,568)</b>	<b>(27,031)</b>	<b>(1,997,599)</b>	<b>1,726</b>
<b>NET INCOME (LOSS)</b>	<b>1,402,925</b>	<b>(389,038)</b>	<b>1,013,887</b>	<b>(270,711)</b>
<b>NET ASSETS OCTOBER 1</b>	<b>42,162,354</b>	<b>793,119</b>	<b>42,955,473</b>	<b>(244,207)</b>
<b>NET ASSETS SEPTEMBER 30</b>	<b>\$ 43,565,279</b>	<b>\$ 404,081</b>	<b>\$ 43,969,360</b>	<b>\$ (514,918)</b>

Notes to the financial statements are an integral part of these statements.

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Public Utilities	Non-Major Enterprise Funds	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers and users	\$ 9,256,451	\$ 562,998	\$ 9,819,449	\$ 2,609,424
Cash payments to suppliers	(3,944,478)	(140,295)	(4,084,773)	(2,676,861)
Cash payments to employees	(2,350,093)	(383,870)	(2,733,963)	—
<b>NET CASH PROVIDED (USED) BY OPERATING INCOME</b>	<u>2,961,880</u>	<u>38,833</u>	<u>3,000,713</u>	<u>(67,437)</u>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(1,212,015)	(28,589)	(1,240,604)	—
Principal paid on capital debt	(1,200,000)	—	(1,200,000)	—
Interest and fees paid on capital debt	(1,481,150)	—	(1,481,150)	—
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(3,893,165)</u>	<u>(28,589)</u>	<u>(3,921,754)</u>	<u>—</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends received	92,641	255	92,896	1,726
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>92,641</u>	<u>255</u>	<u>92,896</u>	<u>1,726</u>
<b>NET INCREASE (DECREASE) CASH &amp; CASH EQUIVALENTS</b>	<u>(838,644)</u>	<u>10,499</u>	<u>(828,145)</u>	<u>(65,711)</u>
<b>CASH &amp; CASH EQUIVALENTS BEGINNING</b>	<u>2,814,729</u>	<u>5,176</u>	<u>2,819,905</u>	<u>70,393</u>
<b>CASH &amp; CASH EQUIVALENTS ENDING</b>	<u>\$ 1,976,085</u>	<u>\$ 15,675</u>	<u>\$ 1,991,760</u>	<u>\$ 4,682</u>
<b>RECONCILIATION</b>				
Operating Income (Loss)	\$ 3,373,493	\$ (362,007)	\$ 3,011,486	\$ (272,437)
Adjustments:				
(Increase) Decrease in accounts receivable	(411,266)	(591)	(411,857)	—
(Increase) Decrease in other current assets	(32,443)	—	(32,443)	—
Increase (Decrease) in accounts payable	(114,153)	(9,687)	(123,840)	—
Increase (Decrease) in comp absences	329	(3,610)	(3,281)	—
Increase (Decrease) in customer deposits	(5,900)	—	(5,900)	—
Increase (Decrease) in due to other funds	161,994	430,162	592,156	205,000
Increase (Decrease) in accrued liabilities	(10,174)	(15,434)	(25,608)	—
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 2,961,880</u>	<u>\$ 38,833</u>	<u>\$ 3,000,713</u>	<u>\$ (67,437)</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash during the year for interest	<u>\$ 1,233,607</u>			
<b>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>				
Capital assets contributed from other sources	<u>\$ 1,570,971</u>			

Notes to the financial statements are an integral part of these statements.



PRIMARY GOVERNMENT

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Phenix City, Alabama (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB).

1. Reporting Entity

Phenix City is a political subdivision of the State of Alabama created by virtue of a Constitutional Amendment. The financial reporting entity has been determined by management in accordance with generally accepted accounting principles to be the primary government, organizations for which the primary government is financially accountable, and organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In evaluating how to define the government for financial reporting purposes, management has considered all component units. The criteria used to determine financial accountability are the ability of the primary government to appoint a voting majority of the organization's governing body, and effectively impose its will on the organization. Also, if there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government, financial accountability would exist. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Included with the reporting entity as Discretely Presented Component Units:

Phenix City Board of Education - The Board is a legally separate agency of the State of Alabama. The Board is the basic level of government which has financial accountability and control over all activities related to public school education in the City of Phenix City, Alabama.

The Board is considered a component unit of the City due to the following reasons:

- (1) The City Appoints the members of the governing body.
- (2) The City issued bonds for the construction of facilities for the Board and the City is obligated for the debt.

The Phenix City Board of Education has issued separately audited component unit financial statements for the year ended September 30, 2008. Copies of the component unit financial statements may be obtained from the Phenix City Board of Education offices in Phenix City, Alabama.

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Phenix City-Russell County Library Authority - The Authority operates the Library for the City.

The Authority is considered a component unit for the following reasons:

- (1) The City appoints the members of the governing body.
- (2) The City provides the major source of revenue for the Authority.

The Phenix City-Russell County Library Authority has issued separately audited component unit financial statements for the year ended September 30, 2008. Copies of the component unit financial statements may be obtained from the Phenix City-Russell County Library in Phenix City, Alabama.

**Related Organizations** - The City officials are also responsible for appointing the members of the boards of other organizations; however, management of the City does not consider its accountability to extend beyond making these appointments. The related organizations are:

East Alabama Mental Health	Equalization Board
Mental Retardation Board	The Special Care Facilities Authority
Public Building Authority	of Phenix City, Alabama
Downtown Redevelopment Authority	Tree Commission
Housing Authority Board	Industrial Development Board
Medical Clinic Board	War Casualties Memorial Association
Animal Control Advisory Board	Building Contractors Examination/Appeals Board
Electrical Examining Board	Historic Preservation Commission
Special Committee on Disability	Parks & Recreation Advisory Board
Housing Board of Adjustments & Appeals	Zoning Adjustments & Appeals Board
Phenix City Planning Commission	Plumbing Examining Board
Personnel Review Board	
Housing Code Abatement Board	

## 2. Government-Wide and Fund Financial Statements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34. This Statement establishes financial reporting requirements for state and local governments throughout the United States. Its implementation creates new information and restructures much of the information that governments have presented in the past. The GASB's intent is to make annual reports more comprehensive and easier to understand and use.

GASB 34 took effect for entities the size of the City during the fiscal year ending September 30, 2003. One of the changes required by GASB 34 is the presentation of current and accumulated depreciation by activity. Another important change is the requirement to present the original adopted budget as well as the final adopted budget in the budgetary comparison statements. An analysis of the significant variations between the original and final budgets appears in the Management's Discussion and Analysis preceding the basic financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned. Expenses are recorded when the related fund liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the liability is incurred, as under accrual accounting. An exception to this general rule is the debt service payment of principal and interest, which is recognized when due.

Sales taxes and interest associated with the current fiscal year are all considered to be susceptible to accrual as revenue of the current fiscal year, and, therefore, have been recognized as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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The City reports the following major governmental funds:

**General Fund** - is the principal fund of the City and accounts for all revenues and expenditures of the City not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreements to some other fund are accounted for in this fund. General operating expenditures and capital improvement costs that are not paid through other funds are paid from the General Fund.

**Capital Improvement Fund** - is used to account for projects funded through bond proceeds.

**7 Mill Fund** - is used to accumulate resources for the payment of general long-term debt, principal, interest, and related costs.

The City reports the following major proprietary fund:

**Public Utilities Fund** - to account for the costs of providing water and sewer service to the community.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Debt Service Funds** are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

PROPRIETARY FUND TYPES

**Proprietary Funds** are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

**Enterprise funds** account for activities that are usually self-sustaining, principally through user charges for services rendered.

**Internal Service Funds** account for the financing of goods and services provided by one department or agency to other departments or agencies of the government on a cost reimbursement basis. The City has one internal service fund.

The Employee Healthcare Insurance Fund is used to account for the self funded employee health care program.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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Amounts reported as program revenues include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, and debt service funds. All annual appropriations lapse at fiscal year end.

Encumbrance Accounting

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances outstanding at year end are reported as reservations of fund balances on the combined balance sheet. Encumbrances do not lapse at the close of the fiscal year, but are carried forward as reserved fund balance until liquidated.

Cash and Cash Equivalents

The City considers all cash on hand and in banks, including certificates of deposit with maturities of three months or less when purchased, to be cash and cash equivalents.

Investments

Government fund investments are recorded at cost which approximates fair value.

Inventories

Inventories consist of materials, supplies and food commodities and are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. The cost of inventories is expensed when consumed.

Prepaid Assets

Prepaid expense is recorded as a current asset and expensed over the life of the asset on a straight line basis.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the City as follows:

- Buildings with a cost of \$1,000 or more
- Equipment with a useful life in excess of one year

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Certain capital assets do not depreciate. This includes land, land improvements, and construction in process.

The City has also identified infrastructure assets as streets, drainage, sidewalks and curbing.

All assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Property, plant and equipment of the City are depreciated using the straight line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings	50
Drainage	40
Streets	40
Curbing	40
Sewer lines	50
Water lines	50
Buses and heavy trucks	10
Tractors and heavy equipment	10
Furniture	10
Office equipment	10
Custodial equipment	10
Kitchen equipment	10
Athletic equipment	10
Cars and light trucks	5
Computer equipment	5

Compensated Absences

The City permits full time employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave. The City does not have a policy to pay any amount for accumulated sick leave upon termination of service. All vacation benefits are accrued when incurred in the government wide and proprietary fund financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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NOTE B - LEGAL COMPLIANCE

Budgets

The City's annual budgets for all governmental fund types are adopted on a basis consistent with generally accepted accounting principles for governmental fund types. Revenues are budgeted by source. Expenditures are budgeted by department. The department level constitutes the legal level of control. Expenditures may not exceed appropriations at this level. The City Manager, with the approval of Council, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

The original budget is adopted by the City on the 3<sup>rd</sup> Tuesday of September of each year. The City Council approved budget amendments during the year.

NOTE C - DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy.

Statutes authorize the City to invest in certificates of deposit, passbook and other bank deposits. Deposits with Alabama financial institutions that are in excess of FDIC insurance are secured under the Security for Alabama Funds Enhancement Act (SAFE Program). Alabama public funds are protected through a collateral pool administered by the Alabama State Treasury. At year end, the carrying amount of deposits was \$6,762,987 and the bank balance was \$7,232,179. Of the bank balance (1) \$325,789 was insured or collateralized with securities held by the City or by its agent in the City's name. (2) No funds were collateralized with securities held by the pledging financial institutions' trust department or agent in the City's name. (3) \$6,471,207 was covered by the SAFE program, and \$34,009 are being held subject to a Trust agreement, and invested in U.S. Treasury Money Market Funds which are collateralized with securities held by the pledging financial institutions or by their trust departments or agents but not in the City's name. Cash is reported as \$5,393,840 unrestricted cash, and \$1,371,745 restricted cash.

NOTE D - ACCOUNTS RECEIVABLE

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivable with allowances for uncollectible accounts as of September 30, 2008, including the applicable allowances for uncollectible accounts are presented below.

Gross receivable	\$2,891,707
Less: allowance for uncollectible	<u>924,490</u>
	<u>\$1,967,217</u>

NOTE E - INTERFUND RECEIVABLES/PAYABLES

The composition of interfund receivables and payables as of September 30, 2008 is as follows:

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Due to/from other funds:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Public Utilities	General Fund	\$ 186,309
General	Enterprise Fund - Public Utilities	590,009
General	Enterprise Fund - Lakewood Golf Course	992,774
Public Utilities	Seven Mill Tax	941,155
General	LLEBG Fund	5,117
General	Internal Service	305,000
Corrections	General	<u>51</u>
 Total		 <u>\$3,020,415</u>

All amounts are expected to be repaid within one year.

NOTE F - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of capital asset activity during the year ended September 30, 2008.

Primary Government

	<u>Balance</u> <u>9/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/08</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$14,707,902	\$ 4,351,564	\$2,965,000	\$16,094,466
Construction in progress	<u>          --</u>	<u>2,065,689</u>	<u>          --</u>	<u>2,065,689</u>
	14,707,902	6,417,253	2,965,000	18,160,155
Capital assets being depreciated				
Infrastructure	40,880,361	1,984,333	--	42,864,694
Machinery & equipment	11,226,631	1,165,859	--	12,392,490
Buildings, plant, and improvements	<u>19,463,678</u>	<u>412,619</u>	<u>          --</u>	<u>19,876,297</u>
Total assets being depreciated	71,570,670	3,562,811	--	75,133,481
Less accumulated depreciation for:				
Infrastructure	(32,296,714)	196,946	--	(32,493,660)
Machinery & Equipment	(6,453,387)	1,192,766	--	(7,646,153)
Buildings, plant & Improvements	<u>(11,622,783)</u>	<u>682,943</u>	<u>          --</u>	<u>(12,305,726)</u>
Total accumulated depreciation	(50,372,884)	2,072,655	--	(52,445,539)
Total capital assets being depreciated, net	<u>21,197,786</u>	<u>1,490,156</u>	<u>          --</u>	<u>22,687,942</u>
Governmental Activities Capital Assets, net	<u>\$35,905,688</u>	<u>\$ 7,907,409</u>	<u>\$2,965,000</u>	<u>\$40,848,097</u>



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Depreciation has been allocated to the following:

General Government	\$ 145,086
Public Safety	393,804
Public Works	870,515
Parks and Recreation	663,250
	<u>\$2,072,655</u>

Primary Government

	Balance 9/30/07	Additions	Deletions	Balance 9/30/08
Business Type Activities				
Capital assets not being depreciated				
Land	\$ 318,044	\$ --	\$ --	\$ 318,044
Construction in progress	<u>11,020,047</u>	<u>463,261</u>	<u>11,020,047</u>	<u>463,261</u>
	11,338,091	463,261	11,020,047	781,305
Capital assets being depreciated				
Machinery and equipment	4,525,461	171,768	--	4,697,229
Physical plant and equipment	33,487,429	5,258,550	--	38,745,979
Services and laterals	1,825,383	88,500	--	1,913,883
Distribution system	37,588,643	7,758,675	--	45,347,318
Buildings, plant and improvements	<u>3,006,305</u>	<u>90,869</u>	<u>--</u>	<u>3,097,174</u>
Total capital assets being depreciated	80,433,221	13,368,362	--	93,801,583
Less accumulated depreciation for:				
Machinery and Equipment	(3,217,357)	272,103	--	(3,489,460)
Physical plant and equipment	(11,335,764)	784,994	--	(12,120,758)
Services and laterals	(786,138)	33,404	--	(819,542)
Distribution system	(10,117,038)	847,198	--	(10,964,236)
Buildings, plant and improvements	<u>(1,175,884)</u>	<u>115,858</u>	<u>--</u>	<u>(1,291,742)</u>
Total accumulated depreciation	(26,632,181)	2,053,557	--	(28,685,738)
Total capital assets being depreciated, net	<u>21,197,786</u>	<u>11,314,805</u>	<u>--</u>	<u>65,115,845</u>
Business Type Activities Capital Assets, net	<u>\$35,905,688</u>	<u>\$11,778,066</u>	<u>\$11,020,047</u>	<u>\$65,897,150</u>

The City has included all infrastructure assets in the year of the adoption of Government Accounting Standards Board Statement 34.

CITY OF PHENIX CITY, ALABAMA  
 NOTES TO FINANCIAL STATEMENTS  
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NOTE G - INTERFUND TRANSFERS

Interfund transfers during the year ended September 30, 2008 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 136,777	\$ 1,900,000
Four Cent Gas Tax	--	275,000
Seven Cent Gas Tax	--	55,000
Five Cent Gas Tax	25,000	--
Corrections Fund	--	136,777
7 Mill Fund	2,205,000	--
Capital Improvement	1,390,242	--
Phenix Industrial Park	--	1,390,242
	<u>\$ 3,757,019</u>	<u>\$ 3,757,019</u>

The transfers are primarily to fund debt service and apply special revenues to specific activities.

NOTE H - PAYABLES FROM RESTRICTED ASSETS (Enterprise Funds):

Payables from restricted assets at September 30, 2008 are composed of the following:

Accrued interest payable	\$ 31,760
Current portion of revenue warrants, net	<u>1,255,000</u>
	<u>\$1,286,760</u>

NOTE I - LONG-TERM DEBT

Long-term debt at September 30, 2008 was comprised of the following individual issues:

General Obligation Bonds

\$6,067,348 2001 General Obligation Refunding Warrants; due in annual installments of \$215,000 to \$605,000 through February 1, 2017; interest at 3.4% to 4.4%	\$ 4,367,347
\$7,202,000 2008 General Obligation Warrants; due in annual installments of \$180,000 to \$430,000 through February 1, 2029; interest at 1.5% to 5.0%	5,930,000
\$2,000,000 2004-C Taxable Parking Facilities Warrants; due in annual installments of \$400,000 through July 1, 2009; interest at Prime rate less 1.25%	400,000
\$10,600,000 2008-A General Obligation Warrants; due in annual installments of \$300,000 to \$895,000 through December 1, 2017; interest at 2.65% to 5.0%	8,100,000

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\$6,340,000 2005-B General Obligation Warrants; due in annual installments of \$210,000 to \$460,000 through December 1, 2026; interest at 3.2% to 5.0%	5,910,000
\$3,775,000 2007-A General Obligation Warrants; due in annual installments of \$120,000 to \$280,000 through January 1, 2018; interest at 3.6% to 5.0%	<u>3,655,000</u>
	<u>\$28,362,347</u>

Public Utilities Fund

Revenue Warrants

\$1,515,000 Series 2003 General Obligation Sewer Warrant Authority Loan Warrants; due in annual installments of \$65,000 to \$110,000 through August 15, 2013; nominal interest rate of 2.98%.	\$ 505,000
\$3,520,000 2003 Taxable Water and Sewer Revenue Warrants; due in annual installments of \$140,000 to \$535,000 through August 15, 2011, interest at 1.65% to 5.15%.	1,190,000
\$6,905,000 Water and Sewer Revenue Warrants, Series 2004; due in annual installments of \$80,000 to \$545,000 through August 15, 2029, interest at 1.40% to 5.0%.	6,570,000
\$14,470,000 Water and Sewer Revenue Warrants, Series 2004B; due in annual installments of \$320,000 to \$990,000 through August 15, 2029 with a variable interest rate with a conversion optional to a fixed rate. Rate used to calculate interest requirements was 5.15%. Pursuant to a swap agreement the City obtained a fixed rate of 4.32%.	13,160,000
\$5,185,000 Water and Sewer Revenue Warrants, Series 2006-A due in annual installments of \$180,000 to \$370,000 through August 15, 2026, interest at 3.375% to 4.375%.	<u>4,820,000</u>
	<u>\$26,245,000</u>

Revenue warrants are presented in the financial statements net of the unamortized balance of deferred loss on defeasance in the amount of \$672,290 and unamortized discounts of \$377,642.

