

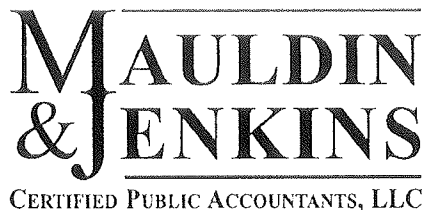
CITY OF PHENIX CITY, ALABAMA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2009

CITY OF PHENIX CITY, ALABAMA
ANNUAL FINANCIAL REPORT
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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2009, 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 did not audit the financial statements of the Phenix City Board of Education, which represents 99.96% and 99.51% of the assets and revenues, respectively, of the aggregately discretely presented component unit for the year ended September 30, 2009. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for this component unit, is solely based on the reports of the other auditors.

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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion and based on our audit and the reports of other auditors, 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 discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Phenix City, Alabama as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2011, on our consideration of the City of Phenix City, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (on pages 3 - 8) and the Required Supplementary Information on page 51 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Phenix City, Alabama. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Mauldin & Jenkins, LLC

Albany, Georgia
January 27, 2011

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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, 2009. 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.

Financial Analysis of the City (Primary Government)

Assets

Total assets of the City were \$136,935,313 for 2009 compared to \$118,333,110 for 2008. Most of the Governmental Activities net assets are invested in capital assets (land, buildings, equipment, and roads etc.). The City's investment in such capital assets as of September 30, 2009 was \$96,034,793, which is an increase of \$4,145,343 from September 30, 2008 of \$91,889,450. The City has recorded \$52,383,539 in depreciation expense against these capital assets leaving a net asset book value of \$43,651,254. Debt outstanding related to capital assets was \$32,766,256 leaving an investment in capital assets of \$12,044,320 compared to \$12,685,750 for 2008.

The City's Business-type Activities had capital assets as of September 30, 2009 of \$97,549,563, which represents an increase of \$2,966,675 from September 2008 of \$94,582,888. Net of \$31,129,907 in depreciation expense, the City's Business-type Activities had \$66,419,656 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 \$39,256,812. The net investment in capital assets net of related debt for 2009 was \$27,162,844 compared to \$40,811,868 for 2008 this decrease is related to the City's recent issuance of long-term debt to finance several large projects. Once these projects have been completed and added to the City's capital assets, the City's net investment numbers will increase to reflect this investment.

Revenues

The City's total revenue from Governmental Funds was \$28,340,983, an increase of 3.78% from the previous year of \$27,303,963. The largest revenue source for the City is the sales and use tax, which represents \$14,251,078 or 50.3% of the total. Charges for service totaled \$1,908,740, property taxes totaled \$5,500,004, other taxes \$688,582 and interest totaled \$21,170. 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 five mills is for operations. Of the total property taxes, \$1,848,994 is dedicated to debt service and \$1,953,880 for education.

MANAGEMENT DISCUSSION AND ANALYSIS

Expenditures

Departmental operating expenditures totaled \$23,057,886 or 73.08% of total non-capital expenditures of \$31,550,727. The City transferred \$1,888,681 to the Phenix City Board of Education and debt service on general obligation debt totaled \$6,604,160. Capital outlays during the fiscal year were \$2,190,182.

Public safety (police, code enforcement and fire departments) is the largest category of departmental operating expenses totaling \$10,544,162 or 31.25%. General government, which includes the City manager's office, City clerk, finance, personnel, and the Municipal Court, is second with a total of \$6,984,514 or 20.70%. Public works is third at \$3,212,328 or 9.52%, followed by culture and recreation at \$2,316,882 or 6.87% representing most of the balance of departmental operating expenditures.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Fund Financial Statements

State law and /or accounting rules require certain revenue sources or types of expenses 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 7 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 that 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 Public Utilities Fund which provides water and sewer services to residential, commercial and industrial customers residing within the City's utility district and,
 - The Lakewood Golf Course 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 capital assets, long-term debt, depreciation expense and cash flows.

MANAGEMENT DISCUSSION AND ANALYSIS

Business-Type Activities

The City operates two Proprietary Funds, the Lakewood Golf Course, which provides golf activities, and the Public Utilities, which provide water and sewer services.

Operating revenues at the Lakewood Golf Course were \$677,104 for fiscal year 2009 compared to \$579,589 in 2008. Operating expenses exceeded operating revenues at the Lakewood Golf Course by \$337,164 in 2009 compared to \$362,007 in 2008. Net cash flow from operating activities for 2009 was a negative \$1,238,547 compared to a positive \$38,883 in 2008. 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 a reduced operating loss for fiscal 2010 not including depreciation and amortization expense.

Operating revenues in the Public Utilities division of \$9,397,640 were down \$276,251 in 2009 compared to \$9,673,891 in 2008 due to an exceptionally wet year in which rainfall was more than double normal conditions. Operating expenses of \$6,435,728, not including depreciation and amortization expenses, compared to \$6,300,398 were up \$135,330 primarily due to increased costs of electricity and chemicals. Operating income, not including depreciation and amortization decreased \$411,581 to \$2,961,915 in 2009 compared to \$3,373,493 in 2008. Depreciation and amortization expenses of \$2,451,615 increased \$358,359 from \$2,093,256 in 2008, interest expense was \$2,232,102 in 2009 compared to \$1,502,955 in 2008 due to cost of terminating a swap agreement, interest income was \$106,813 in 2009 compared to \$110,272 in 2008 and contributed assets were \$967,433 in 2009 compared to \$1,515,371 in 2008. Net income was \$1,196,165 for 2009, which was down from \$1,402,925 in 2008 due to the increase in depreciation and amortization expenses and interest costs. 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 to 15 million dollars over the next 3 years primarily in improvements to the wastewater plant and collection system and replacement of old water lines to accommodate expected growth.

Fund Balances/Net Assets

The General Fund's Fund Balance increased \$307,414 to \$4,016,066 in 2009 compared to \$3,708,652 in 2008 due to reduced expenditures related to the general economic downturn. The fund balance for the City's Other Governmental Funds increased \$907,698 to \$2,030,818 in 2009 compared to \$1,123,120 in 2008 due to bond proceeds held for completion of several capital projects.

Net assets in Public Utilities increased \$1,196,165 to \$44,245,975 in 2009 compared to \$43,049,810 in 2008 and net assets increased in the Non-Major Enterprise Fund (Lakewood Golf Course) by \$889,284 to \$1,293,365 in 2009 compared to \$404,081 in 2008. Net assets increased \$2,085,449 in all Proprietary Funds to \$45,539,340 in 2009 compared to \$43,453,891 in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Budgetary Highlights

The City adopts annual budgets for the General Fund, all special revenue funds, the Public Utilities Fund, and the Lakewood Golf Course Fund.

Total operating revenues were \$2,363,975 less than budgetary projections in the General Fund, however; \$1,292,598 of this was grant funds for a capital project that was delayed. The other \$1,071,377 balance in the shortfall was primarily reduced sales and use tax. Two large commercial developments, one in Auburn, Alabama and the other in Columbus, Georgia pulled a significant amount of retail sales away from the City. Sales tax revenues have remained lower than expected in 2009 due to the extended economic downturn. Departmental expenditures were \$2,758,742 less than budgeted as the City reduced spending due to revenue shortfalls.

Golf course revenues were up as the course reopened in late July of 2008 and revenues have rebounded. Water and sewer revenues in Public Utilities were down \$276,251. 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, however; a historically wet year in which rainfall was more than double the historical average reduced revenues in the summer months. 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.

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 as of 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. Details of capital asset activity can be found in Note 6 on pages 31-33.

The City issued \$7,850,000 general obligation debt, retired \$4,880,000 in Fiscal 2009, and had \$32,715,000 outstanding in long-term general obligation debt at Fiscal 2009 year-end compared to \$29,745,000 in 2008. General obligation debt of \$23,195,000 or 70.9% of the total outstanding in 2009 will be retired by the end of 2019.

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 issued \$29,265,000 in revenue debt in fiscal year 2009 and retired \$14,050,000. The City had \$41,460,000 in revenue debt outstanding at the end of Fiscal 2009 compared to \$26,245,000 in 2008. Of the \$41,460,000 in Revenue Warrants payable from the Utility Fund revenues outstanding at Fiscal 2009 year-end \$15,390,000 or 37.1% will be retired by 2019 year end. Details of the City's debt activity can be found in Note 7 on pages 34-44.

MANAGEMENT DISCUSSION AND ANALYSIS

Bond Ratings

The City received its most recent bond rating, an A+ rating, from Standard & Poors on its general obligation and revenue 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 remained lower than expected due to the extended economic downturn, but have begun to grow again and we expect growth to increase in 2011. 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 expenses 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 Smiths, 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 12th Street, Phenix City, Alabama 36867, with any questions or to request additional information.

CITY OF PHENIX CITY, ALABAMA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

ASSETS	Primary Government		Total
	Governmental Activities	Business-type Activities	
Cash and cash equivalents	\$ 3,719,194	\$ 1,191,889	\$ 4,911,083
Investments	2,000,000	-	2,000,000
Taxes receivable	697,518	-	697,518
Accounts receivable	274,240	1,371,361	1,645,601
Notes receivable	390,000	280,440	670,440
Internal balances	(681,651)	681,651	-
Due from other governments	41,203	-	41,203
Inventories	59,256	370,158	429,414
Prepaid expenses	194,476	42,114	236,590
Restricted assets:			
Cash and cash equivalents	-	15,095,452	15,095,452
Bond issuance cost	547,135	589,967	1,137,102
Capital assets, non-depreciable	15,062,165	484,648	15,546,813
Capital assets, depreciable, net of accumulated depreciation	28,589,089	65,935,008	94,524,097
Total assets	<u>50,892,625</u>	<u>86,042,688</u>	<u>136,935,313</u>
LIABILITIES			
Accounts payable	608,826	797,619	1,406,445
Accrued liabilities	422,388	104,434	526,822
Claims payable	176,133	-	176,133
Unearned revenues	-	24,618	24,618
Customer deposits	-	97,775	97,775
Accrued interest	311,955	80,303	392,258
Capital leases due within one year	59,815	-	59,815
Bonds payable due within one year	2,385,000	1,510,000	3,895,000
Bonds payable due in more than one year	29,162,119	37,746,812	66,908,931
Compensated absences due within one year	599,960	127,608	727,568
Compensated absences due in more than one year	66,662	14,179	80,841
Other liabilities	-	-	-
Total liabilities	<u>33,792,858</u>	<u>40,503,348</u>	<u>74,296,206</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,044,320	27,162,844	39,207,164
Restricted for:			
Capital projects	1,229,153	-	1,229,153
Debt service	-	15,095,452	15,095,452
Unrestricted (deficit)	3,826,294	3,281,044	7,107,338
Total net assets	<u>\$ 17,099,767</u>	<u>\$ 45,539,340</u>	<u>\$ 62,639,107</u>

The accompanying notes are an integral part of these financial statements.

Component Units			
Phenix City Board of Education		Phenix City- Russell County Library	
\$	2,161,984	\$	1,569
	28,585		-
	-		-
	814,658		-
	-		-
	-		-
	-		-
	272,670		-
	196,136		-
	348,632		-
	553,721		-
	635,026		-
	57,721,215		25,670
	62,732,627		27,239
	152,844		3,016
	3,864,292		3,114
	-		-
	-		-
	-		-
	-		-
	735,354		-
	34,371,145		-
	-		-
	-		-
	121,910		-
	39,245,545		6,130
	23,933,497		25,670
	233,185		-
	72,556		-
	(752,156)		(4,561)
\$	23,487,082	\$	21,109

CITY OF PHENIX CITY, ALABAMA
STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Component Units	
							Phenix City Board of Education	Phenix City-Russell County Library
Primary government:								
Governmental activities:								
General government	\$ 9,667,624	\$ 6,904,152	\$ 343,920	\$ 23,990	\$ (2,395,562)	\$ -	\$ -	\$ -
Judicial	43,433	-	-	-	(43,433)	-	-	-
Public safety	9,741,555	723,779	3,948	327,355	(8,686,473)	-	-	-
Public works	3,959,725	2,042,964	-	1,260,648	(656,113)	-	-	-
Culture and recreation	3,050,882	142,559	-	2,183	(2,906,140)	-	-	-
Housing and development	1,888,681	-	-	-	(1,888,681)	-	-	-
Interest on long-term debt	2,183,019	-	-	-	(2,183,019)	-	-	-
Total governmental activities	<u>30,534,919</u>	<u>9,813,454</u>	<u>347,868</u>	<u>1,614,176</u>	<u>(18,759,421)</u>	-	-	-
Business-type activities:								
Public Utilities	11,119,445	9,397,640	-	1,843,724	-	121,919	-	-
Lakewood Golf Course	1,014,268	677,104	-	-	(337,164)	-	-	-
Total business-type activities	<u>12,133,713</u>	<u>10,074,744</u>	<u>-</u>	<u>1,843,724</u>	<u>(215,245)</u>	<u>(215,245)</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 42,668,632</u>	<u>\$ 19,888,198</u>	<u>\$ 347,868</u>	<u>\$ 3,457,900</u>	<u>\$ (18,759,421)</u>	<u>\$ (18,974,666)</u>	<u>\$ -</u>	<u>\$ -</u>
Component units:								
Phenix City Board of Education	\$ 57,109,614	\$ 2,058,864	\$ 43,256,288	\$ -	\$ -	\$ -	\$ (11,794,462)	\$ -
Phenix City-Russell County Library	324,700	32,696	241,074	-	-	-	-	(50,930)
Total component units	<u>\$ 57,434,314</u>	<u>\$ 2,091,560</u>	<u>\$ 43,497,362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,794,462)</u>	<u>\$ (50,930)</u>
General revenues:								
Property taxes					5,851,948		7,300,768	-
Sales and use taxes					14,251,078		3,254,998	-
Business taxes					688,582		-	-
Unrestricted investment earnings					21,366	106,858	71,018	-
Transfers					(2,193,836)	2,193,836	-	11
Total general revenues and transfers					18,619,138	2,300,694	10,626,784	11
Change in net assets					(140,283)	2,085,449	(1,167,678)	(50,919)
Net assets, beginning of year, as restated					17,240,050	43,453,891	24,654,760	72,028
Net assets, end of year					<u>\$ 17,099,767</u>	<u>\$ 45,539,340</u>	<u>\$ 23,487,082</u>	<u>\$ 21,109</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**BALANCE SHEET
GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2009

ASSETS	General	Capital Improvement	7 Mill	Other Governmental Funds	Total
Cash and cash equivalents	\$ 1,572,120	\$ 1,236,514	\$ 143,734	\$ 662,632	\$ 3,615,000
Investments	2,000,000	-	-	-	2,000,000
Taxes receivable	177,177	-	269,415	250,926	697,518
Accounts receivable	4,268	-	-	269,972	274,240
Notes receivable	-	-	-	390,000	390,000
Due from other funds	1,104,621	-	-	51	1,104,672
Due from other governments	1,198	-	-	40,005	41,203
Inventory	59,256	-	-	-	59,256
Prepaid items	194,476	-	-	-	194,476
Total assets	<u>\$ 5,113,116</u>	<u>\$ 1,236,514</u>	<u>\$ 413,149</u>	<u>\$ 1,613,586</u>	<u>\$ 8,376,365</u>
 LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 580,610	\$ 7,361	\$ -	\$ 20,855	\$ 608,826
Accrued expenses	422,388	-	-	-	422,388
Due to other funds	51	-	941,155	5,117	946,323
Deferred revenue	94,001	-	98,702	159,241	351,944
Total liabilities	<u>1,097,050</u>	<u>7,361</u>	<u>1,039,857</u>	<u>185,213</u>	<u>2,329,481</u>
 FUND BALANCES (DEFICIT)					
Fund balances:					
Reserved for:					
Capital outlay	-	1,229,153	-	-	1,229,153
Inventory	59,256	-	-	-	59,256
Prepaid items	194,476	-	-	-	194,476
Debt service	-	-	-	93,686	93,686
Unreserved, undesignated reported in:					
General fund	3,762,334	-	-	-	3,762,334
Special revenue funds	-	-	-	1,334,687	1,334,687
Debt service funds	-	-	(626,708)	-	(626,708)
Total fund balances (deficit)	<u>4,016,066</u>	<u>1,229,153</u>	<u>(626,708)</u>	<u>1,428,373</u>	<u>6,046,884</u>
Total liabilities and fund balances	<u>\$ 5,113,116</u>	<u>\$ 1,236,514</u>	<u>\$ 413,149</u>	<u>\$ 1,613,586</u>	
 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 in the funds.					43,651,254
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					351,944
Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.					(911,939)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					<u>(32,038,376)</u>
Net assets of governmental activities					<u>\$ 17,099,767</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

	<u>General</u>	<u>Capital Improvement</u>	<u>7 Mill</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues:					
Property taxes	\$ 1,697,130	\$ -	\$ 1,848,994	\$ 1,953,880	\$ 5,500,004
Sales and use taxes	13,773,504	-	-	477,574	14,251,078
Business taxes	227,312	-	461,270	-	688,582
Licenses and permits	4,054,682	-	-	-	4,054,682
Intergovernmental	708,409	-	-	-	708,409
Charges for services	1,908,158	-	-	582	1,908,740
Fines and forfeitures	515,326	-	-	158,454	673,780
Interest	14,445	4,476	384	1,865	21,170
Other revenues	383,006	5,922	-	-	388,928
Parks and recreation	145,610	-	-	-	145,610
Total revenues	<u>23,427,582</u>	<u>10,398</u>	<u>2,310,648</u>	<u>2,592,355</u>	<u>28,340,983</u>
Expenditures:					
Current:					
General government	6,970,396	-	14,118	-	6,984,514
Public safety	10,477,560	-	55,991	10,611	10,544,162
Public works	2,963,367	-	-	248,961	3,212,328
Culture and recreation	2,316,882	-	-	-	2,316,882
Education	-	-	-	1,888,681	1,888,681
Capital outlay	-	2,190,182	-	-	2,190,182
Debt service:					
Principal	57,184	-	4,880,000	-	4,937,184
Interest	5,382	-	1,469,745	-	1,475,127
Bond issuance cost	-	191,849	-	-	191,849
Total expenditures	<u>22,790,771</u>	<u>2,382,031</u>	<u>6,419,854</u>	<u>2,148,253</u>	<u>33,740,909</u>
Excess (deficiency) of revenues over (under) expenditures	<u>636,811</u>	<u>(2,371,633)</u>	<u>(4,109,206)</u>	<u>444,102</u>	<u>(5,399,926)</u>
Other financing sources (uses):					
Bond proceeds	-	7,850,000	-	-	7,850,000
Discount on bond issuance	-	(8,559)	-	-	(8,559)
Transfers in	2,335,306	-	4,362,892	180,000	6,878,198
Transfers out	<u>(2,664,703)</u>	<u>(4,649,592)</u>	<u>-</u>	<u>(790,306)</u>	<u>(8,104,601)</u>
Total other financing sources (uses)	<u>(329,397)</u>	<u>3,191,849</u>	<u>4,362,892</u>	<u>(610,306)</u>	<u>6,615,038</u>
Net change in fund balances	307,414	820,216	253,686	(166,204)	1,215,112
Fund balances (deficit), beginning of year	<u>3,708,652</u>	<u>408,937</u>	<u>(880,394)</u>	<u>1,594,577</u>	<u>4,831,772</u>
Fund balances (deficit), end of year	<u>\$ 4,016,066</u>	<u>\$ 1,229,153</u>	<u>\$ (626,708)</u>	<u>\$ 1,428,373</u>	<u>\$ 6,046,884</u>

The accompanying notes 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 FISCAL YEAR ENDED SEPTEMBER 30, 2009

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

Net change in fund balances - total governmental funds	\$ 1,215,112
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between depreciation expense and capital outlay in the current period.	517,089
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net assets.	1,253,635
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred revenues increased during the year by this amount.	351,944
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,712,408)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(698,634)
Internal service funds are used by management to charge the costs of insurance to individual funds.	(2,708,931)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>2,641,910</u>
	<u>\$ (140,283)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,283,900	\$ 1,283,900	\$ 1,697,130	\$ 413,230
Sales and use taxes	14,833,550	14,833,550	13,773,504	(1,060,046)
Business taxes	341,230	341,230	227,312	(113,918)
Licenses and permits	3,895,503	3,895,503	4,054,682	159,179
Intergovernmental	210,865	560,865	708,409	147,544
Charges for services	2,164,940	2,164,940	1,908,158	(256,782)
Fines and forfeitures	711,669	711,669	515,326	(196,343)
Interest income	380,000	380,000	14,445	(365,555)
Miscellaneous Income	1,513,581	1,513,581	383,006	(1,130,575)
Parks and recreation	106,319	106,319	145,610	39,291
Total revenues	<u>25,441,557</u>	<u>25,791,557</u>	<u>23,427,582</u>	<u>(2,363,975)</u>
Expenditures:				
Current:				
General government:				
City manager	335,469	390,340	352,065	38,275
Personnel	230,411	230,411	230,091	320
City clerk	234,201	288,748	281,996	6,752
Municipal court	320,859	340,504	343,274	(2,770)
Finance	143,156	147,624	145,116	2,508
Finance - revenue collection	98,945	91,445	89,868	1,577
Non-departmental	5,287,644	5,913,094	4,707,898	1,205,196
Appropriations and contributions	355,424	224,243	285,263	(61,020)
Building maintenance	593,280	587,859	534,825	53,034
Total general government	<u>7,599,389</u>	<u>8,214,268</u>	<u>6,970,396</u>	<u>1,243,872</u>
Public safety:				
Code enforcement	531,583	533,383	519,244	14,139
Fire	4,163,172	4,163,172	3,695,409	467,763
Police	6,031,595	6,381,595	6,057,891	323,704
Animal control	180,725	207,024	205,016	2,008
Total public safety	<u>10,907,075</u>	<u>11,285,174</u>	<u>10,477,560</u>	<u>807,614</u>