Interest Rate Swap Agreement

The City entered into a pay-fixed, receive-variable interest rate swap agreement on the Series 2004-B Water and Sewer Revenue Warrants \$13,505,000 as a cash flow hedge. The fixed rate is 4.32%. At September 30, 2009, the value of the agreement was \$-907,263 up from \$-555,712 in 2007. The balance sheet reflects a deferred cash outflow and a long-term liability in Business Type Activities. The amount of interest paid for 2008 under this agreement was \$581,553.

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The annual requirements to amortize all bonds outstanding as of September 30, 2008 including interest payments as follows:

<u>Year Ending September 30</u>	<u>General Obligation</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2009	\$ 2,300,000	\$ 1,136,001	\$ 3,436,001
2010	1,965,000	1,054,976	3,019,976
2011	2,040,000	985,654	3,025,654
2012	2,115,000	905,423	3,020,423
2013	2,210,000	813,447	3,023,447
2014-2018	9,742,347	4,092,832	13,835,179
2019-2023	3,975,000	1,415,911	5,390,911
2024-2028	2,610,000	547,513	3,157,513
2029-2031	<u>1,405,000</u>	<u>70,250</u>	<u>1,475,250</u>
Total	<u>\$28,362,347</u>	<u>\$11,022,007</u>	<u>\$39,384,354</u>

<u>Year Ending September 30</u>	<u>Water and Sewer Revenue Warrants</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2009	\$ 1,255,000	\$1,143,631	\$2,398,631
2010	1,300,000	1,092,664	2,392,664
2011	935,000	1,037,491	1,972,491
2012	835,000	999,515	1,834,515
2013	880,000	966,645	1,846,645
2014-2018	5,135,000	4,258,857	9,393,857
2019-2023	6,680,000	2,999,331	9,679,331
2024-2028	7,690,000	1,360,475	9,050,475
2029-2031	<u>1,535,000</u>	<u>64,672</u>	<u>1,599,672</u>
Total	<u>\$26,245,000</u>	<u>\$13,923,281</u>	<u>\$40,168,281</u>

<u>Year Ending September 30</u>	<u>Total Long-Term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2009	\$ 3,555,000	\$ 2,279,632	\$ 5,834,632
2010	3,265,000	2,147,640	5,412,640
2011	2,975,000	2,023,145	4,998,145
2012	2,950,000	1,904,938	4,854,938
2013	3,090,000	1,780,092	4,870,092
2014-2018	14,877,347	8,351,689	23,229,036
2019-2023	10,655,000	4,415,242	15,070,242
2024-2028	10,300,000	1,907,988	12,207,988
2029-2031	<u>2,940,000</u>	<u>134,922</u>	<u>3,074,922</u>
Total	<u>\$54,607,347</u>	<u>\$24,945,288</u>	<u>\$79,552,635</u>

CITY OF PHENIX CITY, ALABAMA  
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Total amortization expense related to bond discount, bond costs, and deferred loss on bonds for the year ended September 30, 2008 was \$122,586.

Bond Covenants

The various bond indentures contain significant limitations and restrictions on annual debt service, maintenance of and cash flow of monies through various restricted accounts, minimum amounts to be maintained in sinking funds and minimum revenue bond coverage. The City is substantially in compliance with all significant restrictions.

Lease Purchase

The City has entered into a lease purchase agreement to acquire an Aerial Ladder Fire Truck. Interest is calculated at 4.6% per annum with annual payments of \$62,566.

The value of the Aerial Ladder leased was \$273,901.

Minimum Lease Payments:

2009	\$ 62,566
2010	<u>62,566</u>
Total minimum lease payments	\$125,132
Less amount representing interest	<u>8,133</u>
Present value of minimum lease payments	<u>\$116,999</u>

Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations for the City of Phenix City, Alabama for the fiscal year ended September 30, 2008:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Payments/Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Warrants	\$30,597,347	\$ --	\$2,235,000	\$28,362,347	\$2,300,000
Water & Sewer Warrants	27,445,000	--	1,200,000	26,245,000	1,255,000
Compensated Absences	628,562	675,880	628,562	675,880	506,910
Claims Payable	--	330,000	--	330,000	--
Fair Value of Swap Agreement	551,712	355,551	--	907,263	--
Lease Purchase	<u>171,669</u>	<u>--</u>	<u>54,670</u>	<u>116,999</u>	<u>57,184</u>
	<u>\$59,394,290</u>	<u>\$ 1,361,431</u>	<u>\$4,118,232</u>	<u>\$56,637,489</u>	<u>\$4,119,094</u>

CITY OF PHENIX CITY, ALABAMA  
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NOTE J - DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees are members of the Employee's Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to the Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy

Employees are required by statute to contribute 5 percent of their salary to the Employees' Retirement System. The City is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. The contribution requirement of the City is established by the Employees' Retirement System based on annual actuarial valuations. The contribution rate for the year ended September 30, 2008 was 8.3 percent of eligible payroll.

CITY OF PHENIX CITY, ALABAMA  
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Annual Pension Cost

For the year ended September 30, 2008, the City's annual pension contribution of \$1,256,480 was equal to the required and actual contribution. The required contribution was determined as part of the September 30, 2005 actuarial valuation using the "entry age normal" method. The actuarial assumptions included (1) 8 percent investment rate of return on present and future assets, and (2) projected salary increases ranging from 7.75 percent at age 20 to 4.61 percent at age 65. Both (1) and (2) include an inflation component of 4.5 percent. The actuarial value of assets was determined using market values. The City has no unfunded actuarial accrued liability.

This information was provided by the Retirement Systems of Alabama.

Three Year Trend Information is as follows:

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/07	\$1,033,730	100%	\$ -0-
9/30/06	\$ 974,492	100%	\$ -0-
9/30/05	\$ 874,995	100%	\$ -0-
9/30/04	\$ 721,920	100%	\$ -0-
9/30/03	\$ 652,630	100%	\$ -0-

Schedule of Funding Progress:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
9/30/07	\$30,700,386	\$39,588,019	\$ 8,887,633	77.5%	\$12,751,009	69.7%
9/30/06	\$28,950,489	\$37,434,976	\$ 8,484,487	77.3%	\$12,188,222	69.6%
9/30/05	\$27,740,298	\$34,280,385	\$ 6,540,087	80.9%	\$12,237,464	53.4%
9/30/04	\$26,403,031	\$30,983,870	\$ 4,580,839	85.2%	\$11,164,995	41.0%
9/30/03	\$25,489,635	\$29,661,659	\$ 4,172,024	85.9%	\$10,579,945	39.4%

NOTE K - CONTINGENCIES

Grant Audit

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables at September 30, 2008 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Litigation

The City is involved in other judicial and administrative proceedings incidental to its operations and jurisdiction which have not been finally adjudicated. Estimating the results of any litigation contains elements of uncertainty. If the ultimate resolution of these cases results in additional expense to the City, such expense will be charged to operations when determined.

NOTE L - COMMITMENTS

Phenix City Board of Education Warrants

The City has issued warrants with a currently outstanding balance of \$35,812,074 for the Phenix City Board of Education which are not recorded on the City's financial statements. Contemporaneous with the issuance of the warrants, the City and the Board entered into funding agreements whereby the Board agreed to pay from certain sales and ad valorem taxes amounts sufficient to pay the principal and interest on these warrants. The total amount of principal and interest required to retire these warrants, as scheduled, is \$61,021,705.

The amounts paid under the funding agreements have been adequate to meet all required principal and interest payments. Should future payments not be adequate to pay maturing principal and interest installments, the City will make such payments from its general fund. The potential amounts due from the City are not determinable and no provision has been made in these financial statements.

NOTE M - SUBLEASE AGREEMENT

Effective June 1, 1992, the City entered into an agreement whereby it would sublease an addition to be constructed to the existing Russell County jail from Russell County, Alabama (the County). The County is currently leasing the jail from the Russell County Public Building Authority (the Building Authority). The Building Authority constructed the jail addition through the issuance of \$3,080,000 of Revenue Warrants (Series 1992) and leased the facility to the County upon completion.



CITY OF PHENIX CITY, ALABAMA  
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The terms of the City's sublease provide for the City to pay the County, in the form of rents, an amount necessary to pay the principal and interest on the Series 1992 Revenue Warrants issued by the Authority. Semiannual rent payments are due by the City on July 1 and January 1 each year. Total payments of \$277,115 were made for the year ended September 30, 2008.

The City also pays a pro rata share of operating expenses, based on the percentage of the City's prisoner population to the total prisoner population. Expenses paid during the year ended September 30, 2008 were \$394,950.

The City has the option to acquire a one-third interest in the entire jail facility upon the payment of all rents necessary to pay all interest and principal on the Series 1992 Revenue Warrants, and the additional sum of \$34.

The City's lease expires annually on September 30 of each year, but is automatically renewed for an additional year, unless the City submits in writing its decision not to renew the lease at least twelve months in advance of the then current expiration date.