(Continued)

**CITY OF PHENIX CITY, ALABAMA
GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures: (Continued)				
Current:				
Public works:				
Vehicle maintenance	\$ 187,164	\$ 187,164	\$ 171,305	\$ 15,859
Engineering	382,471	387,598	379,075	8,523
Administration	335,588	335,588	299,206	36,382
Limbs and debris	1,244,780	1,244,780	1,142,324	102,456
Refuse disposal	244,567	244,567	186,203	58,364
Streets and drainage	925,560	1,011,697	785,254	226,443
Total public works	<u>3,320,130</u>	<u>3,411,394</u>	<u>2,963,367</u>	<u>448,027</u>
Culture and recreation:				
Parks and recreation	2,394,411	2,385,911	2,142,486	243,425
Central activity center	80,500	84,000	86,547	(2,547)
Amphitheater	101,200	106,200	87,849	18,351
Total culture and recreation	<u>2,576,111</u>	<u>2,576,111</u>	<u>2,316,882</u>	<u>259,229</u>
Debt service:				
Principal	157,700	157,700	57,184	100,516
Interest	-	-	5,382	(5,382)
Total debt service	<u>157,700</u>	<u>157,700</u>	<u>62,566</u>	<u>95,134</u>
Total expenditures	<u>24,560,405</u>	<u>25,644,647</u>	<u>22,790,771</u>	<u>2,853,876</u>
Excess of revenues over expenditures	<u>881,152</u>	<u>146,910</u>	<u>636,811</u>	<u>489,901</u>
Other financing sources (uses):				
Transfers in	366,000	366,000	2,335,306	1,969,306
Transfers out	(1,720,000)	(1,720,000)	(2,664,703)	(944,703)
Total other financing sources (uses)	<u>(1,354,000)</u>	<u>(1,354,000)</u>	<u>(329,397)</u>	<u>1,024,603</u>
Net change in fund balances	(472,848)	(1,207,090)	307,414	1,514,504
Fund balance, beginning of year	<u>3,708,652</u>	<u>3,708,652</u>	<u>3,708,652</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,235,804</u>	<u>\$ 2,501,562</u>	<u>\$ 4,016,066</u>	<u>\$ 1,514,504</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

SEPTEMBER 30, 2009

	Business-type Activities			Governmental Activities Internal Service Fund
	Enterprise Funds			
	Public Utilities	Non-major Lakewood Golf Course	Total	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,188,313	\$ 3,576	\$ 1,191,889	\$ 104,194
Accounts receivable, net of allowances	1,365,439	5,922	1,371,361	-
Notes receivable	33,015	-	33,015	-
Due from other funds	941,155	-	941,155	-
Inventories	323,575	46,583	370,158	-
Prepaid expenses	39,443	2,671	42,114	-
Total current assets	<u>3,890,940</u>	<u>58,752</u>	<u>3,949,692</u>	<u>104,194</u>
RESTRICTED ASSETS				
Cash and cash equivalents	15,095,452	-	15,095,452	-
NONCURRENT ASSETS				
Deferred bond issuance, unamortized balance	589,967	-	589,967	-
Notes receivable, net of current portion	247,425	-	247,425	-
Capital assets:				
Nondepreciable	321,648	163,000	484,648	-
Depreciable, net of accumulated depreciation	64,780,117	1,154,891	65,935,008	-
Total noncurrent assets	<u>65,939,157</u>	<u>1,317,891</u>	<u>67,257,048</u>	<u>-</u>
Total assets	<u>84,925,549</u>	<u>1,376,643</u>	<u>86,302,192</u>	<u>104,194</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	765,407	32,212	797,619	-
Accrued expenses	90,952	13,482	104,434	-
Claims payable	-	-	-	176,133
Due to other funds	259,504	-	259,504	840,000
Deferred revenue	-	24,618	24,618	-
Customer deposits	97,775	-	97,775	-
Accrued interest	80,303	-	80,303	-
Current portion - bonds payable	1,510,000	-	1,510,000	-
Current portion - compensated absences	115,939	11,669	127,608	-
Total current liabilities	<u>2,919,880</u>	<u>81,981</u>	<u>3,001,861</u>	<u>1,016,133</u>
LONG-TERM LIABILITIES				
Bonds payable, net of current portion	37,746,812	-	37,746,812	-
Compensated absences, net of current portion	12,882	1,297	14,179	-
Total long-term liabilities	<u>37,759,694</u>	<u>1,297</u>	<u>37,760,991</u>	<u>-</u>
Total liabilities	<u>40,679,574</u>	<u>83,278</u>	<u>40,762,852</u>	<u>1,016,133</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	25,844,953	1,317,891	27,162,844	-
Restricted for debt service	15,095,452	-	15,095,452	-
Unrestricted (deficit)	3,305,570	(24,526)	3,281,044	(911,939)
Total net assets (deficit)	<u>\$ 44,245,975</u>	<u>\$ 1,293,365</u>	<u>\$ 45,539,340</u>	<u>\$ (911,939)</u>

The accompanying notes 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
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

	Business-type Activities			Governmental Activities Internal Service Fund
	Enterprise Funds			
	Public Utilities	Non-major Lakewood Golf Course	Total	
OPERATING REVENUES				
Charges for services	\$ 8,619,421	\$ 669,192	\$ 9,288,613	\$ 2,641,714
Miscellaneous	778,219	7,912	786,131	-
Total operating revenues	<u>9,397,640</u>	<u>677,104</u>	<u>10,074,744</u>	<u>2,641,714</u>
OPERATING EXPENSES				
Administrative	1,953,899	-	1,953,899	-
Water plant	1,352,228	-	1,352,228	-
Water distribution	974,326	-	974,326	-
Wastewater distribution	994,628	-	994,628	-
Wastewater plant	1,160,647	-	1,160,647	-
Lakewood golf course	-	928,223	928,223	-
Depreciation and amortization	2,451,615	86,045	2,537,660	-
Claims and damages	-	-	-	3,038,931
Total operating expenses	<u>8,887,343</u>	<u>1,014,268</u>	<u>9,901,611</u>	<u>3,038,931</u>
Operating income (loss)	<u>510,297</u>	<u>(337,164)</u>	<u>173,133</u>	<u>(397,217)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	452,824	-	452,824	-
Interest income	106,813	45	106,858	196
Interest expense	(2,232,102)	-	(2,232,102)	-
System development fees	1,390,900	-	1,390,900	-
Total nonoperating income (loss)	<u>(281,565)</u>	<u>45</u>	<u>(281,520)</u>	<u>196</u>
Income (loss) before contributions and transfers	<u>228,732</u>	<u>(337,119)</u>	<u>(108,387)</u>	<u>(397,021)</u>
CAPITAL CONTRIBUTIONS	<u>967,433</u>	<u>-</u>	<u>967,433</u>	<u>-</u>
TRANSFERS				
Transfers in	-	1,226,403	1,226,403	-
Total transfers	<u>-</u>	<u>1,226,403</u>	<u>1,226,403</u>	<u>-</u>
Change in net assets	<u>1,196,165</u>	<u>889,284</u>	<u>2,085,449</u>	<u>(397,021)</u>
NET ASSETS (deficit), beginning of year, as restated	<u>43,049,810</u>	<u>404,081</u>	<u>43,453,891</u>	<u>(514,918)</u>
NET ASSETS (deficit), end of year	<u>\$ 44,245,975</u>	<u>\$ 1,293,365</u>	<u>\$ 45,539,340</u>	<u>\$ (911,939)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Public Utilities	Non-major Lakewood Golf Course	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 9,569,150	\$ 677,069	\$ 10,246,219	\$ 3,176,714
Payments to suppliers	(3,663,960)	(1,370,907)	(5,034,867)	(3,077,398)
Payments to employees	(3,181,678)	(544,709)	(3,726,387)	-
Net cash provided by (used in) operating activities	2,723,512	(1,238,547)	1,484,965	99,316
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	1,226,403	1,226,403	-
Intergovernmental	452,824	-	452,824	-
System development fees	1,390,900	-	1,390,900	-
Net cash provided by noncapital financing activities	1,843,724	1,226,403	3,070,127	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(1,999,242)	-	(1,999,242)	-
Principal paid on bonds	(13,618,636)	-	(13,618,636)	-
Proceeds from bond issuance	27,384,505	-	27,384,505	-
Interest paid	(2,185,439)	-	(2,185,439)	-
Net cash provided by capital and related financing activities	9,581,188	-	9,581,188	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	159,256	45	159,301	196
Net cash provided by investing activities	159,256	45	159,301	196
Net increase (decrease) in cash and cash equivalents	14,307,680	(12,099)	14,295,581	99,512
Cash and cash equivalents:				
Beginning of year	1,976,085	15,675	1,991,760	4,682
End of year	\$ 16,283,765	\$ 3,576	\$ 16,287,341	\$ 104,194
Classified as:				
Cash	\$ 1,188,313	\$ 3,576	\$ 1,191,889	\$ 104,194
Restricted assets, cash	15,095,452	-	15,095,452	-
	\$ 16,283,765	\$ 3,576	\$ 16,287,341	\$ 104,194

(Continued)

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

	Business-type Activities			Governmental Activities Internal Service Fund
	Enterprise Funds			
	Public Utilities	Non-major Lakewood Golf Course	Total	
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	\$ 510,297	\$ (337,164)	\$ 173,133	\$ (397,217)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization expense	2,451,615	86,045	2,537,660	-
(Increase) decrease in accounts receivable	277,763	(35)	277,728	-
Decrease in notes receivable	43,575	-	43,575	-
Decrease in due from other funds	186,310	-	186,310	-
Increase in inventory	(139,591)	(8,489)	(148,080)	-
Decrease in prepaid expenses	23,602	-	23,602	-
Increase (decrease) in accounts payable	(301,908)	11,081	(290,827)	-
Increase in accrued expenses	20,531	3,042	23,573	-
Decrease in claims payable	-	-	-	(38,467)
Decrease in due to other funds	(330,595)	(992,774)	(1,323,369)	535,000
Decrease in customer deposits	(5,543)	-	(5,543)	-
Decrease in compensated absences	(12,544)	(253)	(12,797)	-
Net cash provided by (used in) operating activities	<u>\$ 2,723,512</u>	<u>\$ (1,238,547)</u>	<u>\$ 1,484,965</u>	<u>\$ 99,316</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of donated assets	<u>\$ 967,433</u>	<u>\$ -</u>	<u>\$ 967,433</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009

NOTE 1. 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) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. The Financial Reporting Entity

The City was created by a legislative act of the State of Alabama in 1889. The City is a municipal corporation which operates under the mayor-commission form of government with an appointed City Manager. The City provides the following services and operations as authorized by its charter: public safety (police and fire); public works; public utilities; and recreation.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

In conformity with generally accepted accounting principles, as set forth in the Statement of Governmental Accounting Standards No. 14, "The Financial Reporting Entity", the component unit's financial statements have been discretely presented. Each discretely presented component unit is reported separately in the government-wide financial statements to emphasize that it is legally separate from the City. All discretely presented component units have September 30 year-ends.