NOTE N - EAST ALABAMA REGIONAL SOLID WASTE DISPOSAL AUTHORITY

The City is a member of the East Alabama Solid Waste Disposal Authority (the Authority). The Authority was formed in 1991 by twelve East Alabama municipalities and counties for the collection and disposal of garbage. The members contribute to the cost of operating the Authority based on a formula utilizing population. During the fiscal year ended September 30, 2008, the City's share of such operating costs was \$8,100. The City has recorded the payment of these costs as an expenditure in the General Fund.

NOTE O - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As of February 1993, the City no longer retains vehicle liability insurance in either the General Fund or Enterprise Fund. The City has established a reserve of \$439,588 in the General Fund as self-insurance against future claims, settlements and judgments. Claims expenditures and liabilities are not reported until it is determined that a loss has occurred and the amount of that loss has been reasonably estimated. Claims amounted to \$29,548 for the current year.

The City pays for unemployment compensation insurance and workman's compensation insurance for all eligible City employees. Payments of claims for unemployment and workman's compensation are paid by the respective insurers.

The City has a risk management program whereby a death benefit of \$10,000 is paid to the named beneficiary of eligible employees. Eligible employees consist of all full-time employees employed when the program was initiated. Full time employees hired subsequently must be employed one year before becoming eligible to participate. Fund balance has been reserved in a like amount.

Employee Health Insurance Fund

The City established a Risk Management Fund (an internal service fund) as of September 1, 2008 in which losses associated with employee health claims are accounted for and financed. A commercial health insurance company administers the health claims. Under this program, the employee health care insurance fund provides coverage for up to a maximum of \$50,000 for each worker's health claim. The City purchases coverage for amounts from \$50,000 to \$1,000,000 per worker, per year, from an insurance company. Settled claims have not exceeded this commercial coverage in the first month.

All funds of the City participate in the program and make payments to this Fund based on estimates provided through analysis of historical cost information of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophe losses. The claims liability of \$214,600 reported in the Fund at September 30, 2008 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Health insurance is provided for retired employees under the City's health insurance plan. The retired employee is required to contribute to the Plan coverage for health benefits. The City contributions are financed on a pay-as-you-go basis. During the current year, the City expended \$94,175 for retiree health insurance.

NOTE P - DEFERRED COMPENSATION PLAN

The City offers to employees a deferred compensation plan. The plan, available to all City employees, permits them to defer a portion of their salaries until future years. The City does not make any contribution to the plan. The deferred compensation is not available until termination, retirement, or unforeseeable emergency. Deferred compensation is available to employees' beneficiaries in case of death. The plan is administered by Retirement Systems of Alabama.

NOTE Q - OPERATING LEASES

The City is committed under various cancelable leases for machinery and equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the current year were \$107,018.

NOTE R - DEFICIT BALANCES

The Seven Mill Fund/Debt Service Fund has a deficit balance as of September 30, 2008 of \$880,394. The deficit is attributed to tax revenues less than required debt payments. The General Fund and Five Cent Gas Tax will provide funding to eliminate the deficit in future years.

NOTE S - PRIOR PERIOD ADJUSTMENT - FUND BALANCE

During the current year, it was determined that an accounts receivable from the State of Alabama for a multiple year project had been misstated. The effect was to reduce beginning fund balance \$388,992.

CITY OF PHENIX CITY, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

NOTE T - RESTATEMENT

The City entered into an interest rate swap agreement which was not previously reported. The financial statements have been restated to record the fair value of this agreement in accordance with Governmental Accounting Standards Board Statement 53.

DISCRETELY PRESENTED COMPONENT UNIT - PHENIX CITY BOARD OF EDUCATION

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Phenix City Board of Education (the Board), a component unit of the City of Phenix City, Alabama have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB).

1. Reporting Entity

Governmental Accounting

Statement No. 14 (GASB 14) of the Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units which should be included as part of the financial reporting entity of the Board.

The Board is a legally separate agency of the State of Alabama. However, for financial reporting the Board is considered a component unit of the City of Phenix City, Alabama (the City) due to the following reasons:

- The City appoints the members of the governing body.
- The City issued bonds for the construction of facilities for the Board and the City is obligated for the debt.

2. Government-Wide and Fund Financial Statements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34. This Statement established new financial reporting requirements for state and local governments throughout the United States. Its implementation created new information and restructured much of the information that governments have presented in the past. The GASB's intent is to make annual reports more comprehensive and easier to understand and use.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

DISCRETELY PRESENTED COMPONENT UNIT

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned. Expenses are recorded when the related fund liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the liability is incurred, as under accrual accounting. An exception to this general rule is the debt service payment of principal and interest, which is recognized when due.

Sales taxes and interest associated with the current fiscal year are all considered to be susceptible to accrual as revenue of the current fiscal year, and, therefore, have been recognized as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Board.

PHENIX CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

The Board reports the following major governmental funds:

General Fund

The General Fund is the operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. The Special Revenue Fund consists of the following:

- |   |   |
|---|---|
| * IASA Title I, Part A                              | * Vocational Education - Tech Prep          |
| * IASA Title II, Professional Development           | * Job Training Partnership Act Programs     |
| * IASA Title IV, Safe & Drug Free Schools           | * Adult Basic Education                     |
| * IASA Title VI, Innovative Education               | * Vocational Education Basic Grant          |
| * IDEA, Part B Basic Program                        | * Vocational Education Sex Bias Elimination |
| * IDEA, Part B Preschool                            | * Vocational Education - Single Parents     |
| * IDEA, Part B, Language Grant                      | * USDA Reimbursement                        |
| * Head Start  | * Dependent Care                            |
| * School to Work Opportunities Program              | * Technology Literacy Challenge             |
| * Goals 2000  | * Career Academy                            |
| * Learn and Serve America                           | * E-Rate                                    |
| * Vocational Rehab                                  | * IASA Class Size Reduction                 |
| * School to Career                                  | * Technology Innovation Challenge           |
| * Comprehensive School Reform Demonstration Program |   |

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used in the acquisition, construction, or improvement of major capital facilities.

In addition, the Board also reports the following funds:

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related expenses.

PHENIX CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

Agency Funds are custodial in nature (assets equal liabilities) and do not present the results of operations nor have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the Board holds for others as an agent.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, debt service, and capital projects funds. All annual appropriations lapse at fiscal year end.

Encumbrance Accounting

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances outstanding at year end are reported as reservations of fund balances on the combined balance sheet. Encumbrances do not lapse at the close of the fiscal year, but are carried forward as reserved fund balance until liquidated.

Cash and Cash Equivalents

The Board considers all cash on hand and in banks, including certificates of deposit with maturities of three months or less when purchased, to be cash and cash equivalents.

Investments

Government fund investments are recorded at cost which approximates fair value. Investments held in agency funds are valued at market value, based on quoted market prices.

Inventories

Inventories consist of materials, supplies, and food commodities and are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. The cost of inventories is expensed when consumed.

DISCRETELY PRESENTED COMPONENT UNIT

Interfund Activity

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund receivables and payables in the Statement of Net Assets.

Prepaid Assets

Prepaid expense is recorded as a current asset and amortized over the life of the asset on a straight line basis.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Board as follows:

Buildings with a cost of \$50,000 or more. Equipment with an initial cost of \$5,000 or more and useful life in excess of one year.

Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Certain capital assets do not depreciate. This includes land, and construction in process. These capital assets are placed on the books at historical cost or at fair value as of the date of donation.

Property, plant, and equipment of the Board are depreciated using the straight line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings	50
Buses and heavy trucks	10
Furniture	20
Office equipment	10
Custodial equipment	15
Kitchen equipment	15
Athletic equipment	10
Cars and light trucks	8
Computer equipment	5

Compensated Absences

The Board grants vacation or annual leave with pay to persons employed on a twelve month basis. According to Board policies, all full time (twelve months) employees are permitted to accumulate earned annual/personal leave at the rate of one (1) day for each month of employment for a maximum of twelve(12) days, two (2) days of which may be used as personal leave and ten days vacation time. Two days personal leave per year is also earned by all employees working four hours or more per day.

PHENIX CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

Because unused vacation leave and personal leave cannot be carried over beyond the employee's contract, no liability for unpaid leave is accrued in the financial statements.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate a maximum of 225 days of sick leave. Employees may use up to 225 days or their accrued sick leave as membership service in determining the total years of creditable service in the teacher's retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded in the financial statements.

Use of Restricted Assets

It is the Board's policy to first apply unrestricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available.

Fund Equity

Reserves represent those portions of fund equity not appropriated for expenditure or are legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Inter-fund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. 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/expenses in the fund that is reimbursed. All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



PHENIX CITY BOARD OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

NOTE B - LEGAL COMPLIANCE

Budgets

On or before October 1 of each year, the Board is required to approve and submit to the State Superintendent of Education the annual budget. No budget for operation of the school system for any fiscal year can be approved which shows expenditures in excess of income estimated to be available plus any balances on hand. The Board's annual budgets for all governmental fund types are adopted on a basis consistent with generally accepted accounting principles for governmental fund types. Revenues are budgeted by source. Expenditures are budgeted by program at the functional level. The functional level constitutes the legal level of control. Expenditures may not exceed appropriations at this level. The Superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

The original budget was adopted by the Board on August 23, 2007. The Board approved two budget amendments on March 27, 2008 and June 26, 2008.