Discretely Presented Component Units

The Phenix City Board of Education (the "Board of Education") – The City appoints all members of the Board of Education's governing body. Additionally, the City issued bonds for the construction of facilities for the Board of Education and the City is obligated for the debt. Complete financial statements for the Board of Education can be obtained from the Phenix City Board of Education's administrative office located at 1212 9th Avenue, Phenix City, Alabama 36868.

The Phenix City-Russell County Library Authority (the "Authority") – The City appoints all members of the Authority's governing body. Additionally, the City provides a significant operating subsidy to the Authority, primarily to finance the operations of the library. Complete financial statements for the Authority can be obtained from Phenix City-Russell County Library Authority's administrative office located at 1501 17th Avenue, Phenix City, Alabama 36867.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund 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 non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of 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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 the *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 period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Property taxes, sales and use taxes, business taxes, licenses, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Capital Improvement Fund** accounts for the projects funded through bond proceeds. Funds are used for: road and drainage projects; animal shelter projects; recreation projects, and other projects within the City.

The **7 Mill Fund** is used to account for the resources accumulated and payments made for principal and interest on long-term debt of the City.

The City reports the following major proprietary fund:

The **Public Utilities Fund** is an enterprise fund used to account for the cost of providing water and sewer service to the City. Activities of the fund include water and sewer administration, operations, billing and collections.

Additionally, the City reports the following fund types:

The **special revenue funds** account for revenue sources that are legally restricted to expenditure for specific purposes.

The **debt service funds** account for the resources accumulated and payments made for principal and interest on long-term debt of the City.

The **internal service fund** accounts for a self-insured program for health insurance. This fund was created to accommodate the payment of claims and administrative expenses for the self-insured program.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants 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. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services provided. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. All cash and investments reported in the proprietary funds, including restricted cash and investments, meet this definition and are therefore considered to be cash equivalents.

E. Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Investments that do not have an established market are reported at estimated fair values.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Inventory

Inventory in Proprietary Funds is valued at the lower of cost (first-in, first-out method) or market. Inventory in the General Fund, which is valued at cost (first-in, first-out method) consists of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

G. Short-Term Interfund Receivables/Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental-wide and fund financial statements.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City elected to record infrastructure assets prior to 1980. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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 useful lives are expensed as incurred.

Major outlays for capital assets and major improvements are capitalized as projects are constructed. Interest incurred during the construction period of capital assets is included as part of the capitalized value of the assets constructed. No interest expense was capitalized during the fiscal year ending September 30, 2009.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

Depreciation is provided on the straight-line method over the following estimated useful lives:

Primary Government	
Buildings and improvements	10 - 50 years
Machinery and equipment	5 - 10 years
Infrastructure	40 years
Water and Sewer System	50 years
Phenix City Board of Education	
Buildings and improvements	50 years
Machinery and equipment	5 - 20 years
Phenix City-Russell County Library Authority	
Equipment	3 - 7 years

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for nonvesting accumulation rights to receive sick pay benefits.

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$32,038,376 difference are as follows:

Bonds payable	\$ (32,715,000)
Unamortized deferred charge on refunding	1,167,881
Unamortized bond issuance cost	547,135
Accrued interest	(311,955)
Capital lease	(59,815)
Compensated absences	(666,622)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ (32,038,376)</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense." The details of this \$517,089 difference are as follows:

Capital outlay	\$ 2,891,708
Depreciation expense	<u>(2,374,619)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ 517,089</u>

Another element of that reconciliation explains that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$2,712,408 difference are as follows:

Issuance of bonds	\$ (7,850,000)
Principal repayment - capital lease	57,184
Principal repayment - bonds	4,880,000
Discount on bond issuance	8,559
Bond issuance cost	<u>191,849</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ (2,712,408)</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$698,634 difference are as follows:

Accrued interest	\$ (311,955)
Compensated absences	9,258
Amortization of issuance costs	(172,606)
Amortization of bond discounts	<u>(223,331)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ (698,634)</u>

NOTE 3. LEGAL COMPLIANCE – BUDGETS

A. Budgets and Budgetary Accounting

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 of the 3rd Tuesday of September of each year. The City Council approves budget amendments during the year.

B. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LEGAL COMPLIANCE – BUDGETS (CONTINUED)

C. Excess Expenditures Over Appropriations

For the year ended September 30, 2009, the following departments had excess of actual expenditures over appropriations, which were funded by available fund balance of the General Fund:

	Excess
Municipal court	\$ 2,770
Appropriations and contributions	61,020
Central activity center	2,547
Debt service - interest	5,382

NOTE 4. CASH AND INVESTMENTS

Credit risk. State statutes authorize the City to invest in obligations of the U.S. Government Treasury and Agency securities, certificates of deposit and money market accounts, repurchase agreements and reverse repurchase agreements, banker's acceptances and commercial paper.

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk – deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits with Alabama financial institutions that are in excess of the FDIC insurance are secured under the Security for Alabama Funds Enhancement Act (SAFE Program). Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury. As of September 30, 2009, the City and the Board of Education had no uncollateralized deposits.

NOTE 5. RECEIVABLES

Receivables consisted of the following at September 30, 2009:

	General	7 Mill	Other Governmental Funds	Public Utility	Non-major Lakewood Golf Course	Total
Receivables:						
Taxes	\$ 341,149	\$ 269,415	\$ 250,926	\$ -	\$ -	\$ 861,490
Accounts	4,268	-	269,972	2,594,163	5,922	2,874,325
Notes	-	-	390,000	33,015	-	423,015
Gross receivables	345,417	269,415	910,898	2,627,178	5,922	4,158,830
Less allowance for uncollectibles	(163,972)	-	-	(1,228,724)	-	(1,392,696)
Net total receivable	\$ 181,445	\$ 269,415	\$ 910,898	\$ 1,398,454	\$ 5,922	\$ 2,766,134

NOTES TO FINANCIAL STATEMENTS

NOTE 5. RECEIVABLES (CONTINUED)

Property taxes attached as an enforceable lien on property as of January 1, 2008. Property taxes were levied on October 20, 2008, and payable on or before December 20, 2008. Property taxes levied for 2008 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during the year ended September 30, 2009, and collected by November 30, 2009, are recognized as revenues in the year ended September 30, 2009. Net receivables estimated to be collected subsequent to November 30, 2009, are recorded as revenue when received. Prior year levies were recorded using substantially the same principles, and remaining receivables are reevaluated annually.

Notes receivable consist of community development loans to businesses. Financing has been provided by the U.S. Department of Housing and Urban Development.

NOTE 6. CAPITAL ASSETS

A. Primary Government

The City's capital asset activity for the year ended September 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land and improvements	\$ 14,999,165	\$ 63,000	\$ -	\$ -	\$ 15,062,165
Construction in progress	2,065,689	1,097,786	-	(3,163,475)	-
Total capital assets, not being depreciated	<u>17,064,854</u>	<u>1,160,786</u>	<u>-</u>	<u>(3,163,475)</u>	<u>15,062,165</u>
Capital assets, being depreciated:					
Buildings	20,993,546	186,018	-	-	21,179,564
Machinery and equipment	10,973,434	740,716	-	-	11,714,150
Infrastructure	42,857,616	2,057,823	-	3,163,475	48,078,914
Total capital assets, being depreciated	<u>74,824,596</u>	<u>2,984,557</u>	<u>-</u>	<u>3,163,475</u>	<u>80,972,628</u>
Less accumulated depreciation for:					
Buildings	(11,731,760)	(879,377)	-	-	(12,611,137)
Machinery and equipment	(5,209,591)	(977,484)	-	-	(6,187,075)
Infrastructure	(33,067,569)	(517,758)	-	-	(33,585,327)
Total accumulated depreciation	<u>(50,008,920)</u>	<u>(2,374,619)</u>	<u>-</u>	<u>-</u>	<u>(52,383,539)</u>
Total capital assets, being depreciated, net	<u>24,815,676</u>	<u>609,938</u>	<u>-</u>	<u>3,163,475</u>	<u>28,589,089</u>
Governmental activities capital assets, net	<u>\$ 41,880,530</u>	<u>\$ 1,770,724</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,651,254</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

A. Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type Activities:					
Capital assets, not being depreciated:					
Land	\$ 318,044	\$ 117,500	\$ -	\$ -	\$ 435,544
Construction in progress	463,261	-	-	(414,157)	49,104
Total capital assets, not being depreciated	781,305	117,500	-	(414,157)	484,648
Capital assets, being depreciated:					
Building and improvements	3,097,218	-	-	-	3,097,218
Machinery and equipment	4,697,188	639,068	-	-	5,336,256
Plant facilities	86,007,177	2,210,107	-	414,157	88,631,441
Total	93,801,583	2,849,175	-	414,157	97,064,915
Less accumulated depreciation for:					
Building and improvements	(1,291,057)	(122,474)	-	-	(1,413,531)
Machinery and equipment	(3,544,945)	(272,381)	-	-	(3,817,326)
Plant facilities	(23,849,736)	(2,049,314)	-	-	(25,899,050)
Total	(28,685,738)	(2,444,169)	-	-	(31,129,907)
Total capital assets, being depreciated, net	65,115,845	405,006	-	414,157	65,935,008
Business-type activities capital assets, net	\$ 65,897,150	\$ 522,506	\$ -	\$ -	\$ 66,419,656

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 31,223
Judicial	43,433
Public safety	698,643
Public works	815,281
Culture and recreation	786,039
Total depreciation expense - governmental activities	\$ 2,374,619
Business-type activities	
Public Utilities Fund	\$ 2,358,124
Lakewood Golf Course Fund	86,045
Total depreciation expense - business-type activities	\$ 2,444,169

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

B. Discretely Presented Component Unit – Phenix City Board of Education

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 635,026	\$ -	\$ -	\$ 635,026
Construction in progress	7,030,614	-	(7,030,614)	-
Total capital assets, not being depreciated	<u>7,665,640</u>	<u>-</u>	<u>(7,030,614)</u>	<u>635,026</u>
Capital assets, being depreciated:				
Building and improvements	56,840,806	12,518,332	-	69,359,138
Machinery and equipment	5,496,206	127,258	-	5,623,464
Total	<u>62,337,012</u>	<u>12,645,590</u>	<u>-</u>	<u>74,982,602</u>
Less accumulated depreciation for:				
Building and improvements	(12,241,325)	(1,323,891)	-	(13,565,216)
Machinery and equipment	(3,306,949)	(389,222)	-	(3,696,171)
Total	<u>(15,548,274)</u>	<u>(1,713,113)</u>	<u>-</u>	<u>(17,261,387)</u>
Total capital assets, being depreciated, net	<u>46,788,738</u>	<u>10,932,477</u>	<u>-</u>	<u>57,721,215</u>
Business-type activities capital assets, net	<u>\$ 54,454,378</u>	<u>\$ 10,932,477</u>	<u>\$ (7,030,614)</u>	<u>\$ 58,356,241</u>

C. Discretely Presented Component Unit – Phenix City – Russell County Library

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Furniture and equipment	\$ 248,714	\$ 17,415	\$ -	\$ 266,129
Total	<u>248,714</u>	<u>17,415</u>	<u>-</u>	<u>266,129</u>
Less accumulated depreciation for:				
Furniture and equipment	(228,521)	(11,938)	-	(240,459)
Total	<u>(228,521)</u>	<u>(11,938)</u>	<u>-</u>	<u>(240,459)</u>
Total capital assets, being depreciated, net	<u>20,193</u>	<u>5,477</u>	<u>-</u>	<u>25,670</u>
Business-type activities capital assets, net	<u>\$ 20,193</u>	<u>\$ 5,477</u>	<u>\$ -</u>	<u>\$ 25,670</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT

A. Primary Government

The following is a summary of long-term debt activity for the year ended September 30, 2009:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 29,745,000	\$ 7,850,000	\$ (4,880,000)	\$ 32,715,000	\$ 2,385,000
Less deferred amounts:					
Unamortized discount	(1,382,653)	-	1,382,653	-	-
Unamortized refunding	-	(1,493,289)	-	(1,493,289)	-
Net bonds payable	28,362,347	6,356,711	(3,497,347)	31,221,711	2,385,000
Capital leases payable	116,999	-	(57,184)	59,815	59,815
Compensated absences	675,880	564,447	(573,705)	666,622	599,960
Claims payable	214,600	2,536,967	(2,575,434)	176,133	-
Governmental activities long-term liabilities	<u>\$ 29,369,826</u>	<u>\$ 9,458,125</u>	<u>\$ (6,703,670)</u>	<u>\$ 32,124,281</u>	<u>\$ 3,044,775</u>
Business-type activities:					
Bonds payable	\$ 26,245,000	\$ 29,265,000	\$ (14,050,000)	\$ 41,460,000	\$ 1,510,000
Less deferred amounts:					
Unamortized discount	(379,514)	-	248,498	(131,016)	-
Unamortized refunding	(672,298)	(1,461,041)	61,167	(2,072,172)	-
Net bonds payable	25,193,188	27,803,959	(13,740,335)	39,256,812	1,510,000
Compensated absences	154,584	142,293	(155,090)	141,787	127,608
Business-type activities long-term liabilities	<u>\$ 25,347,772</u>	<u>\$ 27,946,252</u>	<u>\$ (13,895,425)</u>	<u>\$ 39,398,599</u>	<u>\$ 1,637,608</u>

For governmental activities, compensated absences are generally liquidated by the General Fund and claims payable are liquidated by user charges. For business-type activities, compensated absences are liquidated by the Public Utilities Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. These bonds are direct general obligations of the City directly. General obligation bonds have been issued for general government activities and are reported in the governmental column of the government-wide statements. Principal and interest are payable from an ad valorem tax upon all property of the City.

General obligation bonds outstanding at September 30, 2009, are as follows:

	Interest Rates	Balance September 30, 2009
2001 Issue	N/A	\$ 2,775,000
2004 Issue	1.5 % - 5.0 %	5,625,000
2005-A Issue	2.65% - 5.0 %	7,250,000
2005-B Issue	3.2 % - 5.0 %	5,685,000
2007-A Issue	3.6 % - 5.0 %	3,530,000
2009-A Issue	2.4 % - 3.45%	7,850,000
		32,715,000
Less: Unamortized discount		(8,559)
		\$ 32,706,441

A description of these General obligation bond issues is provided below.

General Obligation Refunding Bonds, Series 2001, \$7,450,000 Principal

The City has tax-exempt General Obligation Refunding Bonds, Series 2001 (Series 2001 Bonds) outstanding at September 30, 2009 in the amount of \$2,775,000. The proceeds from the bonds are to be used for the refunding of the City's Series 1998 general obligation bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City.

The Series 2001 Bonds maturing on February 1, 2017 and thereafter are subject to redemption prior to maturity, at the option of the City and the Commission, on or after February 1, 2016, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date. During the current year the bond principal was refunded through February 1, 2015 and the interest was refunded through the maturity date with the Series 2009-A issuance.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General Obligation Bonds (Continued)

General Obligation Bonds, Series 2004, \$7,202,000 Principal

The City also has tax-exempt General Obligation Refunding Bonds, Series 2004 (Series 2004 Bonds) outstanding at September 30, 2009 in the amount of \$5,625,000. Proceeds of the bonds were used for the purpose of financing 1) all or a portion of the cost of acquisition, construction, development and equipping of various capital outlay projects located within the City; and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City.

The Series 2004 Bonds maturing on February 1, 2029 and thereafter are subject to redemption prior to maturity, at the option of the City and the Commission, on or after February 1, 2028, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

General Obligation Bonds, Series 2005-A, \$10,600,000 Principal

The City also has tax-exempt General Obligation Refunding Bonds, Series 2005-A (Series 2005-A Bonds) outstanding at September 30, 2009 in the amount of \$7,250,000. Proceeds of the bonds were used for the purpose of financing 1) all or a portion of the cost of acquisition, construction, development and equipping of various capital outlay projects located within the City; and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City.

The Series 2005-A Bonds maturing on December 1, 2017 and thereafter are subject to redemption prior to maturity, at the option of the City and the Commission, on or after December 1, 2016, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

General Obligation Bonds, Series 2005-B, \$6,340,000 Principal

The City also has tax-exempt General Obligation Refunding Bonds, Series 2005-B (Series 2005-B Bonds) outstanding at September 30, 2009 in the amount of \$5,685,000. Proceeds of the bonds were used for the purpose of financing 1) all or a portion of the cost of acquisition, construction, development and equipping of various capital outlay projects located within the City; and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General Obligation Bonds (Continued)

General Obligation Bonds, Series 2005-B, \$6,340,000 Principal (Continued)

The Series 2005-B Bonds maturing on December 1, 2026 and thereafter are subject to redemption prior to maturity, at the option of the City and the Commission, on or after December 1, 2025, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

General Obligation Bonds, Series 2007-A, \$3,775,000 Principal

The City also has tax-exempt General Obligation Refunding Bonds, Series 2007-A (Series 2007-A Bonds) outstanding at September 30, 2009 in the amount of \$3,530,000. Proceeds of the bonds were used for the purpose of financing 1) all or a portion of the cost of acquisition, construction, development and equipping of various capital outlay projects located within the City; and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City.

The Series 2007-A Bonds maturing on January 1, 2018 and thereafter are subject to redemption prior to maturity, at the option of the City and the Commission, on or after January 1, 2017, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

General Obligation Bonds, Series 2009-A, \$7,850,000 Principal

During the current year, the City issued tax-exempt General Obligation Refunding Bonds, Series 2009-A (Series 2009-A Bonds) outstanding at September 30, 2009 in the amount of \$7,850,000. The proceeds from the bonds are to be used for advance refunding of the City's Series 2001 general obligation bonds and for the purpose of financing 1) all or a portion of the cost of acquisition, construction, development and equipping of various capital outlay projects located within the City; and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City. The carrying amount of the old debt exceeded the reacquisition price by \$1,159,322. This amount is being netted against the new debt and amortized over the life of the new debt, which is longer than the refunded debt. The transaction also resulted in an economic gain of \$1,167,881 and a reduction of \$35,336 in future debt service payments.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General Obligation Bonds (Continued)

General Obligation Bonds, Series 2009-A, \$7,850,000 Principal (Continued)

The Series 2009-A Bonds maturing on February 1, 2029 and thereafter are subject to redemption prior to maturity, at the option of the City and the Commission, on or after February 1, 2028, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

General obligation bonds debt service requirements to maturity for revenue bonds are as follows:

Fiscal Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,385,000	\$ 1,194,506	\$ 3,579,506
2011	2,470,000	1,116,702	3,586,702
2012	2,545,000	1,030,193	3,575,193
2013	2,650,000	933,715	3,583,715
2014	2,595,000	831,383	3,426,383
2015 - 2019	10,550,000	2,874,198	13,424,198
2020 - 2024	5,165,000	1,610,523	6,775,523
2025 - 2029	4,355,000	429,646	4,784,646
	<u>32,715,000</u>	<u>\$ 10,020,866</u>	<u>\$ 42,735,866</u>
Less unamortized refunding	<u>(1,167,881)</u>		
	<u>\$ 31,547,119</u>		

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inceptions. The following is an analysis of leased assets under capital leases as of September 30, 2009:

	<u>Governmental Activities</u>
Equipment	\$ 293,901
Less: Accumulated depreciation	(14,695)
	<u>\$ 279,206</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

Capital Leases (Continued)

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of September 30, 2009:

	Governmental Activities
Fiscal year ending September 30, 2010	\$ 62,566
Total minimum lease payments	62,566
Less amount representing interest	(2,751)
Present value of future minimum lease payments	\$ 59,815

Business-type Activities Debt

Revenue Bonds

The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds have been issued for business-like activities and are reported in the business-type column of the government-wide statements. Principal and interest are payable from enterprise fund revenue.