The following summarizes the changes that were made in the amendment:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>
<b>Revenues:</b>			
State sources	\$ 303,130	\$ --	\$ 100,000
Federal Sources	--	395,146	--
Local sources	364,663	(54,946)	--
Other	--	--	--
Total revenues	<u>667,793</u>	<u>340,200</u>	<u>100,000</u>
<b>Expenditures:</b>			
Instructional services	606,253	54,799	--
Instructional support services	380,281	219,355	--
Operation and maintenance	656,437	--	--
Auxiliary services	206,068	63,886	--
General administrative services	58,447	(22,178)	--
Capital outlay	-	--	(1,132,134)
Other expenditures	<u>35,930</u>	<u>(7,902)</u>	<u>--</u>
Total expenditures	1,943,416	307,960	(1,132,134)
Other sources of funds	(19,239)	81,514	--
Other uses of funds	<u>405,000</u>	<u>(6,514)</u>	<u>(480,000)</u>
Total other sources (uses)	<u>385,761</u>	<u>75,000</u>	<u>\$ (480,000)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (889,862)</u>	<u>\$ 107,240</u>	<u>\$ 752,134</u>

PHENIX CITY BOARD OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

NOTE C - DEPOSITS AND INVESTMENTS

Custodial Credit Risk-Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Board's policy with regard to custodial credit risk is to only have deposits with financial institutions participating in the Security for Alabama Funds Enhancement Act (SAFE Program).

Statutes authorize the Board to invest in certificates of deposit, passbook, and other bank deposits. Deposits with Alabama financial institutions that are in excess of FDIC insurance are secured under the SAFE Program. Alabama public funds are protected through a collateral pool administered by the Alabama State Treasury. At year end, the carrying amount of cash was \$1,720,395 and investments of certificates of deposits classified of deposits was \$7,278,617. The amount of deposits at the bank was \$13,129,352. Of the bank balance (1) \$401,269 was insured or collateralized with securities held by the Board or by its agent in the Board's name. (2) No funds were collateralized with securities held by the pledging financial institutions' trust departments or agents in the Board's name. (3) \$12,728,083 was covered by the SAFE program which is collateralized with securities held by the pledging financial institutions or by their trust departments or agents but not in the Board's name.

Investments

The Board has the following investments categorized as either (1) insured or registered or securities held by the Board or its agent in the Board's name (2) uninsured and unregistered with securities held by the counter party's trust department or agent in the Board's name or (3) uninsured and unregistered, with securities held by the counter party, or by its trust department or agent, but not in the Board's name.

<u>Amount Reported</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Market Value</u>
Mutual funds	<u>\$53,622</u>	<u>\$ -</u>	<u>\$ --</u>	<u>\$53,622</u>

NOTE D - RECEIVABLES

Receivables at September 30, 2008 consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memo Only)</u>
Accounts receivable:			
Miscellaneous	\$106,788	\$ 2,117	\$108,905
USDA Reimbursement	--	277,278	277,278
Title I, Part A	--	76,010	76,010
Vocational Rehabilitation	--	3,923	3,923

PHENIX CITY BOARD OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

Improve Teacher Quality	--	2,294	2,294
Learn and Serve America	--	1,821	1,821
Head Start	--	<u>1,527</u>	<u>1,527</u>
		<u>\$106,788</u>	<u>\$471,758</u>

No allowance for uncollectible accounts has been provided. Management has evaluated the accounts and believes they are fully collectible based on prior history and parties involved.

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 was as follows:

	Balance <u>9/30/07</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>9/30/08</u>
Capital assets not being depreciated				
Land	\$ 635,026	\$ --	\$ --	\$ 635,026
Construction in Progress	3,317,361	7,030,614	3,317,361	7,030,614
Capital assets being depreciated				
Building and improvements	50,643,612	6,407,237	210,043	56,840,806
Equipment	<u>5,150,688</u>	<u>489,925</u>	<u>144,407</u>	<u>5,496,206</u>
Total capital assets being depreciated	55,794,300	6,897,162	354,450	62,337,012
Less accumulated depreciation for:				
Building and improvements	(11,099,180)	(1,142,145)	-	(12,241,325)
Equipment	<u>(3,064,370)</u>	<u>(379,657)</u>	<u>137,078</u>	<u>(3,306,949)</u>
Total accumulated depreciation	<u>(14,163,550)</u>	<u>(1,521,802)</u>	<u>137,078</u>	<u>(15,548,274)</u>
Total capital assets being depreciated, net	<u>41,630,750</u>	<u>5,375,360</u>	<u>217,372</u>	<u>46,788,738</u>
Total capital assets, net	<u>\$ 45,583,137</u>	<u>\$12,405,974</u>	<u>\$3,534,733</u>	<u>\$ 54,454,378</u>

PHENIX CITY BOARD OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

NOTE F - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. General liability and errors and omission coverage is maintained with the Alabama Risk Management for Schools (ARMS), a public entity risk pool. Coverage of \$1,000,000 per occurrence and \$2,000,000 per period aggregate is provided. The Board purchases commercial insurance for fidelity bonds and automobile liability.

Employee health insurance is provided through the Public Education Employee's Health Insurance Program (PEEHIP), a public entity risk pool, administered by the Public Education Employee's Health Insurance Board. The fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually by the Alabama Legislature based on the amounts necessary to fund coverage. The Board contributes the specified amount monthly to the PEEHIP for each employee.

The State Board of Adjustments is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

NOTE G - LONG-TERM DEBT

The following is a summary of changes in Long-Term Debt for the year ended September 30, 2008:

	<u>Balance</u> <u>10/01/07</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>09/30/08</u>	<u>Due Within</u> <u>One Year</u>
2006 Series Warrants	\$12,335,000	\$ --	\$ 355,000	\$11,980,000	\$ 365,000
2008B Series Warrants	23,300,000	--	225,000	23,075,000	235,000
2000 Installment Purchase Agreements	102,493	--	102,493	--	--
2003 Installment Purchase Agreements	393,898	--	59,409	334,489	61,776
2006 Installment Purchase Agreements	<u>464,186</u>	<u>--</u>	<u>41,601</u>	<u>422,585</u>	<u>43,801</u>
Total	<u>\$36,595,577</u>	<u>\$ --</u>	<u>\$ 783,503</u>	<u>\$35,812,074</u>	<u>\$ 705,577</u>

PHENIX CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

Details of Long-Term Debt are as follows:

City of Phenix City General Obligation School Warrants, Series 2008B: On May 3, 2008, the City issued \$23,925,000 in General Obligation School Warrants with an average interest rate of 4.35 percent to advance refund (a) \$4,920,000 of outstanding 2000 Series warrants with an average interest rate of 5.1 percent (b) \$4,000,000 of outstanding 2006A Series warrants with an average interest rate of 4.33 percent and to provide funds for the construction of school facilities. Proceeds of \$9,067,905 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 Series and 2006A Series warrants. As a result the 2002 Series and a portion of 2006A Series warrants are considered to be defeased and the liability for those bonds has been removed from the Board of Education's schedule of debt. After payment of underwriting fees, insurance and other issuance costs of \$368,881, the remaining proceeds of \$15,015,992 were deposited in the capital projects fund.

The reacquisition price exceeded the net carrying amount of the old debt by \$147,906. This amount is being netted against the new debt and amortized over the life of the new debt.

The Board has agreed to pay the principal and interest of the warrants out of certain sales and ad valorem taxes paid to the Board. These warrants are due in annual installments of \$225,000 to \$2,465,000 through August 1, 2032. Interest is at 3.5% to 5.00%.

City of Phenix City General Obligation Refunding School Warrants, Series 2006: During 2006, the City issued \$16,675,000 of warrants which were used to refund the series 1997B Warrants and 2000 series warrants. In the current year \$4,000,000 of this issue was in substance defeased by the 2008B warrants. The Board has agreed to pay the principal and interest out of certain sales and ad valorem taxes paid to the Board. These warrants are due in annual installments of \$355,000 to \$1,455,000 through August 1, 2021. Interest is at 3.45% to 5.0%.

2000 Installment Purchase Agreement: During the year 2000, the Board entered into an installment purchase agreement for 14 school buses over 7 years with annual payments at \$109,054 beginning October 4, 2001 through October 4, 2008. The cash value of the school buses was \$651,077. The effective interest rate is 6.4%.

2003 Installment Purchase Agreement: During the year 2003, the Board entered into an installment purchase agreement for 11 school buses over 10 years with annual payments at \$75,102 beginning October 15, 2003 through October 15, 2012. The cash value of the school buses was \$626,085. The effective interest rate is 3.98%.

2006 Installment Purchase Agreement: During the current year, the Board entered into an installment purchase agreement for 6 school buses over 10 years with annual payments at \$66,146 beginning December 18, 2006 through December 18, 2015. The cash value of the school buses was \$530,332. The effective interest rate is 5.29%.