Revenue bonds outstanding at September 30, 2009, are as follows:

	Interest Rates	Balance September 30, 2009
2003 Water and Sewer Revenue Bonds	2.98 %	\$ 410,000
2003 Taxable Water and Sewer Revenue Bonds	1.65 % - 5.15 %	675,000
2004 Water and Sewer Revenue Bonds	1.40 % - 5.0 %	6,480,000
2006-A Water and Sewer Revenue Bonds	3.375% - 4.375%	4,630,000
2009-A Water and Sewer Revenue Bonds	3.00 % - 5.00 %	29,265,000
		41,460,000
Less: Unamortized discount		(2,203,188)
		\$ 39,256,812

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt (Continued)

Revenue Bonds (Continued)

Water and Sewer Revenue Bonds, Series 2003, \$1,915,000 Principal

The City has tax-exempt Water and Sewer Revenue Bonds, Series 2003 (Series 2003 Bonds) outstanding at September 30, 2009 in the amount of \$410,000. The proceeds from the bonds are to be used for 1) improvements to the system and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System.

The Series 2003 Bonds maturing on August 15, 2013 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2012, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

Taxable Water and Sewer Revenue Bonds, Series 2003, \$3,520,000 Principal

The City also has Taxable Water and Sewer Revenue Bonds, Series 2003 (T-Series 2003 Bonds) outstanding at September 30, 2009 in the amount of \$675,000. The proceeds from the bonds are to be used for 1) improvements to the system and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System.

The T-Series 2003 Bonds maturing on August 15, 2011 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2010, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt (Continued)

Revenue Bonds (Continued)

Water and Sewer Revenue Bonds, Series 2004, \$6,905,000 Principal

The City also has tax-exempt Water and Sewer Revenue Bonds, Series 2004 (Series 2004 Bonds) outstanding at September 30, 2009 in the amount of \$6,480,000. The proceeds from the bonds are to be used for 1) improvements to the system and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System.

The Series 2004 Bonds maturing on August 15, 2029 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2028, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

Water and Sewer Refunding Bonds, Series 2006-A, \$5,185,000 Principal

The City has tax-exempt Water and Sewer Revenue Bonds, Series 2006-A (Series 2006-A Bonds) outstanding at September 30, 2009 in the amount of \$4,630,000. The proceeds from the bonds are to be used for the refunding of the City's Series 2001 bonds. The bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System.

The Series 2006-A Bonds maturing on August 15, 2026 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2025, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

Water and Sewer Refunding Bonds, Series 2009, \$29,265,000 Principal

During the current year, the City issued tax-exempt Water and Sewer Revenue Bonds, Series 2006-A (Series 2006-A Bonds) outstanding at September 30, 2009 in the amount of \$29,265,000. The proceeds from the bonds are to be used for 1) the refunding of the City's Series 2004-B bonds; 2) improvements to the system; and 3) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System. The carrying amount of the old debt exceeded the reacquisition price by \$1,444,078. This amount is being netted against the new debt and amortized over the life of the new debt, which is longer than the refunded debt. The transaction also resulted in an economic gain of \$1,461,041.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt (Continued)

Revenue Bonds (Continued)

Water and Sewer Refunding Bonds, Series 2009, \$29,265,000 Principal (Continued)

The Series 2006-A Bonds maturing on August 15, 2034 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2033 in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

Water and Sewer Revenue bonds debt service requirements to maturity for revenue bonds are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2010	\$ 1,510,000	\$ 1,759,116	\$ 3,269,116
2011	1,425,000	1,759,379	3,184,379
2012	1,335,000	1,707,642	3,042,642
2013	1,395,000	1,656,251	3,051,251
2014	1,330,000	1,602,123	2,932,123
2015 - 2019	8,395,000	7,159,751	15,554,751
2020 - 2024	10,315,000	5,241,248	15,556,248
2025 - 2029	11,630,000	2,756,263	14,386,263
2030 - 2034	4,125,000	638,750	4,763,750
	41,460,000	\$ 24,280,523	\$ 65,740,523
Less deferred amounts:			
Unamortized discount	(131,016)		
Unamortized refunding	(2,072,172)		
	\$ 39,256,812		

B. Discretely Presented Component Unit – Phenix City Board of Education

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
2006 Series Warrants	\$ 11,980,000	\$ -	\$ (365,000)	\$ 11,615,000	\$ 380,000
2007-B Series Warrants	23,075,000	-	(235,000)	22,840,000	245,000
2003 Installment Purchase Agreements	334,489	-	(61,775)	272,714	64,237
2006 Installment Purchase Agreements	422,585	-	(43,800)	378,785	46,117
Total	\$ 35,812,074	\$ -	\$ (705,575)	\$ 35,106,499	\$ 735,354

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

B. Discretely Presented Component Unit – Phenix City Board of Education (Continued)

Details of Long-Term Debt are as follows:

City of Phenix City General Obligation School Warrants, Series 2007B: 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%.

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%.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

**B. Discretely Presented Component Unit – Phenix City Board of Education
(Continued)**

The annual requirements to amortize all debt outstanding at September 30, 2009 are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2010	\$ 735,354	\$ 1,632,359	\$ 2,367,713
2011	765,350	1,604,262	2,369,612
2012	820,580	1,575,831	2,396,411
2013	846,050	1,544,985	2,391,035
2014	1,121,672	1,512,769	2,634,441
2015 - 2019	6,217,493	6,780,624	12,998,117
2020 - 2024	7,685,000	5,189,375	12,874,375
2025 - 2029	9,830,000	3,062,853	12,892,853
2030 - 2034	7,085,000	646,875	7,731,875
	<u>\$ 35,106,499</u>	<u>\$ 23,549,933</u>	<u>\$ 58,656,432</u>

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2009, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 5,117
General Fund	Internal Service Fund - Self Insurance	840,000
General Fund	Public Utilities Fund	259,504
Public Utilities Fund	7 Mill Fund	941,155
Nonmajor Governmental Funds	General Fund	51
		<u>\$ 2,045,827</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Interfund transfers:

<u>Transfer To</u>	<u>Transfer From</u>			<u>Total</u>
	<u>General</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	
General	\$ -	\$ 2,000,000	\$ 335,306	\$ 2,335,306
7 Mill Fund	1,438,300	2,649,592	275,000	4,362,892
Nonmajor Governmental Funds	-	-	180,000	180,000
Nonmajor Enterprise Fund	1,226,403	-	-	1,226,403
Total	<u>\$ 2,664,703</u>	<u>\$ 4,649,592</u>	<u>\$ 790,306</u>	<u>\$ 8,104,601</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the year ended September 30, 2009, the City transferred capital assets with a net book value of \$967,433 from the Governmental Activities to the Public Utilities Fund. This transfer is reflected in the governmental activities column and the business-type activities column in the government-wide financial statements.

NOTE 9. 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 Employees' 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (Continued)

The Employees' Retirement System was established as of October 1, 1945, under the provision 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-a 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 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% 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, 2009 was 11.45% of eligible payroll.

Annual Pension Cost

For the year ended September 30, 2009, the City's annual pension contribution of \$1,463,025 was equal to the required and actual contribution. The required contribution was determined as part of the September 30, 2008 actuarial valuation using the "entry age normal" method. The actuarial assumptions included (1) 8% investment rate of return on present and future assets, and (2) projected salary increases ranging from 7.75 % at age 20 to 4.61% at age 65. Both (1) and (2) include an inflation component of 4.5%. The actuarial value of assets was determined using market values.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost (Continued)

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Current valuation date	September 30, 2008
Actuarial cost method	Entry Age
Amortization method	Level Percent of Pay (Open)
Remaining amortization period	20 years
Asset valuation method	5-year Smoothed Market
Annual return on invested Plan assets	8.00%
Projected annual salary increases	4.61%-7.75% based on age
Expected annual inflation	4.5%
Cost-of-living adjustments	None

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual City Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2008	\$ 1,255,485	\$ 1,255,485	100.0 %	\$ -
9/30/2007	1,033,730	1,033,730	100.0	-
9/30/2006	974,492	974,492	100.0	-

As of the most recent valuation date, September 30, 2008, the funded status of the Plan was as follows:

<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>
09/30/08	\$ 31,303,556	\$ 42,811,843	\$ 11,508,287	73.1 %	\$ 13,162,716	87.4 %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial liability. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect long-term perspective. Calculations are based on the substantive plan in effect as of September 30, 2008.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The General Fund is used to account for the employee life, health, property and liability, unemployment and disability insurance programs of the City. 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 11 full-time employees employed when the program was initiated. Full time employees hired subsequently must be employed one year before becoming eligible to participate.

The City is accounting for and financing its uninsured risks of loss for all claims liability for which the City is exposed through the Self Administered Insurance Fund (an Internal Service Fund). Changes in the balances of the claims liability during the year are as follows:

	September 30, 2009
Unpaid claims, beginning of year	\$ 214,600
Incurred claims and changes in estimates	2,536,967
Claim payments	<u>(2,575,434)</u>
Unpaid claims, end of year	<u>\$ 176,133</u>

There were no significant reductions of insurance coverage compared to the prior year. Settled claims in the past three years have not exceeded the coverages.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

The City is involved in a number of legal matters, which either have or could result in litigation. The nature of the lawsuits varies considerably. Liability, if any, which might result from these proceedings, would not, in the opinion of management and legal counsel, have a material adverse effect on the financial position of the City.

Grant Contingencies

The City has received Federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenditures previously reimbursed by those agencies. Based upon prior experience, City management believes such disallowances, if any, will not be significant.

NOTES TO FINANCIAL STATEMENTS

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Phenix City Board of Education Warrants

The City has issued warrants for the Phenix City Board of Education with a balance at September 30, 2009, of \$35,106,499. 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 the warrants.

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 the financial statements.

NOTE 12. RELATED ORGANIZATIONS

The City is a member of the East Alabama Solid Waste Disposal Authority (the Disposal Authority). The Disposal 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, 2009, the City share of such operating costs was \$8,100.

NOTE 13. PRIOR PERIOD ADJUSTMENTS/RESTATEMENTS

The City has determined that a restatement of beginning net assets of governmental activities is required to reflect corrections for errors in the September 31, 2008 financial report. These restatements are as follows:

Governmental activities net assets as previously reported	\$ 16,407,617
Adjustment needed to properly state the City's long-term liabilities	(200,000)
Adjustment needed to properly state the City's capital assets	1,032,433
Total prior period adjustments	<u>832,433</u>
Governmental type activities net assets as restated	<u>\$ 17,240,050</u>

The City has determined that a restatement of beginning business-type activities net assets is required to reflect corrections for errors in the September 30, 2008 financial report. These restatements are as follows:

Business-type activities net assets as previously reported	\$ 43,969,360
Individual fund level prior period adjustments discussed below	(515,469)
Business-type activities net assets as restated	<u>\$ 43,453,891</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 13. PRIOR PERIOD ADJUSTMENTS/RESTATEMENTS (CONTINUED)

The City has determined that a restatement of Public Utility Fund net assets is needed to reflect corrections to the beginning balances of accounts payable. The restatement within the Water and Sewer System Fund properly increased accounts payable by \$515,469. This restatement results in a decrease in net assets of \$515,469.

To further explain the above restatements, the following thoughts are provided:

Recording of Long-term Liabilities. The City noted numerous instances of errors related to long-term liabilities of governmental activities. These errors were caused by errors related to the recording of long-term liabilities at the government-wide level. The City determined an adjustment to warrants payable was required to appropriately reflect long-term liabilities of governmental activities as of September 30, 2008.

Recording of Capital Assets. The City noted instances of errors related to capital assets of governmental activities. These errors caused a variety of asset understatements relative to the carrying value of capital assets. Such errors were related to not properly separating land from buildings, not calculating accumulated depreciation correctly, and not properly disposing of assets in prior years. The City determined several adjustments to capital assets and accumulated depreciation were required to appropriately reflect capital assets of governmental activities as of September 30, 2008.

Recording of Accounts Payable. The City identified accounts payable in the Public Utilities Fund that were not included in the prior year. The City elected to record a restatement relative to the September 30, 2008 financial report to include accounts payable of \$515,469 in the Public Utilities Fund.

NOTE 14. DEFICIT FUND BALANCES / NET ASSETS

The 7 Mill Fund reported deficit fund balance of \$626,708 at September 30, 2009. The 7 Mill Fund deficit is intended to be eliminated through transfers from the General Fund. The Self Insurance Internal Service Fund reported a deficit net asset balance of \$911,939 at September 30, 2009. The Self Insurance Internal Service Fund deficit is intended to be eliminated through increased user charges and transfers from the General Fund.

CITY OF PHENIX CITY, ALABAMA

**REQUIRED SUPPLEMENTARY INFORMATION
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)
09/30/08	\$ 31,303,556	\$ 42,811,843	\$ 11,508,287	73.1 %	\$ 13,162,716	87.4 %
09/30/07	30,700,386	39,588,019	8,887,633	77.5	12,751,009	69.7
09/30/06	27,740,298	34,280,385	6,540,087	80.9	12,237,464	53.4
09/30/05	27,740,298	34,280,385	6,540,087	80.9	12,237,464	53.4
09/30/04	26,403,031	30,983,870	4,580,839	85.2	11,164,995	41.0
09/30/03	25,489,635	29,661,659	4,172,024	85.9	10,579,945	39.4

CITY OF PHENIX CITY, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Two Cent Gas Tax Fund is used to account for the resources received from the two cent add-on tax and expenditures related to street improvements.

Four Cent Gas Tax Fund is used to account for the resources received from the four cent add-on tax and expenditures related to street improvements.

Five Cent Gas Tax Fund is used to account for the resources received from the five cent add-on tax and expenditures related to street improvements.

Seven Cent Gas Tax Fund is used to account for the resources received from the seven cent add-on tax and expenditures related to street improvements.

Corrections Fund is used to account for revenues collected by the imposition of an add-on fine as provided for by Section 11-47-7.1 of the Code of Alabama 1975.

Second Mortgage Fund is a special revenue fund used to account for the operations of the City's revolving loans.

Local Law Enforcement Block Grant Fund is used to account for the City's grant activity related to public safety expenditures.

Confiscated Property Fund is used to account for cash received either as a result of a cash confiscation or cash received from a sale of capital assets acquired from a drug raid.

Phenix Industrial Park Fund is used to account for the expenditures incurred in establishing the Phenix City Industrial Park.

Debt Service Funds

3 Mill Fund is used to account for the resources accumulated and payments made to the Phenix City School Board for principal and interest on long-term debt.

4 Mill Fund is used to account for the resources accumulated and payments made to the Phenix City School Board for principal and interest on long-term debt.

CITY OF PHENIX CITY, ALABAMA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

ASSETS	Special Revenue Funds				
	Two Cent Gas Tax	Four Cent Gas Tax	Five Cent Gas Tax	Seven Cent Gas Tax	Corrections
Cash and cash equivalents	\$ 14,483	\$ 85,380	\$ 14,526	\$ 199,004	\$ 26,512
Taxes receivable	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Notes receivable	-	-	-	-	-
Due from other funds	-	-	-	-	51
Due from other governments	1,733	12,205	5,793	20,274	-
Total assets	\$ 16,216	\$ 97,585	\$ 20,319	\$ 219,278	\$ 26,563
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 1,122	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	-	-	1,122	-	-
FUND BALANCES					
Reserved for debt service	-	-	-	-	-
Unreserved, designated	16,216	97,585	19,197	219,278	26,563
Total fund balances	16,216	97,585	19,197	219,278	26,563
Total liabilities and fund balances	\$ 16,216	\$ 97,585	\$ 20,319	\$ 219,278	\$ 26,563

Second Mortgage	Local Law Enforcement Block Grant	Confiscated Property	Phenix Industrial Park	Debt Service Funds		Total Nonmajor Governmental Funds
				3 Mill	4 Mill	
\$ 286,288	\$ 349	\$ 13,194	\$ 1,481	\$ 9,606	\$ 11,809	\$ 662,632
-	-	-	-	107,539	143,387	250,926
269,972	-	-	-	-	-	269,972
390,000	-	-	-	-	-	390,000
-	-	-	-	-	-	51
-	-	-	-	-	-	40,005
<u>\$ 946,260</u>	<u>\$ 349</u>	<u>\$ 13,194</u>	<u>\$ 1,481</u>	<u>\$ 117,145</u>	<u>\$ 155,196</u>	<u>\$ 1,613,586</u>
\$ -	\$ -	\$ 319	\$ -	\$ 8,606	\$ 10,808	\$ 20,855
-	5,117	-	-	-	-	5,117
-	-	-	-	68,245	90,996	159,241
-	5,117	319	-	76,851	101,804	185,213
-	-	-	-	40,294	53,392	93,686
946,260	(4,768)	12,875	1,481	-	-	1,334,687
<u>946,260</u>	<u>(4,768)</u>	<u>12,875</u>	<u>1,481</u>	<u>40,294</u>	<u>53,392</u>	<u>1,428,373</u>
<u>\$ 946,260</u>	<u>\$ 349</u>	<u>\$ 13,194</u>	<u>\$ 1,481</u>	<u>\$ 117,145</u>	<u>\$ 155,196</u>	<u>\$ 1,613,586</u>

CITY OF PHENIX CITY, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

	Special Revenue Funds				
	Two Cent Gas Tax	Four Cent Gas Tax	Five Cent Gas Tax	Seven Cent Gas Tax	Corrections
Revenues:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	22,305	145,190	68,906	241,173	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	147,117
Interest income	101	123	53	495	146
Total revenues	<u>22,406</u>	<u>145,313</u>	<u>68,959</u>	<u>241,668</u>	<u>147,263</u>
Expenditures:					
Current					
Public safety	-	-	-	-	-
Public works	-	-	236,148	-	-
Education	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>236,148</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,406</u>	<u>145,313</u>	<u>(167,189)</u>	<u>241,668</u>	<u>147,263</u>
Other financing sources (uses):					
Transfers in	-	-	180,000	-	-
Transfers out	<u>(80,000)</u>	<u>(80,000)</u>	<u>-</u>	<u>(295,000)</u>	<u>(335,306)</u>
Total other financing sources (uses)	<u>(80,000)</u>	<u>(80,000)</u>	<u>180,000</u>	<u>(295,000)</u>	<u>(335,306)</u>
Net change in fund balances	(57,594)	65,313	12,811	(53,332)	(188,043)
Fund balances (deficit), beginning of year	<u>73,810</u>	<u>32,272</u>	<u>6,386</u>	<u>272,610</u>	<u>214,606</u>
Fund balances (deficit), end of year	<u>\$ 16,216</u>	<u>\$ 97,585</u>	<u>\$ 19,197</u>	<u>\$ 219,278</u>	<u>\$ 26,563</u>

Second Mortgage	Local Law Enforcement Block Grant	Confiscated Property	Phenix Industrial Park	Debt Service Funds		Total Nonmajor Governmental Funds
				3 Mill	4 Mill	
\$ -	\$ -	\$ -	\$ -	\$ 837,378	\$ 1,116,502	\$ 1,953,880
-	-	-	-	-	-	477,574
582	-	-	-	-	-	582
-	-	11,337	-	-	-	158,454
698	-	35	5	67	142	1,865
<u>1,280</u>	<u>-</u>	<u>11,372</u>	<u>5</u>	<u>837,445</u>	<u>1,116,644</u>	<u>2,592,355</u>
-	59	10,552	-	-	-	10,611
12,813	-	-	-	-	-	248,961
-	-	-	-	809,398	1,079,283	1,888,681
<u>12,813</u>	<u>59</u>	<u>10,552</u>	<u>-</u>	<u>809,398</u>	<u>1,079,283</u>	<u>2,148,253</u>
(11,533)	(59)	820	5	28,047	37,361	444,102
-	-	-	-	-	-	180,000
-	-	-	-	-	-	(790,306)
-	-	-	-	-	-	(610,306)
(11,533)	(59)	820	5	28,047	37,361	(166,204)
<u>957,793</u>	<u>(4,709)</u>	<u>12,055</u>	<u>1,476</u>	<u>12,247</u>	<u>16,031</u>	<u>1,594,577</u>
<u>\$ 946,260</u>	<u>\$ (4,768)</u>	<u>\$ 12,875</u>	<u>\$ 1,481</u>	<u>\$ 40,294</u>	<u>\$ 53,392</u>	<u>\$ 1,428,373</u>

COMPLIANCE SECTION

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

**To the Honorable Mayor and Members
of the City Council
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, 2009, which collectively comprise the City of Phenix City, Alabama's basic financial statements and have issued our report thereon dated January 27, 2011. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Phenix City Board of Education, as described in our report on the City of Phenix City, Alabama's financial statements. The report does not include our consideration of the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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 opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2009-1 through 2009-4, 2009-7 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the accompanying schedule of findings and questioned costs as items 2009-5 and 2009-6 to be significant deficiencies.

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 January 27, 2011.

The City of Phenix City, Alabama's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Phenix City, Alabama's responses and, accordingly, we express no opinion on them.