PHENIX CITY BOARD OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

The annual requirements to amortize all debt outstanding at September 30, 2008 are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 705,577	\$ 1,659,699	\$ 2,365,276
2010	735,354	1,632,359	2,367,713
2011	765,351	1,604,262	2,369,613
2012	820,580	1,575,831	2,396,411
2013	846,050	1,544,985	2,391,035
2014-2018	6,014,165	7,043,368	13,057,533
2019-2023	7,315,000	5,555,125	12,870,125
2024-2028	9,365,000	3,531,103	12,896,103
2029-2033	<u>9,245,000</u>	<u>1,062,900</u>	<u>10,307,900</u>
Total	<u>\$35,812,077</u>	<u>\$25,209,632</u>	<u>\$61,021,709</u>

NOTE H - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund receivables and payables as of September 30, 2008 is as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$406,678	\$ 67
Special Revenue Fund	--	406,678
Debt Service Fund	<u>67</u>	<u>--</u>
Total	<u>\$406,745</u>	<u>\$406,745</u>

The balances result from the time lag between dates that reimburseable expenses occur and payments between funds are made.

NOTE I - OPERATING LEASES

The Board entered into a cancelable lease agreement during the current year for computer equipment. The lease expense for the year was \$194,050.

NOTE J - CONTINGENT LIABILITIES

Grant Audit

The Board participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audits and adjustment by grantor agencies; therefore, to the extent that the Board has not complied with rules and regulations governing the grants, refund of any money received may be required and the collectability of any related receivables at September 30, 2008 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

DISCRETELY PRESENTED COMPONENT UNIT

Litigation

The Board does not currently have any litigation cases active or pending. The Board is involved in ongoing administrative proceedings incidental to its operations whose outcome is not determinable.

NOTE K - COMMITMENTS - CONSTRUCTION CONTRACTS

The Board is under obligation for construction contracts in the amount of \$5,348,270 as of September 30, 2008. The contracts are for school expansion and improvements.

NOTE L - DEFERRED COMPENSATION PLAN

The Board offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457 and 403B. The Code Section 457 deferred compensation plan RSA-1 is administered by the Retirement Systems of Alabama. The plan, available to all Board employees participating in the Teacher's Retirement System, permits them to defer a portion of their salary until future years. Participation in the plan is optional.

The section 403B plans are administered by several independent organizations. Participation in these plans is optional.

NOTE M - DEFINED BENEFIT PENSION PLAN

Plan Description

The Board contributes to the Teachers' Retirement System of Alabama (TRS), a cost sharing multiple employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama (RSA).

Substantially all employees are members of the TRS. Membership is mandatory for covered or eligible employees. Benefits vest after 10 years creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payments under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in its Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

PHENIX CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

DISCRETELY PRESENTED COMPONENT UNIT

The Retirement Systems of Alabama issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements, note disclosures, and required supplementary information for the Teachers' Retirement System of Alabama. The CAFR is available on the RSA website at [www.rsa.state.al.us](http://www.rsa.state.al.us) under the publications tab. The CAFR may also be obtained by e-mailing Mike Mills at [mikem@rsa.state.al.us](mailto:mikem@rsa.state.al.us) or writing the Retirement Systems of Alabama, 135 South Union Street, Montgomery, AL 36130-2150 to the attention of Mike Mills.

Funding Policy

Regular employees are required by statute to contribute 5 percent of their salary, and certified policemen and firefighters contribute 6 percent of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. A schedule of employer contributions is shown below:

<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
2008	\$ 3,375,920	100%
2007	\$ 2,377,017	100%
2006	\$ 1,821,693	100%
2005	\$ 1,444,360	100%
2004	\$ 1,292,274	100%

NOTE N - DEFICIT BALANCES

The Special Revenue has a deficit fund balance as of September 30, 2008 of \$26,946. The deficit is attributed to the salary accrual which is recorded annually, a timing difference.



REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION  
PHENIX CITY RETIREMENT  
UNDER THE RETIREMENT SYSTEM OF ALABAMA

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
9/30/07	\$30,700,386	\$39,588,019	\$ 8,887,633	77.5%	\$12,751,009	69.7%
9/30/06	\$28,950,489	\$37,434,976	\$ 8,484,487	77.3%	\$12,188,222	69.6%
9/30/05	\$27,740,298	\$34,280,385	\$ 6,540,087	80.9%	\$12,237,464	53.4%
9/30/04	\$26,403,031	\$30,983,870	\$ 4,580,839	85.2%	\$11,164,995	41.0%
9/30/03	\$25,489,635	\$29,661,659	\$ 4,172,024	85.9%	\$10,579,945	39.4%
9/30/02	\$24,840,330	\$28,123,430	\$ 3,283,100	88.0%	\$ 9,804,198	34.0%
9/30/01	\$24,784,764	\$26,118,542	\$ 1,333,778	94.9%	\$10,419,909	12.8%
9/30/00	\$23,733,519	\$24,003,859	\$ 270,340	98.9%	\$10,607,322	2.5%
9/30/99	\$22,182,687	\$21,600,113	\$ (582,574)	102.7%	\$ 9,635,405	(6.0)%
9/30/98	\$20,873,878	\$20,032,127	\$ (841,751)	104.2%	\$ 8,767,212	(9.6)%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution	Employer Contribution Actually Made	Percentage of APC Contributed
9/30/07	\$1,033,730	\$1,033,730	100%
9/30/06	\$ 974,492	\$ 974,492	100%
9/30/05	\$ 874,995	\$ 874,995	100%
9/30/04	\$ 721,920	\$ 721,920	100%
9/30/03	\$ 652,630	\$ 652,630	100%
9/30/02	\$ 606,155	\$ 606,155	100%
9/30/01	\$ 542,073	\$ 542,073	100%
9/30/00	\$ 414,021	\$ 414,021	100%
9/30/99	\$ 338,569	\$ 338,569	100%

SUPPLEMENTARY INFORMATION

CITY OF PHENIX CITY, ALABAMA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2008

	<u>Debt Service Funds</u>	<u>Special Revenue Funds</u>	<u>Total Non-Major Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 57,272	\$ 902,838	\$ 960,110
Accounts receivable	--	269,741	269,741
Taxes receivable	26,241	17,770	44,011
Due from other funds	--	51	51
Notes receivable	--	390,000	390,000
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	\$ <u>83,513</u>	\$ <u>1,580,400</u>	\$ <u>1,663,913</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 55,235	\$ 8,984	\$ 64,219
Due to other funds	--	5,117	5,117
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES	55,235	14,101	69,336
<b>FUND BALANCES</b>			
Reserved:			
Projects	--	906,558	906,558
Receivables	--	659,741	659,741
Debt service	28,278	--	28,278
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	28,278	1,566,299	1,594,577
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>83,513</u>	\$ <u>1,580,400</u>	\$ <u>1,663,913</u>

CITY OF PHENIX CITY, ALABAMA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Debt Service Funds	Special Revenue Funds	Total Non-Major Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,684,797	\$ 457,736	\$ 2,142,533
Fines and forfeitures	--	242,531	242,531
Investment income	3,415	62,723	66,138
Sale of property	--	4,220	4,220
Miscellaneous	--	29,513	29,513
	<u>1,688,212</u>	<u>796,723</u>	<u>2,484,935</u>
TOTAL REVENUES	1,688,212	796,723	2,484,935
<b>EXPENDITURES</b>			
Current:			
Education	1,688,214	--	1,688,214
Capital outlay	--	2,529	2,529
Public works	--	273,782	273,782
	<u>1,688,214</u>	<u>276,311</u>	<u>1,964,525</u>
TOTAL EXPENDITURES	1,688,214	276,311	1,964,525
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(2)</u>	<u>520,412</u>	<u>520,410</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Transfers in	--	25,000	25,000
Transfers (out)	--	(1,857,019)	(1,857,019)
	<u>--</u>	<u>(1,832,019)</u>	<u>(1,832,019)</u>
NET OTHER FINANCING SOURCES (USES)	--	(1,832,019)	(1,832,019)
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(2)</u>	<u>(1,311,607)</u>	<u>(1,311,609)</u>
FUND BALANCE - OCTOBER 1, 2007	<u>28,280</u>	<u>2,877,906</u>	<u>2,906,186</u>
FUND BALANCE - SEPTEMBER 30, 2008	<u>\$ 28,278</u>	<u>\$ 1,566,299</u>	<u>\$ 1,594,577</u>

CITY OF PHENIX CITY  
 COMBINING BALANCE SHEET  
 SPECIAL REVENUE FUNDS  
 September 30, 2008

	Two Cent Gas Tax	Four Cent Gas Tax	Five Cent Gas Tax	Seven Cent Gas Tax	Corrections Fund	Second Mortgage Fund	Confiscated Property Fund	Local Law Enforcement Block Grant	Phenix Industrial Park	Totals
<b>ASSETS</b>										
Cash	\$ 73,810	\$ 26,734	\$ 12,602	\$ 263,096	\$ 214,555	\$ 298,052	\$ 12,105	\$ 408	\$ 1,476	\$ 902,838
Accounts receivable	--	--	--	--	--	269,741	--	--	--	269,741
Taxes receivable	--	5,538	2,718	9,514	--	--	--	--	--	17,770
Notes receivable	--	--	--	--	--	390,000	--	--	--	390,000
Due from other funds	--	--	--	--	51	--	--	--	--	51
<b>TOTAL ASSETS</b>	<b>\$ 73,810</b>	<b>\$ 32,272</b>	<b>\$ 15,320</b>	<b>\$ 272,610</b>	<b>\$ 214,606</b>	<b>\$ 957,793</b>	<b>\$ 12,105</b>	<b>\$ 408</b>	<b>\$ 1,476</b>	<b>\$ 1,580,400</b>
<b>LIABILITIES AND FUND BALANCE</b>										
<b>CURRENT LIABILITIES</b>										
Accounts payable	\$ --	\$ --	\$ 8,934	\$ --	\$ --	\$ --	\$ 50	\$ --	\$ --	\$ 8,984
Due to other funds	--	--	--	--	--	--	--	5,117	--	5,117
<b>TOTAL CURRENT LIABILITIES</b>	<b>--</b>	<b>--</b>	<b>8,934</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>50</b>	<b>5,117</b>	<b>--</b>	<b>14,101</b>
<b>FUND BALANCE</b>										
Reserved for subsequent years expenditures	73,810	32,272	6,386	272,610	214,606	957,793	12,055	(4,709)	1,476	1,566,299
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 73,810</b>	<b>\$ 32,272</b>	<b>\$ 15,320</b>	<b>\$ 272,610</b>	<b>\$ 214,606</b>	<b>\$ 957,793</b>	<b>\$ 12,105</b>	<b>\$ 408</b>	<b>\$ 1,476</b>	<b>\$ 1,580,400</b>

CITY OF PHENIX CITY, ALABAMA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 SPECIAL REVENUE FUNDS  
 Year Ended September 30, 2008

	Two Cent Gas Tax	Four Cent Gas Tax	Five Cent Gas Tax	Seven Cent Gas Tax	Corrections Fund	Second Mortgage Fund	Confiscated Property Fund	Local Law Enforcement Block Grant	Phenix Industrial Park	Totals
<b>REVENUES</b>										
Taxes	\$ 20,917	\$ 139,978	\$ 65,965	\$ 230,876	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 457,736
Fines and forfeitures	--	--	--	--	242,531	--	--	--	--	242,531
Investment income	245	2,106	1,860	2,624	170	403	54	--	55,261	62,723
Sale of Property	--	--	--	--	--	--	--	--	4,220	4,220
Miscellaneous	--	--	--	--	--	27,643	1,870	--	--	29,513
<b>TOTAL REVENUES</b>	<b>21,162</b>	<b>142,084</b>	<b>67,825</b>	<b>233,500</b>	<b>242,701</b>	<b>28,046</b>	<b>1,924</b>	<b>--</b>	<b>59,481</b>	<b>796,723</b>
<b>EXPENDITURES</b>										
Current:										
Capital outlay	--	--	212,297	--	59	21,416	2,529	--	40,000	2,529
Public works	--	--	212,297	--	59	21,416	2,529	10	40,000	273,782
<b>TOTAL EXPENDITURES</b>	<b>--</b>	<b>--</b>	<b>212,297</b>	<b>--</b>	<b>59</b>	<b>21,416</b>	<b>2,529</b>	<b>10</b>	<b>40,000</b>	<b>276,311</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>21,162</b>	<b>142,084</b>	<b>(144,472)</b>	<b>233,500</b>	<b>242,642</b>	<b>6,630</b>	<b>(605)</b>	<b>(10)</b>	<b>19,481</b>	<b>520,412</b>
<b>OTHER FINANCING SOURCES (USES)</b>										
Operating transfers in	--	--	25,000	--	--	--	--	--	--	25,000
Operating transfers (out)	--	(275,000)	--	(55,000)	(136,777)	--	--	--	(1,390,242)	(1,857,019)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>--</b>	<b>(275,000)</b>	<b>25,000</b>	<b>(55,000)</b>	<b>(136,777)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(1,390,242)</b>	<b>(1,832,019)</b>
<b>EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)</b>	<b>21,162</b>	<b>(132,916)</b>	<b>(119,472)</b>	<b>178,500</b>	<b>105,865</b>	<b>6,630</b>	<b>(605)</b>	<b>(10)</b>	<b>(1,370,761)</b>	<b>(1,311,607)</b>
<b>FUND BALANCE, OCTOBER 1, 2007</b>	<b>52,648</b>	<b>165,188</b>	<b>125,858</b>	<b>94,110</b>	<b>108,741</b>	<b>951,163</b>	<b>12,660</b>	<b>(4,699)</b>	<b>1,372,237</b>	<b>2,877,906</b>
<b>FUND BALANCE, SEPTEMBER 30, 2008</b>	<b>\$ 73,810</b>	<b>\$ 32,272</b>	<b>\$ 6,386</b>	<b>\$ 272,610</b>	<b>\$ 214,606</b>	<b>\$ 957,793</b>	<b>\$ 12,055</b>	<b>\$ (4,709)</b>	<b>\$ 1,476</b>	<b>\$ 1,566,299</b>

CITY OF PHENIX CITY, ALABAMA  
 COMBINING BALANCE SHEET  
 DEBT SERVICE FUNDS  
 September 30, 2008

	<u>3 Mill Fund</u>	<u>4 Mill Fund</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash	\$ 24,658	\$ 32,614	\$ 57,272
Taxes receivable	<u>11,245</u>	<u>14,996</u>	<u>26,241</u>
TOTAL ASSETS	<u>\$ 35,903</u>	<u>\$ 47,610</u>	<u>\$ 83,513</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ <u>23,656</u>	\$ <u>31,579</u>	\$ <u>55,235</u>
TOTAL LIABILITIES	23,656	31,579	55,235
<b>FUND BALANCE</b>			
Reserved: Debt service	<u>12,247</u>	<u>16,031</u>	<u>28,278</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 35,903</u>	<u>\$ 47,610</u>	<u>\$ 83,513</u>



CITY OF PHENIX CITY, ALABAMA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 DEBT SERVICE FUNDS  
 Year Ended September 30, 2008

	<u>3 Mill Fund</u>	<u>4 Mill Fund</u>	<u>Totals</u>
REVENUES			
Taxes	\$ 722,056	\$ 962,741	\$ 1,684,797
Investment income	<u>217</u>	<u>3,198</u>	<u>3,415</u>
TOTAL REVENUES	722,273	965,939	1,688,212
EXPENDITURES			
Current:			
Education	<u>722,273</u>	<u>965,941</u>	<u>1,688,214</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	--	(2)	(2)
FUND BALANCE, OCTOBER 1, 2007	<u>12,247</u>	<u>16,033</u>	<u>28,280</u>
FUND BALANCE, SEPTEMBER 30, 2008	<u>\$ 12,247</u>	<u>\$ 16,031</u>	<u>\$ 28,278</u>

CITY OF PHENIX CITY, ALABAMA  
 COMBINING STATEMENT OF NET ASSETS  
 ENTERPRISE FUNDS  
 September 30, 2008

	Lakewood Golf Course	Total Non-Major Enterprise Funds	Public Utilities	Total Enterprise Funds
<b>ASSETS</b>				
Cash	\$ 15,675	\$ 15,675	\$ 604,340	\$ 620,015
Accounts receivable (net of allowance \$924,490)	5,887	5,887	1,967,217	1,973,104
Interest receivable	--	--	52,443	52,443
Due from other funds	--	--	1,127,465	1,127,465
Inventory	38,094	38,094	183,984	222,078
Prepaid expenses	2,671	2,671	63,045	65,716
<b>TOTAL CURRENT ASSETS</b>	<b>62,327</b>	<b>62,327</b>	<b>3,998,494</b>	<b>4,060,821</b>
<b>FIXED ASSETS</b>				
Property, plant and equipment	2,429,131	2,429,131	92,153,756	94,582,887
Accumulated depreciation	(1,025,195)	(1,025,195)	(27,660,542)	(28,685,737)
<b>OTHER ASSETS</b>				
Deferred outflow for interest rate swap agreement	--	--	907,263	907,263
Bond issue costs	--	--	385,703	385,703
<b>RESTRICTED ASSETS</b>				
Cash	--	--	1,371,745	1,371,745
<b>TOTAL ASSETS</b>	<b>1,466,263</b>	<b>1,466,263</b>	<b>71,156,419</b>	<b>72,622,682</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>CURRENT LIABILITIES (payable from current assets):</b>				
Accounts payable	21,131	21,131	551,846	572,977
Accrued liabilities	10,440	10,440	70,421	80,861
Compensated absences	13,219	13,219	141,365	154,584
Customer deposits	--	--	103,318	103,318
Due to other funds	992,774	992,774	590,099	1,582,873
Deferred revenue	24,618	24,618	--	24,618
<b>TOTAL CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)</b>	<b>1,062,182</b>	<b>1,062,182</b>	<b>1,457,049</b>	<b>2,519,231</b>
<b>CURRENT LIABILITIES (payable from restricted assets):</b>				
Current maturities of long-term debt	--	--	1,255,000	1,255,000
Accrued interest	--	--	31,760	31,760
<b>TOTAL CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</b>	<b>--</b>	<b>--</b>	<b>1,286,760</b>	<b>1,286,760</b>
<b>LONG-TERM LIABILITIES</b>				
Long-term debt, less current maturities	--	--	23,940,068	23,940,068
Fair value of interest rate swap agreement	--	--	907,263	907,263
<b>TOTAL LIABILITIES</b>	<b>1,062,182</b>	<b>1,062,182</b>	<b>27,591,140</b>	<b>28,653,322</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,403,936	1,403,936	39,407,932	40,811,868
Restricted for debt service	--	--	1,371,745	1,371,745
Unrestricted	(999,855)	(999,855)	2,785,602	1,785,747
<b>TOTAL NET ASSETS</b>	<b>\$ 404,081</b>	<b>\$ 404,081</b>	<b>\$ 43,565,279</b>	<b>\$ 43,969,360</b>

CITY OF PHENIX CITY, ALABAMA  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN FUND NET ASSETS  
 ENTERPRISE FUNDS  
 Year Ended September 30, 2008

	Lakewood Golf Course	Total Non-Major Enterprise Funds	Public Utilities	Total Enterprise Funds
<b>REVENUES</b>				
Charges for services	\$ 579,589	\$ 579,589	\$ 9,390,393	\$ 9,969,982
Intergovernmental revenues	--	--	47,333	47,333
Miscellaneous revenues	--	--	236,165	236,165
<b>TOTAL REVENUES</b>	<u>579,589</u>	<u>579,589</u>	<u>9,673,891</u>	<u>10,253,480</u>
<b>EXPENSES</b>				
Administrative	--	--	1,656,806	1,656,806
Water plant	--	--	1,669,461	1,669,461
Water distribution	--	--	402,190	402,190
Wastewater distribution	--	--	836,343	836,343
Wastewater plant	--	--	1,735,598	1,735,598
Lakewood golf course	941,596	941,596	--	941,596
<b>TOTAL EXPENSES</b>	<u>941,596</u>	<u>941,596</u>	<u>6,300,398</u>	<u>7,241,994</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(362,007)</u>	<u>(362,007)</u>	<u>3,373,493</u>	<u>3,011,486</u>
<b>NONOPERATING INCOME (EXPENSES)</b>				
Investment income	255	255	110,272	110,527
Depreciation and amortization	(82,886)	(82,886)	(2,093,256)	(2,176,142)
Interest expense	--	--	(1,502,955)	(1,502,955)
Contributed assets	55,600	55,600	1,515,371	1,570,971
<b>TOTAL NONOPERATING INCOME (EXPENSES)</b>	<u>(27,031)</u>	<u>(27,031)</u>	<u>(1,970,568)</u>	<u>(1,997,599)</u>
<b>NET INCOME (LOSS)</b>	<u>(389,038)</u>	<u>(389,038)</u>	<u>1,402,925</u>	<u>1,013,887</u>
<b>NET ASSETS OCTOBER 1, 2007</b>	<u>793,119</u>	<u>793,119</u>	<u>42,162,354</u>	<u>42,955,473</u>
<b>NET ASSETS SEPTEMBER 30, 2008</b>	<u>\$ 404,081</u>	<u>\$ 404,081</u>	<u>\$ 43,565,279</u>	<u>\$ 43,969,360</u>

CITY OF PHENIX CITY, ALABAMA  
 COMBINING STATEMENT OF CASH FLOWS  
 ENTERPRISE FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Lakewood Golf Course	Total Non-Major Enterprise Funds	Public Utilities	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers and users	\$ 562,998	\$ 562,998	\$ 9,256,451	\$ 9,819,449
Cash payments to suppliers	(140,295)	(140,295)	(3,944,478)	(4,084,773)
Cash payments to employees	<u>(383,870)</u>	<u>(383,870)</u>	<u>(2,350,093)</u>	<u>(2,733,963)</u>
NET CASH PROVIDED (USED) BY OPERATING INCOME	<u>38,833</u>	<u>38,833</u>	<u>2,961,880</u>	<u>3,000,713</u>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(28,589)	(28,589)	(1,212,015)	(1,240,604)
Principal paid on capital debt	--	--	(1,200,000)	(1,200,000)
Interest and fees paid on capital debt	<u>--</u>	<u>--</u>	<u>(1,481,150)</u>	<u>(1,481,150)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(28,589)</u>	<u>(28,589)</u>	<u>(3,893,165)</u>	<u>(3,921,754)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends received	<u>255</u>	<u>255</u>	<u>92,641</u>	<u>92,896</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>255</u>	<u>255</u>	<u>92,641</u>	<u>92,896</u>
NET INCREASE (DECREASE) CASH & CASH EQUIVALENTS	10,499	10,499	(838,644)	(828,145)
CASH & CASH EQUIVALENTS BEGINNING	<u>5,176</u>	<u>5,176</u>	<u>2,814,729</u>	<u>2,819,905</u>
CASH & CASH EQUIVALENTS ENDING	<u>\$ 15,675</u>	<u>\$ 15,675</u>	<u>\$ 1,976,085</u>	<u>\$ 1,991,760</u>
<b>RECONCILIATION</b>				
Operating Income (Loss)	\$ (362,007)	\$ (362,007)	\$ 3,373,493	3,011,486
Adjustments:				
(Increase) Decrease in accounts receivable	(591)	(591)	(411,266)	(411,857)
(Increase) Decrease in other current assets	--	--	(32,443)	(32,443)
Increase (Decrease) in accounts payable	(9,687)	(9,687)	(114,153)	(123,840)
Increase (Decrease) in comp absences	(3,610)	(3,610)	329	(3,281)
Increase (Decrease) in customer deposits	--	--	(5,900)	(5,900)
Increase (Decrease) in due to other funds	430,162	430,162	161,994	592,156
Increase (Decrease) in accrued liabilities	<u>(15,434)</u>	<u>(15,434)</u>	<u>(10,174)</u>	<u>(25,608)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 38,833</u>	<u>\$ 38,833</u>	<u>\$ 2,961,880</u>	<u>\$ 3,000,713</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash during the year for interest	<u>\$ 1,233,607</u>			
<b>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>				
Capital assets contributed from other sources	<u>\$ 1,570,971</u>			

CITY OF PHENIX CITY, ALABAMA  
 COMBINING STATEMENT OF NET ASSETS  
 INTERNAL SERVICE FUND  
 September 30, 2008

	Employee Health Care Fund	Total Internal Service Fund
ASSETS		
Cash	\$ 4,682	\$ 4,682
	<u>4,682</u>	<u>4,682</u>
TOTAL CURRENT ASSETS		
	<u>4,682</u>	<u>4,682</u>
TOTAL ASSETS		
	<u>4,682</u>	<u>4,682</u>
LIABILITIES		
CURRENT LIABILITIES		
Claims payable	214,600	214,600
Due to other funds	305,000	305,000
	<u>519,600</u>	<u>519,600</u>
TOTAL CURRENT LIABILITIES		
	<u>519,600</u>	<u>519,600</u>
TOTAL LIABILITIES		
	519,600	519,600
NET ASSETS		
Unrestricted	<u>(514,918)</u>	<u>(514,918)</u>
TOTAL NET ASSETS	\$ <u><u>(514,918)</u></u>	\$ <u><u>(514,918)</u></u>

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
INTERNAL SERVICE FUND  
Year Ended September 30, 2008

	Employee Health Care Fund	Total Internal Service Fund
REVENUES		
Charges for services	\$ 2,404,424	\$ 2,404,424
EXPENSES		
Claims	2,284,641	2,284,641
Administrative fees	248,018	248,018
Stop loss insurance	144,202	144,202
	<u>2,676,861</u>	<u>2,676,861</u>
TOTAL EXPENSES		
	2,676,861	2,676,861
OPERATING INCOME (LOSS)	(272,437)	(272,437)
NONOPERATING INCOME (EXPENSES)		
Investment income	1,726	1,726
	<u>1,726</u>	<u>1,726</u>
TOTAL NONOPERATING INCOME (EXPENSES)		
	1,726	1,726
NET INCOME (LOSS)	(270,711)	(270,711)
NET ASSETS OCTOBER 1, 2007	<u>(244,207)</u>	<u>(244,207)</u>
NET ASSETS SEPTEMBER 30, 2008	<u>\$ (514,918)</u>	<u>\$ (514,918)</u>

CITY OF PHENIX CITY, ALABAMA  
STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Employee Health Care Fund	Total Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 2,609,424	\$ 2,609,424
Cash payments to suppliers	<u>(2,676,861)</u>	<u>(2,676,861)</u>
NET CASH PROVIDED (USED) BY OPERATING INCOME	<u>(67,437)</u>	<u>(67,437)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends received	<u>1,726</u>	<u>1,726</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,726</u>	<u>1,726</u>
NET INCREASE (DECREASE) CASH & CASH EQUIVALENTS	(65,711)	(65,711)
CASH & CASH EQUIVALENTS BEGINNING	<u>70,393</u>	<u>70,393</u>
CASH & CASH EQUIVALENTS ENDING	\$ <u><u>4,682</u></u>	\$ <u><u>4,682</u></u>
<b>RECONCILIATION</b>		
Operating Income (Loss)	\$ (272,437)	\$ (272,437)
Adjustments:		
Increase (Decrease) in due to other funds	<u>205,000</u>	<u>205,000</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u><u>(67,437)</u></u>	\$ <u><u>(67,437)</u></u>

# Albright, Fortenberry & Ninas, LLP

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

To the Mayor and Council  
City of Phenix City, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Phenix City, Alabama, as of and for the year ended September 30, 2008, which collectively comprise the City of Phenix City, Alabama's basic financial statements and have issued our report thereon dated July 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Phenix City, Alabama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Phenix City, Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Phenix City, Alabama's internal control over financial reporting.

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

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

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



Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Phenix City, Alabama in a separate letter dated July 17, 2009.

This report is intended solely for the information and use of management, City Council, others within the entity, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Albright, Fortenberry & Ninas, LLP*

Columbus, Georgia  
July 17, 2009