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

Mauldin & Jenkins, LLC

Albany, Georgia
January 27, 2011

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

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

Compliance

We have audited the City of Phenix City, Alabama's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Phenix City, Alabama's major federal programs for the year ended September 30, 2009. The City of Phenix City, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The City of Phenix City, Alabama's management. Our responsibility is to express an opinion on the City of Phenix City, Alabama's compliance based on our audit.

The City of Phenix City, Alabama's basic financial statements include the operations of the Phenix City Board of Education, a component unit of the City of Phenix City, Alabama, which received \$7,614,822 in federal awards which is not included in the schedule during the year ended September 30, 2009. Our audit, described below did not include the operations of the Phenix City Board of Education because the component unit engaged other auditors to perform an audit in accordance with Circular A-133.

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

In our opinion, the City of Phenix City, Alabama, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

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

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

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

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

Mauldin & Jenkins, LLC

Albany, Georgia
January 27, 2011

CITY OF PHENIX CITY, ALABAMA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice			
Direct Award			
Edward Byrne Justice Assistance Grant	16.738	2008-CK-WX-0365	\$ <u>327,355</u>
Bullet Proof Vest Grant	16.607	2006-BU-BX-6439	<u>3,948</u>
Total U.S. Department Justice			<u>331,303</u>
U.S. Department of Homeland Security			
Passed through Georgia Emergency Management Agency			
Assistance to Firefighters Grant	97.004	2009-M8-0001GF	<u>23,990</u>
Total U.S. Department of Homeland Security			<u>23,990</u>
U.S. Department of Housing & Urban Development			
Passed through Alabama Department of Environmental Management			
Community Development Block Grant	14.228	LR-CM-PF-07-017	<u>452,667</u>
Total U.S. Department of Housing & Urban Development			<u>452,667</u>
Total Expenditures of Federal Awards			<u>\$ <u>807,960</u></u>

The schedule of expenditures of federal awards includes the federal grant activity of the Phenix City, Alabama and is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

SECTION I
SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:
Material weaknesses identified? yes no

Significant deficiencies identified not considered
to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:
Material weaknesses identified? yes no

Significant deficiencies identified not considered
to be material weaknesses? yes none reported

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

Any audit findings disclosed that are required to
be reported in accordance with OMB Circular
A-133, Section 510(a)? yes no

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.738	Edward Byrne Justice Assistance Program
14.228	Community Development Block Grant

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2009 - 1. Taxes Receivable

Criteria: Generally accepted accounting principles require revenue to be recognized in the accounting period in which it becomes both measurable and available to finance expenditures of the current period.

Condition: The City did not properly record the year end property taxes receivable in the General Fund, 7 Mill Fund, and Non-major Funds. Additionally, the City did not properly record sales taxes receivable in the Non-major Funds as of September 30, 2009.

Context: We addressed this matter with the City and they were able to determine the appropriate property taxes receivable and sales tax receivable that should be recorded as of September 30, 2009.

Effect: Adjustments to increase property taxes receivable in the amount of \$140,868, increase the allowance for uncollectible taxes in the amount of \$163,972, increase deferred revenue in the amount of \$94,001, and decrease property tax revenues in the amount of \$117,105 were required to be recorded in the General Fund. Adjustments to increase property taxes receivable in the amount of \$251,482, increase deferred revenue in the amount of \$98,702, and increase property tax revenues in the amount of \$152,780 were required to be recorded in the 7 Mill Fund. Adjustments to increase property taxes receivable in the amount of \$224,686, decrease sales tax receivable in the amount of \$17,770, increase due from other governments in the amount of \$38,271, increase deferred revenue in the amount of \$159,241, and increase tax revenues in the amount of \$85,946 were required to be recorded in the Non-major Funds.

Cause: The City did not review all revenue transactions after year-end to determine reporting in the proper period.

Recommendation: We recommend that the City establish procedures to review all revenue transactions after year-end to determine reporting in the proper period.

Views of Responsible Officials and Planned Corrective Action: We concur. We will establish procedures to review all revenue transactions after year-end to determine reporting in the proper period.

2009- 2. Management of Capital Asset Accounts

Criteria: Generally accepted accounting principles generally require the reporting of all capital assets at their historical cost, which is written off periodically, or depreciated, in a systematic and rational manner. Assets donated by outside parties should also be reported, but at the estimated fair value on the date of the donation.

Condition: The City improperly expensed capital assets and did not properly record contributed capital related to assets contributed from governmental funds to the Public Utilities Fund. Additionally, the City did not properly record depreciation of capital assets in the Public Utilities Fund and Non-major Funds in accordance with generally accepted accounting principles prior to and during the fiscal year ended September 30, 2009.

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2009- 2. Management of Capital Asset Accounts (Continued)

Context: See above condition.

Effect: Adjustments to decrease capital assets in the amount of \$1,399,476, increase contributed capital in the amount of \$967,433, and increase expenses in the amount of \$2,366,909 were required to be recorded in the Public Utilities Fund. An audit adjustment to increase accumulated depreciation in the amount of \$65,684 and increase depreciation expense in the same amount was required to be recorded in the Public Utilities Fund. An audit adjustment to increase accumulated depreciation in the amount of \$86,045 and increase depreciation expense in the same amount was required to be recorded in the Non-major Funds.

Cause: The City did not review all capital asset activity to determine proper reporting.

Recommendation: We recommend the City review all capital asset activity and depreciate assets in accordance with generally accepted accounting principles.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. We will review all capital asset activity and properly capitalize and depreciate items based on generally accepted accounting principles.

2009 - 3. Debt Transactions

Criteria: Proprietary funds use the economic resources measurement focus, which requires those funds to report all assets and liabilities, including long-term debt. As part of that reporting process, the City should record the issuance of debt and debt related items in the statement of net assets for all proprietary funds.

Condition: The City did not properly record the issuance of bonds payable, interest payable, or the amortization of cost in the Public Utilities Fund.

Context: See above condition.

Effect: Adjustments to decrease bonds payable in the amount of \$2,918,327, increase bond cost in the amount of \$69,264, increase accrued interest in the amount of \$55,576, and decrease expenses in the amount of \$2,932,015 were required to be recorded in the Public Utilities Fund.

Cause: See above condition.

Recommendation: We recommend the City record all debt activity appropriately as it occurs during the year.

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2009 - 3. Debt Transactions (Continued)

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. We will record debt activity appropriately as it occurs during the year.

2009 - 4. Management of Accounts Receivable Accounts

Criteria: Generally accepted accounting principles require revenues to be recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. As a part of these processes, the City should review all revenue transactions to determine reporting in the proper period.

Condition: The City did not properly record fees receivable in the General Fund or Public Utilities Fund as of September 30, 2009.

Context: See above condition.

Effect: An adjustment to decrease accounts receivable in the amount of \$191,392 and decrease revenue in the same amount was required to be recorded in the General Fund. Adjustments to decrease accounts receivable in the amount of \$244,472, increase interfund receivables in the amount of \$57,049, and to decrease revenues in the amount of \$187,423 were required to be recorded in the Public Utilities Fund.

Cause: The City did not review all revenue transactions after year-end to determine reporting in the proper period.

Recommendation: We recommend that the City establish procedures to review all revenue transactions after year-end to determine reporting in the proper period.

Views of Responsible Officials and Planned Corrective Action: We concur. We will establish procedures to review all revenue transactions after year-end to determine reporting in the proper period.

2009 - 5. Management of Due to / from (Internal) Accounts

Criteria: Generally accepted accounting principles require reporting of interfund activity expected to be repaid within a reasonable time as due to/from (interfund receivables and payables) accounts. As part of that process, the City should review the amounts that should be included in due to/from accounts in each fund to determine the proper amounts to be reported at any given time during the fiscal year.

Condition: We noted the City did not properly report due to/from accounts in the Public Utilities Fund or the Non-major Funds.

Context: See above condition.

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2009 - 5. Management of Due to / from (Internal) Accounts (Continued)

Effect: An adjustment to increase due from balance in the amount of \$19,371 and decrease expense in the same amount was required to be recorded in the Public Utilities Fund. An adjustment to increase due from balance in the amount of \$15,000 and decrease expense in the same amount was required to be recorded in the Non-major Funds.

Cause: The City did not review all due to/from accounts to determine proper amounts.

Recommendation: We recommend the City implement procedures to reconcile and review all due to/from activity on a monthly basis.

Views of Responsible Officials and Planned Corrective Action: We concur. We will establish procedures to reconcile all due to/from balances.

2009 - 6. Management of Accounts Payable

Criteria: Generally accepted accounting principles require reporting of all current liabilities whose liquidation is expected to require the use of current assets when the goods have been received or services have been performed.

Condition: The City did not properly address the above criteria as of September 30, 2009 as it relates to accounts payable within the General Fund, Capital Improvement Fund, and Non-major Funds.

Context: We addressed this matter with City officials and they were able to determine the amount of accounts payable that should be recorded in these funds as of September 30, 2009.

Effect: An adjustment to increase accounts payable in the amount of \$45,580 and to increase expenditures in the same amount was required to be recorded in the General Fund. An adjustment to decrease accounts payable in the amount of \$4,263 and to decrease expenditures in the same amount was required to be recorded in the Capital Improvement Fund. An adjustment to decrease accounts payable in the amount of \$41,522 and to decrease expenditures in the same amount was required to be recorded in the Non-major Funds.

Cause: Reconciliations of accounts payable to the general ledger are not being performed on a monthly basis.

Recommendation: We recommend the City implement procedures to reconcile all accounts payable subsidiary ledgers to the general ledger on a monthly basis.

Views of Responsible Officials and Planned Corrective Action: We concur. We will establish procedures to reconcile subsidiary ledgers with the general ledger on a monthly basis.

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2009 - 7. Net Assets and Prior Period Adjustments

Criteria: Internal controls should be in place to ensure that all account balances are being properly recorded during the year.

Condition: For the fiscal year ending September 30, 2008, the City did not properly record long-term liabilities and capital assets in Governmental Activities. Additionally, the City did not properly record accounts payable in the Public Utilities Fund.

Context: We addressed this matter with City management, and they were able to determine the adjustments necessary to properly state net assets at September 30, 2008.

Effect: An adjustment to increase net assets by \$832,433, increase capital assets in the amount of \$1,032,433, and increase long-term debt in the amount of \$200,000 was required to be recorded in the Governmental Activities. An adjustment to increase net assets in the amount of \$515,469, and increase accounts payable in the same amount was required to be recorded in the Public Utilities Fund.

Cause: The City did not properly record account balances and net assets in the prior year.

Recommendation: The City should accurately record all account balances to properly state net assets at year end.

Views of Responsible Officials and Planned Corrective Action: We concur with the recommendation. The City is working to improve our net asset reconciliation process in future years for year end reporting purposes.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted.