

**CITY OF PHENIX CITY, ALABAMA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED**  
**SEPTEMBER 30, 2010**

**CITY OF PHENIX CITY, ALABAMA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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**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 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, 2010, 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 99.53% of the assets and revenues, respectively, of the aggregately discretely presented component units for the year ended September 30, 2010. 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Phenix City, Alabama as of September 30, 2010, 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2012, 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 52 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 25, 2012

**CITY OF PHENIX CITY, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

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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, 2010. This report should be read in conjunction with the City's financial statements, which follow.

The City implemented, in fiscal year 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 \$143,844,099 for 2010 compared to \$136,935,313 for 2009. 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, 2010 was \$103,483,871, which is an increase of \$7,449,078 from September 30, 2009 of \$96,034,793. The City has recorded \$55,784,902 in depreciation expense against these capital assets leaving a net asset book value of \$47,698,969. Debt outstanding related to capital assets was \$37,290,113 leaving an investment in capital assets of \$10,408,856 compared to \$12,044,320 for 2009. 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.

The City's Business-type Activities had capital assets as of September 30, 2010 of \$99,358,361, which represents an increase of \$1,808,798 from September 2009 of \$97,549,563. Net of \$32,206,774 in depreciation expense, the City's Business-type Activities had \$67,151,587 in capital assets all of which were related to the Public Utilities Fund. The City's water and sewer system had an outstanding revenue and capital lease debt of \$38,034,153. The net investment in capital assets net of related debt for 2010 was \$29,117,434 compared to \$27,162,844 for 2009.

**Revenues**

The City's total revenue from Governmental Funds was \$30,816,200, an increase of 8.73% from the previous year of \$28,340,983. The largest revenue source for the City is the sales and use tax, which represents \$14,162,823 or 46% of the total. Charges for service totaled \$2,131,854, property taxes totaled \$5,295,588, other taxes \$769,742 and interest totaled \$37,089. The property tax rate for the City is 19 mills, with seven mills dedicated for education, seven mills dedicated for debt service, and the remaining five mills is for operations. Of the total property taxes, \$1,698,701 is dedicated to debt service and \$1,793,472 for education.

## MANAGEMENT DISCUSSION AND ANALYSIS

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### Expenditures

Departmental operating expenditures totaled \$27,742,816 or 45.48% of total non-capital expenditures of \$61,004,320. The City transferred \$1,866,172 to the Phenix City Board of Education and debt service on general obligation debt totaled \$31,395,332. The City refinanced the majority of its general obligation debt in September of 2010, without the refinancing the departmental operating expenditures would have been 78% of total non-capital expenditures. Capital outlays during the fiscal year were \$2,984,183.

Public safety (police, code enforcement and fire departments) is the largest category of departmental operating expenses totaling \$11,862,411 or 19.45%. General government, which includes the City manager's office, City clerk, finance, personnel, and the Municipal Court, is second with a total of \$7,683,943 or 12.6%. Culture and recreation at \$4,767,339 or 7.81% is third, followed by public works at \$3,429,123 or 5.62%, representing most of the balance of departmental operating expenditures. The increase in culture and recreation resulted from a one-time non-cash expenditure of \$1,317,891 to capitalize the golf course assets in the General Fund. The increase in culture and recreation resulted from the City moving the golf course under parks and recreation as part of the General Fund and not as a separate business type fund.

### 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 - 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

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## 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 funds dedicated to a particular purpose such as the 7 Mill Tax 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 Fund 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 one proprietary fund:
  - The Public Utilities Fund which provides water and sewer services to residential, commercial and industrial customers residing within the City's utility district and,

This fund functions like a business, so its 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

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### Business-Type Activities

The City operates a Proprietary Fund, the Public Utilities Fund, which provides water and sewer services.

Operating revenues in the Public Utilities division of \$9,855,521 were up \$457,881 in 2010 compared to \$9,397,640 in 2009 due to an exceptionally wet year in 2009 in which rainfall was more than double normal conditions. Operating expenses of \$6,409,918, not including depreciation and amortization expenses, compared to \$6,435,728 were down \$25,810 primarily due to tighter budgetary controls due to the economic recession. Operating income, not including depreciation and amortization increased \$483,691 to \$3,445,603 in 2010 compared to \$2,961,912 in 2009. Depreciation and amortization expenses of \$2,253,574 decreased \$198,041 from \$2,451,615 in 2009, interest expense was \$1,874,152 in 2010 compared to \$2,232,102 in 2009 due to cost of terminating a swap agreement in 2009, interest income was \$29,198 in 2010 compared to \$106,813 in 2009 and contributed assets were \$439,001 in 2010 compared to \$967,433 in 2009. Net income was \$898,996 for 2010, which was down from \$1,196,165 in 2009 due to the decrease in contributed assets. 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 is in the middle of a 3 year planned capital spending of 12 to 15 million dollars primarily in improvements to the wastewater plant and collection system and replacement of old water lines to accommodate expected growth and to meet new water safety testing requirements from the state which take effect in January 2012.

### Fund Balances/Net Assets

The General Fund's Fund Balance decreased \$2,215,111 to \$1,800,955 in 2010 compared to \$4,016,066 in 2009 due to a one time transfer of \$1,232,000 to the City's Self Administered Insurance Fund (an Internal Service Fund) for employee health insurance and the merging of the Lakewood Golf Course Fund into the General Fund. The merging of the Lakewood Golf Course Fund resulted in a non-cash expenditure of \$1,317,891 to capitalize the golf assets in the General Fund. The fund balance for the City's Other governmental funds increased \$5,096,914 to \$7,127,732 in 2010 compared to \$2,030,818 in 2009 primarily due to bond proceeds held for completion of several capital projects.

Net assets in the Public Utilities Fund increased \$898,996 to \$45,144,971 in 2010 compared to \$44,245,975 in 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

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### **Budgetary Highlights**

The City adopts annual budgets for the General Fund, all special revenue funds, and the Public Utilities Fund. Total operating revenues were \$3,190,084 less than budgetary projections in the General Fund, due to revenue shortfalls in all areas except property taxes. 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 2010 due to those developments and the extended economic downturn. Departmental expenditures were \$1,570,529 less than budgeted as the City reduced spending due to revenue shortfalls.

Water and sewer revenues in the Public Utilities Fund were up \$457,881 improving from an unusually wet 2009 which caused revenues to decline. 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; 2009 was 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 growth in customers over the next two to five 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. The City entered into new long-term contracts with the Russell County Water Authority and the Russell County Sewer Authority for sale of water and treatment of sewer. This will result in significant growth in these revenues.

### **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 32-34.

The City issued \$36,143,311 general obligation debt and retired \$27,463,311 in Fiscal 2010, and had \$41,395,000 outstanding in long-term general obligation debt at Fiscal 2010 year-end compared to \$32,715,000 in 2009. General obligation debt of \$11,005,000 or 26.59% of the total outstanding in 2010 will be retired by the end of 2020.

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 Fund has been dedicated for debt service.

The City retired \$1,510,000 of business-type activities revenue debt in 2010 and did not issue any new debt. The City had \$39,950,000 in revenue debt outstanding at the end of Fiscal 2010 compared to \$41,460,000 in 2009. Of the \$39,950,000 in Revenue Warrants payable from the Public Utilities Fund revenues outstanding at Fiscal 2009 year-end \$15,775,000 or 39.5% will be retired by 2020 year end. Details of the City's debt activity can be found in Note 7 on pages 35-45.

## MANAGEMENT DISCUSSION AND ANALYSIS

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### **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 has negatively impacted sales tax revenues since 2007. 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 10% 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 over 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 12<sup>th</sup> Street, Phenix City, Alabama 36867, with any questions or to request additional information.

**CITY OF PHENIX CITY, ALABAMA**

**STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

| ASSETS   | Primary Government      |                          | Total                |
|--|-------------------------|--------------------------|----------------------|
|  | Governmental Activities | Business-type Activities |                      |
| Cash and cash equivalents                                    | \$ 9,428,387            | \$ 966,497               | \$ 10,394,884        |
| Investments  | -                       | -                        | -                    |
| Taxes receivable   | 1,244,505               | -                        | 1,244,505            |
| Accounts receivable  | 314,495                 | 1,561,230                | 1,875,725            |
| Notes receivable   | 390,000                 | 269,100                  | 659,100              |
| Internal balances  | (1,100,702)             | 1,100,702                | -                    |
| Due from other governments                                   | 316,524                 | -                        | 316,524              |
| Inventories  | 101,568                 | 443,932                  | 545,500              |
| Prepaid expenses   | 220,283                 | 46,897                   | 267,180              |
| Restricted assets:   |                         |                          |                      |
| Cash and cash equivalents                                    | 620,201                 | 11,772,708               | 12,392,909           |
| Deferred charges   | 753,375                 | 543,841                  | 1,297,216            |
| Capital assets, non-depreciable                              | 15,880,710              | 3,134,801                | 19,015,511           |
| Capital assets, depreciable, net of accumulated depreciation | 31,818,259              | 64,016,786               | 95,835,045           |
| Total assets   | <u>59,987,605</u>       | <u>83,856,494</u>        | <u>143,844,099</u>   |
| <b>LIABILITIES</b>   |                         |                          |                      |
| Accounts payable   | 796,399                 | 311,644                  | 1,108,043            |
| Accrued liabilities  | 555,301                 | 92,765                   | 648,066              |
| Claims payable   | 125,859                 | -                        | 125,859              |
| Due to other governments                                     | 42,667                  | -                        | 42,667               |
| Due to component units                                       | 17,979                  | -                        | 17,979               |
| Customer deposits  | -                       | 89,725                   | 89,725               |
| Accrued interest   | 37,996                  | 78,357                   | 116,353              |
| Capital leases due within one year                           | -                       | 22,454                   | 22,454               |
| Capital leases due in more than one year                     | -                       | 95,380                   | 95,380               |
| Bonds payable due within one year                            | 135,000                 | 1,425,000                | 1,560,000            |
| Bonds payable due in more than one year                      | 37,775,314              | 36,491,319               | 74,266,633           |
| Compensated absences due within one year                     | 493,973                 | 83,903                   | 577,876              |
| Compensated absences due in more than one year               | 132,751                 | 20,976                   | 153,727              |
| Other liabilities  | -                       | -                        | -                    |
| Total liabilities  | <u>40,113,239</u>       | <u>38,711,523</u>        | <u>78,824,762</u>    |
| <b>NET ASSETS</b>  |                         |                          |                      |
| Invested in capital assets, net of related debt              | 10,408,856              | 29,117,434               | 39,526,290           |
| Restricted for:  |                         |                          |                      |
| Capital projects   | 5,669,990               | -                        | 5,669,990            |
| Debt service   | 641,308                 | 11,772,708               | 12,414,016           |
| Unrestricted (deficit)                                       | 3,154,212               | 4,254,829                | 7,409,041            |
| Total net assets   | <u>\$ 19,874,366</u>    | <u>\$ 45,144,971</u>     | <u>\$ 65,019,337</u> |

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

| <b>Component Units</b>                    |  |
|---|--|
| <b>Phenix City<br/>Board of Education</b> | <b>Phenix City-<br/>Russell County Library</b> |
| \$ 2,074,907                              | \$ 26,699                                      |
| 9,231                                     | -  |
| -   | -  |
| 739,923                                   | -  |
| -   | -  |
| -   | -  |
| -   | -  |
| 259,426                                   | -  |
| 66,287                                    | -  |
| 6,500,696                                 | -  |
| 587,921                                   | -  |
| 1,265,685                                 | -  |
| <u>57,509,869</u>                         | <u>14,602</u>                                  |
| <u>69,013,945</u>                         | <u>41,301</u>                                  |
| 297,376                                   | 2,670  |
| 4,062,403                                 | 14,821   |
| -   | -  |
| -   | -  |
| -   | -  |
| -   | -  |
| -   | -  |
| -   | -  |
| 760,351                                   | -  |
| 41,841,133                                | -  |
| -   | -  |
| -   | -  |
| 29,393                                    | -  |
| <u>46,990,656</u>                         | <u>17,491</u>                                  |
| 23,262,687                                | 14,602   |
| 6,232,774                                 | -  |
| 11,777                                    | -  |
| (7,483,949)                               | 9,208  |
| <u>\$ 22,023,289</u>                      | <u>\$ 23,810</u>                               |

**CITY OF PHENIX CITY, ALABAMA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

| Functions/Programs                   | Program Revenues     |                      |                                    |                                  | Net (Expense) Revenue and Changes in Net Assets |                          |                        |                                |                                    |
|--------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|------------------------|--------------------------------|------------------------------------|
|                                      | Expenses             | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government                              |                          |                        | Component Units                |                                    |
|                                      |                      |                      |                                    |                                  | Governmental Activities                         | Business-type Activities | Total                  | Phenix City Board of Education | Phenix City-Russell County Library |
| <b>Primary government:</b>           |                      |                      |                                    |                                  |   |                          |                        |                                |                                    |
| Governmental activities:             |                      |                      |                                    |                                  |   |                          |                        |                                |                                    |
| General government                   | \$ 10,501,620        | \$ 7,125,840         | \$ 187,461                         | \$ 570,262                       | \$ (2,618,057)                                  | \$ -                     | \$ (2,618,057)         | \$ -                           | \$ -                               |
| Judicial                             | 39,656               | -                    | -                                  | -                                | (39,656)  | -                        | (39,656)               | -                              | -                                  |
| Public safety                        | 12,336,514           | 563,374              | 188,422                            | 111,845                          | (11,472,873)                                    | -                        | (11,472,873)           | -                              | -                                  |
| Public works                         | 4,648,225            | 2,393,881            | 113,921                            | 3,138,223                        | 997,800   | -                        | 997,800                | -                              | -                                  |
| Culture and recreation               | 4,169,993            | 824,541              | -                                  | -                                | (3,345,452)                                     | -                        | (3,345,452)            | -                              | -                                  |
| Housing and development              | 1,866,172            | -                    | -                                  | -                                | (1,866,172)                                     | -                        | (1,866,172)            | -                              | -                                  |
| Interest on long-term debt           | 1,229,925            | -                    | -                                  | -                                | (1,229,925)                                     | -                        | (1,229,925)            | -                              | -                                  |
| Total governmental activities        | <u>34,792,105</u>    | <u>10,907,636</u>    | <u>489,804</u>                     | <u>3,820,330</u>                 | <u>(19,574,335)</u>                             | <u>-</u>                 | <u>(19,574,335)</u>    | <u>-</u>                       | <u>-</u>                           |
| Business-type activities:            |                      |                      |                                    |                                  |   |                          |                        |                                |                                    |
| Public Utilities                     | 10,547,917           | 9,855,521            | -                                  | 1,562,194                        | -   | 869,798                  | 869,798                | -                              | -                                  |
| Lakewood Golf Course                 | 3,541                | 7,690                | -                                  | -                                | -   | 4,149                    | 4,149                  | -                              | -                                  |
| Total business-type activities       | <u>10,551,458</u>    | <u>9,863,211</u>     | <u>-</u>                           | <u>1,562,194</u>                 | <u>-</u>  | <u>873,947</u>           | <u>873,947</u>         | <u>-</u>                       | <u>-</u>                           |
| Total primary government             | <u>\$ 45,343,563</u> | <u>\$ 20,770,847</u> | <u>\$ 489,804</u>                  | <u>\$ 5,382,524</u>              | <u>\$ (19,574,335)</u>                          | <u>\$ 873,947</u>        | <u>\$ (18,700,388)</u> | <u>\$ -</u>                    | <u>\$ -</u>                        |
| <b>Component units:</b>              |                      |                      |                                    |                                  |   |                          |                        |                                |                                    |
| Phenix City Board of Education       | \$ 59,255,218        | \$ 2,195,010         | \$ 44,850,003                      | \$ -                             | \$ -  | \$ -                     | \$ -                   | \$ (12,210,205)                | \$ -                               |
| Phenix City-Russell County Library   | 265,053              | 45,827               | 221,491                            | -                                | -   | -                        | -                      | -                              | 2,265                              |
| Total component units                | <u>\$ 59,520,271</u> | <u>\$ 2,240,837</u>  | <u>\$ 45,071,494</u>               | <u>\$ -</u>                      | <u>\$ -</u>                                     | <u>\$ -</u>              | <u>\$ -</u>            | <u>\$ (12,210,205)</u>         | <u>\$ 2,265</u>                    |
| General revenues:                    |                      |                      |                                    |                                  |   |                          |                        |                                |                                    |
| Property taxes                       |                      |                      |                                    |                                  | \$ 6,081,615                                    | \$ -                     | \$ 6,081,615           | \$ 7,506,313                   | \$ -                               |
| Sales and use taxes                  |                      |                      |                                    |                                  | 14,162,823                                      | -                        | 14,162,823             | 3,256,882                      | -                                  |
| Business taxes                       |                      |                      |                                    |                                  | 769,742   | -                        | 769,742                | -                              | -                                  |
| Unrestricted investment earnings     |                      |                      |                                    |                                  | 37,236  | 29,202                   | 66,438                 | 13,584                         | -                                  |
| Transfers                            |                      |                      |                                    |                                  | 1,297,518                                       | (1,297,518)              | -                      | -                              | 436                                |
| Total general revenues and transfers |                      |                      |                                    |                                  | <u>22,348,934</u>                               | <u>(1,268,316)</u>       | <u>21,080,618</u>      | <u>10,776,779</u>              | <u>436</u>                         |
| Change in net assets                 |                      |                      |                                    |                                  | 2,774,599                                       | (394,369)                | 2,380,230              | (1,433,426)                    | 2,701                              |
| Net assets, beginning of year        |                      |                      |                                    |                                  | 17,099,767                                      | 45,539,340               | 62,639,107             | 23,456,715                     | 21,109                             |
| Net assets, end of year              |                      |                      |                                    |                                  | <u>\$ 19,874,366</u>                            | <u>\$ 45,144,971</u>     | <u>\$ 65,019,337</u>   | <u>\$ 22,023,289</u>           | <u>\$ 23,810</u>                   |

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

# CITY OF PHENIX CITY, ALABAMA

## BALANCE SHEET GOVERNMENTAL FUNDS SEPTEMBER 30, 2010

| ASSETS   | General             | Capital<br>Improvement | 7 Mill            | Other<br>Governmental<br>Funds | Total                |
|--|---------------------|------------------------|-------------------|--------------------------------|----------------------|
| Cash and cash equivalents  | \$ 2,704,027        | \$ 5,709,017           | \$ 334,882        | \$ 624,204                     | \$ 9,372,130         |
| Taxes receivable   | 182,737             | -                      | 533,279           | 528,489                        | 1,244,505            |
| Accounts receivable  | 12,451              | -                      | -                 | 302,044                        | 314,495              |
| Notes receivable   | -                   | -                      | -                 | 390,000                        | 390,000              |
| Due from other funds   | 38,200              | -                      | 15,377            | 1,350                          | 54,927               |
| Due from other governments   | 77,883              | 220,352                | -                 | 18,289                         | 316,524              |
| Inventory  | 101,568             | -                      | -                 | -                              | 101,568              |
| Prepaid items  | 220,283             | -                      | -                 | -                              | 220,283              |
| Restricted cash  | -                   | 620,201                | -                 | -                              | 620,201              |
| Total assets   | <u>\$ 3,337,149</u> | <u>\$ 6,549,570</u>    | <u>\$ 883,538</u> | <u>\$ 1,864,376</u>            | <u>\$ 12,634,633</u> |
| <br>   |                     |                        |                   |                                |                      |
| <b>LIABILITIES AND<br/>FUND BALANCES</b>   |                     |                        |                   |                                |                      |
| <b>LIABILITIES</b>   |                     |                        |                   |                                |                      |
| Accounts payable   | \$ 570,262          | \$ 221,179             | \$ -              | \$ 4,958                       | \$ 796,399           |
| Accrued expenses   | 555,301             | -                      | -                 | -                              | 555,301              |
| Due to other funds   | 174,274             | 38,200                 | 943,155           | -                              | 1,155,629            |
| Due to other governments   | 42,667              | -                      | -                 | -                              | 42,667               |
| Due to component units   | -                   | -                      | -                 | 17,979                         | 17,979               |
| Deferred revenue   | 193,690             | -                      | 458,353           | 485,928                        | 1,137,971            |
| Total liabilities  | <u>1,536,194</u>    | <u>259,379</u>         | <u>1,401,508</u>  | <u>508,865</u>                 | <u>3,705,946</u>     |
| <br>   |                     |                        |                   |                                |                      |
| <b>FUND BALANCES (DEFICIT)</b>   |                     |                        |                   |                                |                      |
| Fund balances:   |                     |                        |                   |                                |                      |
| Reserved for:  |                     |                        |                   |                                |                      |
| Capital outlay   | -                   | 5,669,990              | -                 | -                              | 5,669,990            |
| Inventory  | 101,568             | -                      | -                 | -                              | 101,568              |
| Prepaid items  | 220,283             | -                      | -                 | -                              | 220,283              |
| Debt service   | -                   | 620,201                | -                 | 21,107                         | 641,308              |
| Unreserved, undesignated (deficit)   |                     |                        |                   |                                |                      |
| reported in:   |                     |                        |                   |                                |                      |
| General fund   | 1,479,104           | -                      | -                 | -                              | 1,479,104            |
| Special revenue funds  | -                   | -                      | -                 | 1,334,404                      | 1,334,404            |
| Debt service funds   | -                   | -                      | (517,970)         | -                              | (517,970)            |
| Total fund balances (deficit)  | <u>1,800,955</u>    | <u>6,290,191</u>       | <u>(517,970)</u>  | <u>1,355,511</u>               | <u>8,928,687</u>     |
| Total liabilities and fund balances  | <u>\$ 3,337,149</u> | <u>\$ 6,549,570</u>    | <u>\$ 883,538</u> | <u>\$ 1,864,376</u>            |                      |
| <br>   |                     |                        |                   |                                |                      |
| 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. <span style="float: right;">47,698,969</span>                           |                     |                        |                   |                                |                      |
| Other long-term assets are not available to pay for current-period expenditures and,                   |                     |                        |                   |                                |                      |
| therefore, are deferred in the funds. <span style="float: right;">1,137,971</span>                     |                     |                        |                   |                                |                      |
| 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. <span style="float: right;">(69,602)</span> |                     |                        |                   |                                |                      |
| Long-term liabilities are not due and payable in the current period and, therefore,                    |                     |                        |                   |                                |                      |
| are not reported in the funds. <span style="float: right;"><u>(37,821,659)</u></span>                  |                     |                        |                   |                                |                      |
| <br>   |                     |                        |                   |                                |                      |
| Net assets of governmental activities <span style="float: right;"><u>\$ 19,874,366</u></span>          |                     |                        |                   |                                |                      |

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, 2010**

|  | <u>General</u>      | <u>Capital<br/>Improvement</u> | <u>7 Mill</u>       | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>        |
|--|---------------------|--------------------------------|---------------------|---|---------------------|
| <b>Revenues:</b>   |                     |                                |                     |   |                     |
| Property taxes   | \$ 1,803,415        | \$ -                           | \$ 1,698,701        | \$ 1,793,472                            | \$ 5,295,588        |
| Sales and use taxes  | 13,701,381          | -                              | -                   | 461,442                                 | 14,162,823          |
| Business taxes   | 196,443             | -                              | 573,299             | -                                       | 769,742             |
| Licenses and permits   | 4,236,423           | -                              | -                   | -                                       | 4,236,423           |
| Intergovernmental  | 1,409,302           | 716,507                        | -                   | 44,126                                  | 2,169,935           |
| Charges for services   | 2,090,316           | -                              | -                   | 41,538                                  | 2,131,854           |
| Fines and forfeitures  | 403,128             | -                              | -                   | 109,711                                 | 512,839             |
| Interest   | 24,806              | 10,820                         | 309                 | 1,154                                   | 37,089              |
| Other revenues   | 693,413             | 18                             | 30                  | 14                                      | 693,475             |
| Parks and recreation   | 806,432             | -                              | -                   | -                                       | 806,432             |
| Total revenues   | <u>25,365,059</u>   | <u>727,345</u>                 | <u>2,272,339</u>    | <u>2,451,457</u>                        | <u>30,816,200</u>   |
| <b>Expenditures:</b>   |                     |                                |                     |   |                     |
| Current:   |                     |                                |                     |   |                     |
| General government   | 7,665,740           | -                              | 18,203              | -                                       | 7,683,943           |
| Public safety  | 10,544,873          | -                              | 1,301,986           | 15,552                                  | 11,862,411          |
| Public works   | 3,134,811           | -                              | -                   | 294,312                                 | 3,429,123           |
| Culture and recreation                                       | 4,767,339           | -                              | -                   | -                                       | 4,767,339           |
| Education  | -                   | -                              | -                   | 1,866,172                               | 1,866,172           |
| Capital outlay   | -                   | 2,984,183                      | -                   | -                                       | 2,984,183           |
| Debt service:  |                     |                                |                     |   |                     |
| Principal  | 59,815              | 2,203,311                      | 25,260,000          | -                                       | 27,523,126          |
| Interest   | 2,752               | -                              | 1,200,047           | -                                       | 1,202,799           |
| Fiscal agent fees  | -                   | -                              | 2,055,150           | -                                       | 2,055,150           |
| Bond issuance cost   | -                   | 614,257                        | -                   | -                                       | 614,257             |
| Total expenditures   | <u>26,175,330</u>   | <u>5,801,751</u>               | <u>29,835,386</u>   | <u>2,176,036</u>                        | <u>63,988,503</u>   |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(810,271)</u>    | <u>(5,074,406)</u>             | <u>(27,563,047)</u> | <u>275,421</u>                          | <u>(33,172,303)</u> |
| <b>Other financing sources (uses):</b>                       |                     |                                |                     |   |                     |
| Bond proceeds  | -                   | 36,143,311                     | -                   | -                                       | 36,143,311          |
| Discount on bond issuance                                    | -                   | (154,723)                      | -                   | -                                       | (154,723)           |
| Transfers in   | 1,340,569           | 102,641                        | 27,671,785          | 119,768                                 | 29,234,763          |
| Transfers out  | <u>(2,745,409)</u>  | <u>(25,955,785)</u>            | <u>-</u>            | <u>(468,051)</u>                        | <u>(29,169,245)</u> |
| Total other financing<br>sources (uses)                      | <u>(1,404,840)</u>  | <u>10,135,444</u>              | <u>27,671,785</u>   | <u>(348,283)</u>                        | <u>36,054,106</u>   |
| Net change in fund balances                                  | (2,215,111)         | 5,061,038                      | 108,738             | (72,862)                                | 2,881,803           |
| <b>Fund balances (deficit), beginning<br/>of year</b>        | <u>4,016,066</u>    | <u>1,229,153</u>               | <u>(626,708)</u>    | <u>1,428,373</u>                        | <u>6,046,884</u>    |
| <b>Fund balances (deficit), end of year</b>                  | <u>\$ 1,800,955</u> | <u>\$ 6,290,191</u>            | <u>\$ (517,970)</u> | <u>\$ 1,355,511</u>                     | <u>\$ 8,928,687</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, 2010**

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

|   |                     |
|---|---------------------|
| Net change in fund balances - total governmental funds  | \$ 2,881,803        |
| 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.  | 589,625             |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net assets.   | 3,458,090           |
| 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.  | 786,027             |
| 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. | (5,076,920)         |
| 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.   | (706,363)           |
| Internal service funds are used by management to charge the costs of insurance to individual funds.   | (1,684,423)         |
| The revenue of certain activities of internal service funds is reported with governmental activities.   | <u>2,526,760</u>    |
|   | <u>\$ 2,774,599</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 -  
BUDGET (GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

|                                  | Budgeted Amounts  |                   | Actual            | Variance<br>with Final<br>Budget |
|----------------------------------|-------------------|-------------------|-------------------|----------------------------------|
|                                  | Original          | Final             |                   |                                  |
| <b>Revenues:</b>                 |                   |                   |                   |                                  |
| Property taxes                   | \$ 1,359,024      | \$ 1,359,024      | \$ 1,803,415      | \$ 444,391                       |
| Sales and use taxes              | 15,332,806        | 15,346,923        | 13,701,381        | (1,645,542)                      |
| Business taxes                   | 243,545           | 243,545           | 196,443           | (47,102)                         |
| Licenses and permits             | 4,428,563         | 4,428,563         | 4,236,423         | (192,140)                        |
| Intergovernmental                | 578,400           | 1,958,322         | 1,409,302         | (549,020)                        |
| Charges for services             | 2,320,312         | 2,320,312         | 2,090,316         | (229,996)                        |
| Fines and forfeitures            | 571,929           | 571,929           | 403,128           | (168,801)                        |
| Interest income                  | 196,945           | 196,945           | 24,806            | (172,139)                        |
| Miscellaneous Income             | 934,483           | 924,483           | 693,413           | (231,070)                        |
| Parks and recreation             | 1,205,097         | 1,205,097         | 806,432           | (398,665)                        |
| Total revenues                   | <u>27,171,104</u> | <u>28,555,143</u> | <u>25,365,059</u> | <u>(3,190,084)</u>               |
| <b>Expenditures:</b>             |                   |                   |                   |                                  |
| <b>Current:</b>                  |                   |                   |                   |                                  |
| <b>General government:</b>       |                   |                   |                   |                                  |
| City manager                     | 353,023           | 353,023           | 343,238           | 9,785                            |
| Personnel                        | 253,294           | 253,294           | 239,846           | 13,448                           |
| City clerk                       | 362,895           | 362,895           | 313,402           | 49,493                           |
| Municipal court                  | 352,375           | 356,196           | 359,766           | (3,570)                          |
| Finance                          | 481,189           | 481,189           | 454,264           | 26,925                           |
| Finance - revenue collection     | 100,721           | 102,442           | 91,804            | 10,638                           |
| Non-departmental                 | 4,898,604         | 6,143,604         | 5,474,759         | 668,845                          |
| Appropriations and contributions | 204,543           | 204,543           | 161,518           | 43,025                           |
| Building maintenance             | 311,189           | 311,189           | 227,143           | 84,046                           |
| Total general government         | <u>7,317,833</u>  | <u>8,568,375</u>  | <u>7,665,740</u>  | <u>902,635</u>                   |
| <b>Public safety:</b>            |                   |                   |                   |                                  |
| Code enforcement                 | 408,907           | 408,907           | 390,267           | 18,640                           |
| Fire                             | 4,328,166         | 4,328,166         | 3,840,624         | 487,542                          |
| Police                           | 6,654,445         | 6,654,445         | 6,209,091         | 445,354                          |
| Animal control                   | 127,547           | 127,547           | 104,891           | 22,656                           |
| Total public safety              | <u>11,519,065</u> | <u>11,519,065</u> | <u>10,544,873</u> | <u>974,192</u>                   |

(Continued)

**CITY OF PHENIX CITY, ALABAMA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET (GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

|  | Budgeted Amounts    |                     | Actual              | Variance<br>with Final<br>Budget |
|--|---------------------|---------------------|---------------------|----------------------------------|
|  | Original            | Final               |                     |                                  |
| <b>Expenditures: (Continued)</b>                             |                     |                     |                     |                                  |
| <b>Current:</b>  |                     |                     |                     |                                  |
| <b>Public works:</b>   |                     |                     |                     |                                  |
| Vehicle maintenance  | \$ 186,164          | \$ 186,164          | \$ 175,821          | \$ 10,343                        |
| Engineering  | 455,232             | 589,313             | 470,445             | 118,868                          |
| Administration   | 357,650             | 357,650             | 337,904             | 19,746                           |
| Limbs and debris   | 1,321,739           | 1,321,739           | 1,205,011           | 116,728                          |
| Refuse disposal  | 250,782             | 250,782             | 219,676             | 31,106                           |
| Streets and drainage   | 906,528             | 906,528             | 725,954             | 180,574                          |
| Total public works   | <u>3,478,095</u>    | <u>3,612,176</u>    | <u>3,134,811</u>    | <u>477,365</u>                   |
| <b>Culture and recreation:</b>                               |                     |                     |                     |                                  |
| Parks and recreation   | 2,810,988           | 2,751,938           | 2,382,168           | 369,770                          |
| Central activity center                                      | 71,000              | 95,500              | 82,640              | 12,860                           |
| Amphitheater   | 99,200              | 133,750             | 119,587             | 14,163                           |
| Golf course  | 1,002,488           | 1,002,488           | 2,182,944           | (1,180,456)                      |
| Total culture and recreation                                 | <u>3,983,676</u>    | <u>3,983,676</u>    | <u>4,767,339</u>    | <u>(783,663)</u>                 |
| <b>Debt service:</b>   |                     |                     |                     |                                  |
| Principal  | 157,700             | 157,700             | 59,815              | 97,885                           |
| Interest   | -                   | -                   | 2,752               | (2,752)                          |
| Total debt service   | <u>157,700</u>      | <u>157,700</u>      | <u>62,567</u>       | <u>95,133</u>                    |
| Total expenditures   | <u>26,456,369</u>   | <u>27,840,992</u>   | <u>26,175,330</u>   | <u>1,665,662</u>                 |
| Excess (deficiency) of revenues over<br>(under) expenditures | <u>714,735</u>      | <u>714,151</u>      | <u>(810,271)</u>    | <u>(1,524,422)</u>               |
| <b>Other financing sources (uses):</b>                       |                     |                     |                     |                                  |
| Transfers in   | 375,000             | 375,000             | 1,340,569           | 965,569                          |
| Transfers out  | (1,350,000)         | (1,350,000)         | (2,745,409)         | (1,395,409)                      |
| Total other financing sources (uses)                         | <u>(975,000)</u>    | <u>(975,000)</u>    | <u>(1,404,840)</u>  | <u>(429,840)</u>                 |
| Net change in fund balances                                  | (260,265)           | (260,849)           | (2,215,111)         | (1,954,262)                      |
| <b>Fund balance, beginning of year</b>                       | <u>4,016,066</u>    | <u>4,016,066</u>    | <u>4,016,066</u>    | <u>-</u>                         |
| <b>Fund balance, end of year</b>                             | <u>\$ 3,755,801</u> | <u>\$ 3,755,217</u> | <u>\$ 1,800,955</u> | <u>\$ (1,954,262)</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, 2010**

|   | Business-type Activities |                                      |                      | Governmental<br>Activities<br>Internal Service<br>Fund |
|---|--------------------------|--------------------------------------|----------------------|--|
|   | Enterprise Funds         |                                      |                      |  |
|   | Public<br>Utilities      | Non-major<br>Lakewood<br>Golf Course | Total                |  |
| <b>ASSETS</b>                                   |                          |                                      |                      |  |
| <b>CURRENT ASSETS</b>                           |                          |                                      |                      |  |
| Cash and cash equivalents                       | \$ 966,497               | \$ -                                 | \$ 966,497           | \$ 56,257  |
| Accounts receivable, net of allowances          | 1,561,230                | -                                    | 1,561,230            | -  |
| Notes receivable                                | 1,350                    | -                                    | 1,350                | -  |
| Due from other funds                            | 1,100,702                | -                                    | 1,100,702            | -  |
| Inventories                                     | 443,932                  | -                                    | 443,932              | -  |
| Prepaid expenses                                | 46,897                   | -                                    | 46,897               | -  |
| Total current assets                            | <u>4,120,608</u>         | <u>-</u>                             | <u>4,120,608</u>     | <u>56,257</u>  |
| <b>RESTRICTED ASSETS</b>                        |                          |                                      |                      |  |
| Cash and cash equivalents                       | 11,772,708               | -                                    | 11,772,708           | -  |
| <b>NONCURRENT ASSETS</b>                        |                          |                                      |                      |  |
| Deferred bond issuance, unamortized balance     | 543,841                  | -                                    | 543,841              | -  |
| Notes receivable, net of current portion        | 267,750                  | -                                    | 267,750              | -  |
| Capital assets:                                 |                          |                                      |                      |  |
| Nondepreciable                                  | 3,134,801                | -                                    | 3,134,801            | -  |
| Depreciable, net of accumulated depreciation    | 64,016,786               | -                                    | 64,016,786           | -  |
| Total noncurrent assets                         | <u>67,963,178</u>        | <u>-</u>                             | <u>67,963,178</u>    | <u>-</u>   |
| Total assets                                    | <u>83,856,494</u>        | <u>-</u>                             | <u>83,856,494</u>    | <u>56,257</u>  |
| <b>LIABILITIES</b>                              |                          |                                      |                      |  |
| <b>CURRENT LIABILITIES</b>                      |                          |                                      |                      |  |
| Accounts payable                                | 311,644                  | -                                    | 311,644              | -  |
| Accrued expenses                                | 92,765                   | -                                    | 92,765               | -  |
| Claims payable                                  | -                        | -                                    | -                    | 125,859  |
| Customer deposits                               | 89,725                   | -                                    | 89,725               | -  |
| Accrued interest                                | 78,357                   | -                                    | 78,357               | -  |
| Current portion - capital lease                 | 22,454                   | -                                    | 22,454               | -  |
| Current portion - bonds payable                 | 1,425,000                | -                                    | 1,425,000            | -  |
| Current portion - compensated absences          | 83,903                   | -                                    | 83,903               | -  |
| Total current liabilities                       | <u>2,103,848</u>         | <u>-</u>                             | <u>2,103,848</u>     | <u>125,859</u>   |
| <b>LONG-TERM LIABILITIES</b>                    |                          |                                      |                      |  |
| Capital lease, net of current portion           | 95,380                   | -                                    | 95,380               | -  |
| Bonds payable, net of current portion           | 36,491,319               | -                                    | 36,491,319           | -  |
| Compensated absences, net of current portion    | 20,976                   | -                                    | 20,976               | -  |
| Total long-term liabilities                     | <u>36,607,675</u>        | <u>-</u>                             | <u>36,607,675</u>    | <u>-</u>   |
| Total liabilities                               | <u>38,711,523</u>        | <u>-</u>                             | <u>38,711,523</u>    | <u>125,859</u>   |
| <b>NET ASSETS (DEFICIT)</b>                     |                          |                                      |                      |  |
| Invested in capital assets, net of related debt | 29,117,434               | -                                    | 29,117,434           | -  |
| Restricted for debt service                     | 11,772,708               | -                                    | 11,772,708           | -  |
| Unrestricted (deficit)                          | 4,254,829                | -                                    | 4,254,829            | (69,602)   |
| Total net assets (deficit)                      | <u>\$ 45,144,971</u>     | <u>\$ -</u>                          | <u>\$ 45,144,971</u> | <u>\$ (69,602)</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, 2010**

|   | Business-type Activities |                                      |                      | Governmental<br>Activities<br>Internal Service<br>Fund |
|---|--------------------------|--------------------------------------|----------------------|--|
|   | Enterprise Funds         |                                      |                      |  |
|   | Public<br>Utilities      | Non-major<br>Lakewood<br>Golf Course | Total                |  |
| <b>OPERATING REVENUES</b>                           |                          |                                      |                      |  |
| Charges for services                                | \$ 9,076,993             | \$ -                                 | \$ 9,076,993         | \$ 2,526,613   |
| Miscellaneous                                       | 778,528                  | 7,690                                | 786,218              | -  |
| Total operating revenues                            | <u>9,855,521</u>         | <u>7,690</u>                         | <u>9,863,211</u>     | <u>2,526,613</u>                                       |
| <b>OPERATING EXPENSES</b>                           |                          |                                      |                      |  |
| Administrative                                      | 2,011,098                | -                                    | 2,011,098            | -  |
| Water plant   | 1,403,483                | -                                    | 1,403,483            | -  |
| Water distribution                                  | 1,027,014                | -                                    | 1,027,014            | -  |
| Wastewater distribution                             | 944,289                  | -                                    | 944,289              | -  |
| Wastewater plant                                    | 1,024,034                | -                                    | 1,024,034            | -  |
| Lakewood golf course                                | -                        | 3,541                                | 3,541                | -  |
| Depreciation and amortization                       | 2,253,574                | -                                    | 2,253,574            | -  |
| Claims and damages                                  | -                        | -                                    | -                    | 2,916,423  |
| Total operating expenses                            | <u>8,663,492</u>         | <u>3,541</u>                         | <u>8,667,033</u>     | <u>2,916,423</u>                                       |
| Operating income (loss)                             | <u>1,192,029</u>         | <u>4,149</u>                         | <u>1,196,178</u>     | <u>(389,810)</u>                                       |
| <b>NONOPERATING REVENUES (EXPENSES)</b>             |                          |                                      |                      |  |
| Interest income                                     | 29,198                   | 4                                    | 29,202               | 147  |
| Interest expense                                    | (1,874,152)              | -                                    | (1,874,152)          | -  |
| System development fees                             | 1,123,193                | -                                    | 1,123,193            | -  |
| Loss on sale of assets                              | (10,273)                 | -                                    | (10,273)             | -  |
| Total nonoperating income (loss)                    | <u>(732,034)</u>         | <u>4</u>                             | <u>(732,030)</u>     | <u>147</u>   |
| Income (loss) before contributions<br>and transfers | 459,995                  | 4,153                                | 464,148              | (389,663)  |
| <b>CAPITAL CONTRIBUTIONS</b>                        | <u>439,001</u>           | <u>-</u>                             | <u>439,001</u>       | <u>-</u>   |
| <b>TRANSFERS</b>                                    |                          |                                      |                      |  |
| Transfers in  | -                        | -                                    | -                    | 1,232,000  |
| Transfers out                                       | -                        | (1,297,518)                          | (1,297,518)          | -  |
| Total transfers                                     | <u>-</u>                 | <u>(1,297,518)</u>                   | <u>(1,297,518)</u>   | <u>1,232,000</u>                                       |
| Change in net assets                                | 898,996                  | (1,293,365)                          | (394,369)            | 842,337  |
| <b>NET ASSETS (deficit), beginning of year</b>      | <u>44,245,975</u>        | <u>1,293,365</u>                     | <u>45,539,340</u>    | <u>(911,939)</u>                                       |
| <b>NET ASSETS (deficit), end of year</b>            | <u>\$ 45,144,971</u>     | <u>\$ -</u>                          | <u>\$ 45,144,971</u> | <u>\$ (69,602)</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, 2010**

|  | Business-type Activities |                                      |               | Governmental<br>Activities<br>Internal Service<br>Fund |
|--|--------------------------|--------------------------------------|---------------|--|
|  | Enterprise Funds         |                                      |               |  |
|  | Public<br>Utilities      | Non-major<br>Lakewood<br>Golf Course | Total         |  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |                          |                                      |               |  |
| Receipts from customers and users  | \$ 9,243,969             | \$ (8,335)                           | \$ 9,235,634  | \$ 1,686,613   |
| Payments to suppliers  | (6,991,492)              | 10,786                               | (6,980,706)   | (2,966,697)  |
| Payments to employees  | (22,129)                 | (26,404)                             | (48,533)      | -  |
| Net cash provided by (used in)<br>operating activities                     | 2,230,348                | (23,953)                             | 2,206,395     | (1,280,084)  |
| <b>CASH FLOWS FROM NONCAPITAL<br/>FINANCING ACTIVITIES</b>                 |                          |                                      |               |  |
| Transfers in   | -                        | 20,373                               | 20,373        | 1,232,000  |
| System development fees  | 1,123,193                | -                                    | 1,123,193     | -  |
| Net cash provided by (used in) noncapital<br>financing activities          | 1,123,193                | 20,373                               | 1,143,566     | 1,232,000  |
| <b>CASH FLOWS FROM CAPITAL AND<br/>RELATED FINANCING ACTIVITIES</b>        |                          |                                      |               |  |
| Acquisition and construction of capital assets                             | (3,828,542)              | -                                    | (3,828,542)   | -  |
| Principal paid on bonds  | (1,340,493)              | -                                    | (1,340,493)   | -  |
| Capital lease  | 119,672                  | -                                    | 119,672       | -  |
| Principal paid on capital lease  | (1,838)                  | -                                    | (1,838)       | -  |
| Interest paid  | (1,876,098)              | -                                    | (1,876,098)   | -  |
| Net cash provided by (used in) capital and<br>related financing activities | (6,927,299)              | -                                    | (6,927,299)   | -  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |                          |                                      |               |  |
| Interest on investments  | 29,198                   | 4                                    | 29,202        | 147  |
| Net cash provided by investing activities                                  | 29,198                   | 4                                    | 29,202        | 147  |
| Net decrease in cash and<br>cash equivalents                               | (3,544,560)              | (3,576)                              | (3,548,136)   | (47,937)   |
| <b>Cash and cash equivalents:</b>  |                          |                                      |               |  |
| Beginning of year  | 16,283,765               | 3,576                                | 16,287,341    | 104,194  |
| End of year  | \$ 12,739,205            | \$ -                                 | \$ 12,739,205 | \$ 56,257  |
| <b>Classified as:</b>  |                          |                                      |               |  |
| Cash   | \$ 966,497               | \$ -                                 | \$ 966,497    | \$ 56,257  |
| Restricted assets, cash  | 11,772,708               | -                                    | 11,772,708    | -  |
|  | \$ 12,739,205            | \$ -                                 | \$ 12,739,205 | \$ 56,257  |

(Continued)

**CITY OF PHENIX CITY, ALABAMA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

|  | Business-type Activities |                                      |                     | Governmental<br>Activities<br>Internal Service<br>Fund |
|--|--------------------------|--------------------------------------|---------------------|--|
|  | Enterprise Funds         |                                      |                     |  |
|  | Public<br>Utilities      | Non-major<br>Lakewood<br>Golf Course | Total               |  |
| <b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>               |                          |                                      |                     |  |
| Operating income (loss)  | \$ 1,192,029             | \$ 4,149                             | \$ 1,196,178        | \$ (389,810)   |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |                          |                                      |                     |  |
| Depreciation and amortization expense  | 2,253,574                | -                                    | 2,253,574           | -  |
| (Increase) decrease in accounts receivable   | (195,791)                | 5,922                                | (189,869)           | -  |
| Decrease in notes receivable   | 11,340                   | -                                    | 11,340              | -  |
| Increase in due from other funds   | (419,051)                | -                                    | (419,051)           | -  |
| Increase (decrease) in inventory   | (120,357)                | 46,583                               | (73,774)            | -  |
| (Increase) decrease in prepaid expenses  | (7,454)                  | 2,671                                | (4,783)             | -  |
| Decrease in accounts payable   | (453,763)                | (32,212)                             | (485,975)           | -  |
| Increase (decrease) in accrued expenses  | 1,813                    | (13,482)                             | (11,669)            | -  |
| Decrease in claims payable   | -                        | -                                    | -                   | (50,274)   |
| Decrease in due to other funds   | -                        | -                                    | -                   | (840,000)  |
| Decrease in customer deposits  | (8,050)                  | -                                    | (8,050)             | -  |
| Decrease in deferred revenues  | -                        | (24,618)                             | (24,618)            | -  |
| Decrease in compensated absences   | (23,942)                 | (12,966)                             | (36,908)            | -  |
| Net cash provided by (used in) operating activities  | <u>\$ 2,230,348</u>      | <u>\$ (23,953)</u>                   | <u>\$ 2,206,395</u> | <u>\$ (1,280,084)</u>                                  |
| <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>   |                          |                                      |                     |  |
| Contributions of donated assets  | \$ 439,001               | \$ -                                 | \$ 439,001          | \$ -   |
| Transfer of capital assets to governmental activities  | -                        | 1,317,891                            | 1,317,891           | -  |
|  | <u>\$ 439,001</u>        | <u>\$ 1,317,891</u>                  | <u>\$ 1,756,892</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, 2010

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### **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.

Based on criteria set forth by Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14, the component units 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 9<sup>th</sup> 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 17<sup>th</sup> Avenue, Phenix City, Alabama 36867.



## NOTES TO FINANCIAL STATEMENTS

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### 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

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### 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

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### 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

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### 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, 2010.

**NOTES TO FINANCIAL STATEMENTS**

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**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:

|   |               |
|---|---------------|
| <b>Primary Government</b>                           |               |
| Buildings and improvements                          | 10 - 50 years |
| Machinery and equipment                             | 5 - 10 years  |
| Infrastructure                                      | 40 years      |
| Water and Sewer System                              | 50 years      |
| <b>Phenix City Board of Education</b>               |               |
| Buildings and improvements                          | 50 years      |
| Machinery and equipment                             | 5 - 20 years  |
| <b>Phenix City-Russell County Library Authority</b> |               |
| 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**

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**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 \$37,821,659 difference are as follows:

|   |                               |
|---|-------------------------------|
| Bonds payable   | \$ (41,395,000)               |
| Unamortized deferred charge on refunding  | 3,484,686                     |
| Unamortized bond issuance cost  | 753,375                       |
| Accrued interest  | (37,996)                      |
| Compensated absences  | <u>(626,724)</u>              |
| Net adjustment to reduce <i>fund balance - total governmental funds</i><br>to arrive at <i>net assets - governmental activities</i> | <u><u>\$ (37,821,659)</u></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 \$589,625 difference are as follows:

|   |                          |
|---|--------------------------|
| Capital outlay  | \$ 2,879,748             |
| Depreciation expense  | <u>(2,290,123)</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><u>\$ 589,625</u></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 \$5,076,920 difference are as follows:

|   |                              |
|---|------------------------------|
| Issuance of bonds   | \$ (36,143,311)              |
| Principal repayment - capital lease   | 59,815                       |
| Principal repayment - bonds   | 27,463,311                   |
| Discount on bond issuance   | 154,723                      |
| Loss on defeasance of bonds   | 2,774,285                    |
| Bond issuance cost  | <u>614,257</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><u>\$ (5,076,920)</u></u> |

**NOTES TO FINANCIAL STATEMENTS**

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**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 \$706,363 difference are as follows:

|   |                     |
|---|---------------------|
| Accrued interest  | \$ 273,959          |
| Compensated absences  | 39,898              |
| Amortization of issuance costs  | (408,017)           |
| Amortization of bond discounts  | (612,203)           |
| 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>\$ (706,363)</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 3<sup>rd</sup> 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, 2010, the following departments had excess of actual expenditures over appropriations, which were funded by available fund balance of the General Fund:

|                         | <b>Excess</b> |
|-------------------------|---------------|
| Municipal court         | \$ 3,570      |
| Golf course             | 1,180,456     |
| Debt service - interest | 2,752         |

**NOTE 4. CASH AND INVESTMENTS**

At September 30, 2010, the City had the following investments:

| Investments         | Maturities               | Rating | Fair Value    |
|---------------------|--------------------------|--------|---------------|
| U.S. Treasury Notes | 3 years weighted average | AAA    | \$ 24,917,648 |

**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, 2010, the City and the Board of Education had no uncollateralized deposits.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. RECEIVABLES

Receivables consisted of the following at September 30, 2010:

|                                      | <u>General</u>    | <u>7 Mill</u>     | <u>Other<br/>Governmental<br/>Funds</u> | <u>Public<br/>Utilities</u> | <u>Total</u>        |
|--------------------------------------|-------------------|-------------------|---|-----------------------------|---------------------|
| Receivables:                         |                   |                   |   |                             |                     |
| Taxes                                | \$ 341,060        | \$ 533,279        | \$ 528,489                              | \$ -                        | \$ 1,402,828        |
| Accounts                             | 12,451            | -                 | 302,044                                 | 2,983,061                   | 3,297,556           |
| Notes                                | -                 | -                 | 390,000                                 | 269,100                     | 659,100             |
| Gross receivables                    | <u>353,511</u>    | <u>533,279</u>    | <u>1,220,533</u>                        | <u>3,252,161</u>            | <u>5,359,484</u>    |
| Less allowance<br>for uncollectibles | <u>(158,323)</u>  | <u>-</u>          | <u>-</u>                                | <u>(1,421,831)</u>          | <u>(1,580,154)</u>  |
| Net total receivable                 | <u>\$ 195,188</u> | <u>\$ 533,279</u> | <u>\$ 1,220,533</u>                     | <u>\$ 1,830,330</u>         | <u>\$ 3,779,330</u> |

Property taxes attached as an enforceable lien on property as of January 1, 2009. Property taxes were levied on October 20, 2009, and payable on or before December 20, 2009. Property taxes levied for 2009 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during the year ended September 30, 2010, and collected by November 30, 2010, are recognized as revenues in the year ended September 30, 2010. Net receivables estimated to be collected subsequent to November 30, 2010, 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.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS

#### A. Primary Government

The City's capital asset activity for the year ended September 30, 2010 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>   | <u>Transfers</u>      | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|--------------------|-----------------------|---------------------------|
| <b>Governmental Activities:</b>              |                              |                     |                    |                       |                           |
| Capital assets, not being depreciated:       |                              |                     |                    |                       |                           |
| Land and improvements                        | \$ 15,062,165                | \$ 1,600            | \$ -               | \$ 163,000            | \$ 15,226,765             |
| Construction in progress                     | -                            | 653,945             | -                  | -                     | 653,945                   |
| Total capital assets, not being depreciated  | <u>15,062,165</u>            | <u>655,545</u>      | <u>-</u>           | <u>163,000</u>        | <u>15,880,710</u>         |
| Capital assets, being depreciated:           |                              |                     |                    |                       |                           |
| Buildings                                    | 21,179,564                   | 1,324,962           | -                  | 2,113,728             | 24,618,254                |
| Machinery and equipment                      | 11,714,150                   | 495,223             | -                  | 152,403               | 12,361,776                |
| Infrastructure                               | 48,078,914                   | 2,544,217           | -                  | -                     | 50,623,131                |
| Total capital assets, being depreciated      | <u>80,972,628</u>            | <u>4,364,402</u>    | <u>-</u>           | <u>2,266,131</u>      | <u>87,603,161</u>         |
| Less accumulated depreciation for:           |                              |                     |                    |                       |                           |
| Buildings                                    | (12,611,137)                 | (953,785)           | -                  | (974,293)             | (14,539,215)              |
| Machinery and equipment                      | (6,187,075)                  | (966,490)           | -                  | (136,947)             | (7,290,512)               |
| Infrastructure                               | (33,585,327)                 | (369,848)           | -                  | -                     | (33,955,175)              |
| Total accumulated depreciation               | <u>(52,383,539)</u>          | <u>(2,290,123)</u>  | <u>-</u>           | <u>(1,111,240)</u>    | <u>(55,784,902)</u>       |
| Total capital assets, being depreciated, net | <u>28,589,089</u>            | <u>2,074,279</u>    | <u>-</u>           | <u>1,154,891</u>      | <u>31,818,259</u>         |
| Governmental activities capital assets, net  | <u>\$ 43,651,254</u>         | <u>\$ 2,729,824</u> | <u>\$ -</u>        | <u>\$ 1,317,891</u>   | <u>\$ 47,698,969</u>      |
| <b>Business-type Activities:</b>             |                              |                     |                    |                       |                           |
| Capital assets, not being depreciated:       |                              |                     |                    |                       |                           |
| Land   | \$ 435,544                   | \$ -                | \$ -               | \$ (163,000)          | \$ 272,544                |
| Construction in progress                     | 49,104                       | 2,813,153           | -                  | -                     | 2,862,257                 |
| Total capital assets, not being depreciated  | <u>484,648</u>               | <u>2,813,153</u>    | <u>-</u>           | <u>(163,000)</u>      | <u>3,134,801</u>          |
| Capital assets, being depreciated:           |                              |                     |                    |                       |                           |
| Building and improvements                    | 3,097,218                    | 11,530              | (26,315)           | (2,113,772)           | 968,661                   |
| Machinery and equipment                      | 5,336,256                    | 290,842             | -                  | (152,359)             | 5,474,739                 |
| Plant facilities                             | 88,631,441                   | 1,151,868           | (3,149)            | -                     | 89,780,160                |
| Total capital assets, being depreciated      | <u>97,064,915</u>            | <u>1,454,240</u>    | <u>(29,464)</u>    | <u>(2,266,131)</u>    | <u>96,223,560</u>         |
| Less accumulated depreciation for:           |                              |                     |                    |                       |                           |
| Building and improvements                    | (1,413,531)                  | (39,628)            | 16,191             | 974,293               | (462,675)                 |
| Machinery and equipment                      | (3,817,326)                  | (189,327)           | -                  | 1,252,516             | (2,754,137)               |
| Plant facilities                             | (25,899,050)                 | (1,978,492)         | 3,149              | (1,115,569)           | (28,989,962)              |
| Total accumulated depreciation               | <u>(31,129,907)</u>          | <u>(2,207,447)</u>  | <u>19,340</u>      | <u>1,111,240</u>      | <u>(32,206,774)</u>       |
| Total capital assets, being depreciated, net | <u>65,935,008</u>            | <u>(753,207)</u>    | <u>(10,124)</u>    | <u>(1,154,891)</u>    | <u>64,016,786</u>         |
| Business-type activities capital assets, net | <u>\$ 66,419,656</u>         | <u>\$ 2,059,946</u> | <u>\$ (10,124)</u> | <u>\$ (1,317,891)</u> | <u>\$ 67,151,587</u>      |

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL ASSETS (CONTINUED)**

**A. Primary Government (Continued)**

During the current year the Golf Course Fund was transferred to the General Fund. The net book value of capital assets transferred was \$1,317,891 and are represented as current year expenditures in the General Fund.

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

|  |    |                         |
|--|----|-------------------------|
| Governmental activities:                             |    |                         |
| General government                                   | \$ | 32,982                  |
| Judicial   |    | 39,656                  |
| Public safety  |    | 714,500                 |
| Public works   |    | 646,221                 |
| Culture and recreation                               |    | 856,764                 |
| Total depreciation expense - governmental activities | \$ | <u><u>2,290,123</u></u> |

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

|   | Beginning<br>Balance | Increases         | Decreases   | Ending<br>Balance    |
|---|----------------------|-------------------|-------------|----------------------|
| Capital assets, not being depreciated:          |                      |                   |             |                      |
| Land  | \$ 635,026           | \$ -              | \$ -        | \$ 635,026           |
| Construction in progress                        | -                    | 630,659           | -           | 630,659              |
| Total capital assets,<br>not being depreciated  | 635,026              | 630,659           | -           | 1,265,685            |
| Capital assets, being depreciated:              |                      |                   |             |                      |
| Building and improvements                       | 69,359,138           | 1,386,570         | -           | 70,745,708           |
| Machinery and equipment                         | 5,623,464            | 190,812           | -           | 5,814,276            |
| Total   | 74,982,602           | 1,577,382         | -           | 76,559,984           |
| Less accumulated depreciation for:              |                      |                   |             |                      |
| Building and improvements                       | (13,565,216)         | (1,441,675)       | -           | (15,006,891)         |
| Machinery and equipment                         | (3,696,171)          | (347,053)         | -           | (4,043,224)          |
| Total   | (17,261,387)         | (1,788,728)       | -           | (19,050,115)         |
| Total capital assets,<br>being depreciated, net | 57,721,215           | (211,346)         | -           | 57,509,869           |
| Business-type activities<br>capital assets, net | <u>\$ 58,356,241</u> | <u>\$ 419,313</u> | <u>\$ -</u> | <u>\$ 58,775,554</u> |

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL ASSETS (CONTINUED)**

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

|   | <b>Beginning<br/>Balance</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>Balance</b> |
|---|------------------------------|------------------|------------------|---------------------------|
| Capital assets, being depreciated:              |                              |                  |                  |                           |
| Furniture and equipment                         | \$ 266,129                   | \$ -             | \$ -             | \$ 266,129                |
| Total   | 266,129                      | -                | -                | 266,129                   |
| Less accumulated depreciation for:              |                              |                  |                  |                           |
| Furniture and equipment                         | (240,459)                    | (11,068)         | -                | (251,527)                 |
| Total   | (240,459)                    | (11,068)         | -                | (251,527)                 |
| Total capital assets,<br>being depreciated, net | 25,670                       | (11,068)         | -                | 14,602                    |
| Business-type activities<br>capital assets, net | \$ 25,670                    | \$ (11,068)      | \$ -             | \$ 14,602                 |

**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, 2010:

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>     | <u>Reductions</u>      | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---|------------------------------|----------------------|------------------------|---------------------------|--------------------------------|
| <b>Governmental activities:</b>                   |                              |                      |                        |                           |                                |
| Bonds payable                                     | \$ 32,715,000                | \$ 36,143,311        | \$ (27,463,311)        | \$ 41,395,000             | \$ 135,000                     |
| Less deferred amounts:                            |                              |                      |                        |                           |                                |
| Unamortized refunding                             | (1,167,881)                  | (2,929,008)          | 612,203                | (3,484,686)               | -                              |
| Net bonds payable                                 | <u>31,547,119</u>            | <u>33,214,303</u>    | <u>(26,851,108)</u>    | <u>37,910,314</u>         | <u>135,000</u>                 |
| Capital leases payable                            | 59,815                       | -                    | (59,815)               | -                         | -                              |
| Compensated absences                              | 666,622                      | 533,807              | (573,705)              | 626,724                   | 493,973                        |
| Claims payable                                    | <u>176,133</u>               | <u>2,425,977</u>     | <u>(2,476,251)</u>     | <u>125,859</u>            | <u>-</u>                       |
| Governmental activities<br>long-term liabilities  | <u>\$ 32,449,689</u>         | <u>\$ 36,174,087</u> | <u>\$ (29,960,879)</u> | <u>\$ 38,662,897</u>      | <u>\$ 628,973</u>              |
| <b>Business-type activities:</b>                  |                              |                      |                        |                           |                                |
| Bonds payable                                     | \$ 41,460,000                | \$ -                 | \$ (1,510,000)         | \$ 39,950,000             | \$ 1,425,000                   |
| Less deferred amounts:                            |                              |                      |                        |                           |                                |
| Unamortized discount                              | (131,016)                    | -                    | 12,313                 | (118,703)                 | -                              |
| Unamortized refunding                             | <u>(2,072,172)</u>           | <u>-</u>             | <u>157,194</u>         | <u>(1,914,978)</u>        | <u>-</u>                       |
| Net bonds payable                                 | <u>39,256,812</u>            | <u>-</u>             | <u>(1,340,493)</u>     | <u>37,916,319</u>         | <u>1,425,000</u>               |
| Capital leases payable                            | -                            | 119,672              | (1,838)                | 117,834                   | 22,454                         |
| Compensated absences                              | <u>141,787</u>               | <u>118,183</u>       | <u>(155,091)</u>       | <u>104,879</u>            | <u>83,903</u>                  |
| Business-type activities<br>long-term liabilities | <u>\$ 39,398,599</u>         | <u>\$ 237,855</u>    | <u>\$ (1,497,422)</u>  | <u>\$ 38,139,032</u>      | <u>\$ 1,531,357</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, 2010, are as follows:

|                             | <b>Interest Rates</b> | <b>Balance<br/>September 30,<br/>2010</b> |
|-----------------------------|-----------------------|---|
| 2001 Issue                  | N/A                   | \$ 950,000                                |
| 2007-A Issue                | 3.6 % - 5.0 %         | 3,400,000                                 |
| 2009-A Issue                | 2.4 % - 3.45%         | 3,105,000                                 |
| 2010-B Issue                | 2.1 % - 3.94%         | 33,940,000                                |
|                             |                       | 41,395,000                                |
| Less: Unamortized refunding |                       | (3,484,686)                               |
|                             |                       | \$ 37,910,314                             |

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, 2010 in the amount of \$950,000. 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. The bond principal was refunded through February 1, 2015 and the interest was refunded through the maturity date with the Series 2009-A issuance and through February 1, 2017 with the Series 2010-B issuance.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. LONG-TERM DEBT (CONTINUED)

#### A. Primary Government (Continued)

##### Governmental Activities Debt (Continued)

##### **General Obligation Bonds (Continued)**

##### 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, 2010 in the amount of \$3,400,000. 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, 2027 and thereafter are subject to redemption prior to maturity, at the option of the City and the Commission, on or after January 1, 2026, 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, 2010 in the amount of \$3,105,000. 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.

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. The bond principal was refunded through February 1, 2015 and the interest was refunded through the maturity date with the Series 2010-B 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 2010-B, \$33,940,000 Principal

During the current year, the City issued tax-exempt General Obligation Refunding Bonds, Series 2010-B (Series 2010-B Bonds) outstanding at September 30, 2010 in the amount of \$33,940,000. The proceeds from the bonds are to be used for 1) financing various capital improvements of the City, 2) refunding certain outstanding debt of the City, 3) funding interest on a portion of the Series 2010-B general obligation refunding bonds for the period ending August 1, 2012, and 3) to pay the costs of issuance of the bonds. The advanced refunding included a portion of the Series 2001 and 2009-A general obligation bonds and the total outstanding balance of the Series 2004, Series 2005-A, and Series 2005-B general obligation 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 \$2,774,285. 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 \$2,929,008.

The Series 2010-B Bonds maturing on February 1, 2035 and thereafter are subject to redemption prior to maturity, at the option of the City and the Commission, on or after February 1, 2034, 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>         |
|----------------------------------|----------------------|----------------------|----------------------|
| 2011                             | \$ 135,000           | \$ 1,311,858         | \$ 1,446,858         |
| 2012                             | 140,000              | 1,411,500            | 1,551,500            |
| 2013                             | 1,190,000            | 1,393,850            | 2,583,850            |
| 2014                             | 1,220,000            | 1,365,175            | 2,585,175            |
| 2015                             | 1,250,000            | 1,459,100            | 2,709,100            |
| 2016 - 2020                      | 7,070,000            | 6,723,943            | 13,793,943           |
| 2021 - 2025                      | 8,185,000            | 5,364,240            | 13,549,240           |
| 2026 - 2030                      | 9,975,000            | 3,569,898            | 13,544,898           |
| 2031 - 2035                      | 12,230,000           | 1,317,510            | 13,547,510           |
|                                  | <u>41,395,000</u>    | <u>\$ 23,917,074</u> | <u>\$ 65,312,074</u> |
| Less unamortized refunding       | <u>(3,484,686)</u>   |                      |                      |
|                                  | <u>\$ 37,910,314</u> |                      |                      |

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. LONG-TERM DEBT (CONTINUED)

#### A. Primary Government (Continued)

##### Governmental Activities Debt (Continued)

##### 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 inception. The following is an analysis of leased assets under capital leases as of September 30, 2010:

|                                | <b>Business-type<br/>Activities</b> |
|--------------------------------|-------------------------------------|
| Equipment                      | \$ 119,672                          |
| Less: Accumulated depreciation | (11,976)                            |
|                                | \$ 107,696                          |

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of September 30, 2010:

|  | <b>Business-type<br/>Activities</b> |
|--|-------------------------------------|
| Fiscal year ending September 30,               |                                     |
| 2011   | \$ 25,983                           |
| 2012   | 25,983                              |
| 2013   | 25,983                              |
| 2014   | 25,983                              |
| 2015   | 23,818                              |
| Total minimum lease payments                   | 127,750                             |
| Less amount representing interest              | (9,916)                             |
| Present value of future minimum lease payments | \$ 117,834                          |

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**A. Primary Government (Continued)**

**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, 2010, are as follows:

|  | <b>Interest Rates</b> | <b>Balance<br/>September 30,<br/>2010</b> |
|--|-----------------------|---|
| 2003 Water and Sewer Revenue Bonds         | 2.98 %                | \$ 315,000                                |
| 2003 Taxable Water and Sewer Revenue Bonds | 1.65 % - 5.15 %       | 140,000                                   |
| 2004 Water and Sewer Revenue Bonds         | 1.40 % - 5.0 %        | 6,390,000                                 |
| 2006-A Water and Sewer Revenue Bonds       | 3.375% - 4.375%       | 4,430,000                                 |
| 2009-A Water and Sewer Revenue Bonds       | 3.00 % - 5.00 %       | 28,675,000                                |
|  |                       | 39,950,000                                |
| Less: Unamortized discount                 |                       | (118,703)                                 |
| Less: Unamortized refunding                |                       | (1,914,978)                               |
|  |                       | \$ 37,916,319                             |

**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, 2010 in the amount of \$315,000. 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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. LONG-TERM DEBT (CONTINUED)

#### A. Primary Government (Continued)

##### **Business-type Activities Debt (Continued)**

##### **Revenue Bonds (Continued)**

##### 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, 2010 in the amount of \$140,000. 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.

##### 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, 2010 in the amount of \$6,390,000. 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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. LONG-TERM DEBT (CONTINUED)

#### A. Primary Government (Continued)

##### Business-type Activities Debt (Continued)

##### Revenue Bonds (Continued)

##### 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, 2010 in the amount of \$4,430,000. 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

The City has issued tax-exempt Water and Sewer Revenue Bonds, Series 2009-A (Series 2009-A Bonds) outstanding at September 30, 2010 in the amount of \$28,675,000. 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. These 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.

The Series 2009-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.

**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 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>         |
|----------------------------------|----------------------|----------------------|----------------------|
| 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                             | 1,560,000            | 1,544,188            | 3,104,188            |
| 2016 - 2020                      | 8,730,000            | 6,839,800            | 15,569,800           |
| 2021 - 2025                      | 10,760,000           | 4,789,623            | 15,549,623           |
| 2026 - 2030                      | 10,035,000           | 2,189,900            | 12,224,900           |
| 2031 - 2034                      | 3,380,000            | 432,500              | 3,812,500            |
|                                  | <u>39,950,000</u>    | <u>\$ 22,521,406</u> | <u>\$ 62,471,406</u> |
| Less unamortized discount        | (118,703)            |                      |                      |
| Less unamortized refunding       | (1,914,978)          |                      |                      |
|                                  | <u>\$ 37,916,319</u> |                      |                      |

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

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

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Reductions</u>   | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|--------------------------------|
| 2006 Series Warrants                              | \$ 11,615,000                | \$ -                | \$ (380,000)        | \$ 11,235,000             | \$ 390,000                     |
| 2007-B Series Warrants                            | 22,840,000                   | -                   | (245,000)           | 22,595,000                | 255,000                        |
| 2003 Installment Purchase Agreements              | 272,714                      | -                   | (64,627)            | 208,087                   | 66,796                         |
| 2006 Installment Purchase Agreements              | 378,785                      | -                   | (46,117)            | 332,668                   | 48,555                         |
| 2009-D Series Qualified School Construction Bonds | -                            | 8,105,000           | -                   | 8,105,000                 | -                              |
| <b>Total</b>                                      | <u>\$ 35,106,499</u>         | <u>\$ 8,105,000</u> | <u>\$ (735,744)</u> | <u>\$ 42,475,755</u>      | <u>\$ 760,351</u>              |

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%.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

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

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: The Board has 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%.

Alabama Public School and College Authority Qualified School Construction Bonds, Series 2009-D: In the current year, the Alabama Public School and College Authority issued \$8,105,000 of Qualified School Construction Bonds. All proceeds of the issue must be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a facility is to be constructed. The Board has agreed to have interest payments withheld from local taxes and public school funds and to make sinking fund payments from the same fund sources. The first annual sinking fund payment will be made December 2011 in the amount of \$421,794 with the same amount due for each of the next 15 years until the bond matures December 15, 2025. Interest payments are \$112,949 for the current year and are \$151,158 for each of the remaining 15 years until the bond matures. Interest is at 1.865%. Net earnings of sinking fund may reduce final interest or principal payments.

The annual requirements to amortize all debt outstanding at September 30, 2010 are as follows:

| Fiscal Year Ending September 30, | <b>Principal</b>     | <b>Interest</b>      | <b>Sinking Fund<br/>Payment</b> | <b>Total</b>         |
|----------------------------------|----------------------|----------------------|---------------------------------|----------------------|
| 2011                             | \$ 760,351           | \$ 1,604,262         | \$ -                            | \$ 2,364,613         |
| 2012                             | 820,580              | 1,575,831            | 421,794                         | 2,818,205            |
| 2013                             | 846,050              | 1,544,985            | 421,794                         | 2,812,829            |
| 2014                             | 1,121,672            | 1,512,769            | 421,794                         | 3,056,235            |
| 2015                             | 1,169,669            | 1,469,302            | 421,794                         | 3,060,765            |
| 2016 - 2020                      | 6,432,824            | 6,495,097            | 2,108,970                       | 15,036,891           |
| 2021 - 2025                      | 9,857,999            | 4,805,125            | 2,108,970                       | 16,772,094           |
| 2026 - 2030                      | 10,310,000           | 2,582,153            | 421,794                         | 13,313,947           |
| 2031 - 2035                      | 4,830,000            | 328,050              | -                               | 5,158,050            |
|                                  | <u>\$ 36,149,145</u> | <u>\$ 21,917,574</u> | <u>\$ 6,326,910</u>             | <u>\$ 64,393,629</u> |



**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of September 30, 2010, is as follows:

Due to/from other funds:

| <u>Receivable Fund</u>      | <u>Payable Fund</u>      | <u>Amount</u>       |
|-----------------------------|--------------------------|---------------------|
| General Fund                | Capital Improvement Fund | \$ 38,200           |
| 7 Mill Fund                 | General Fund             | 15,377              |
| Public Utilities Fund       | General Fund             | 157,547             |
| Public Utilities Fund       | 7 Mill Fund              | 943,155             |
| Nonmajor Governmental Funds | General Fund             | 1,350               |
|                             |                          | <u>\$ 1,155,629</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.

Interfund transfers:

| <u>Transfer To</u>          | <u>Transfer From</u> |                                 |                                    |                                 | <u>Total</u>         |
|-----------------------------|----------------------|---------------------------------|------------------------------------|---------------------------------|----------------------|
|                             | <u>General</u>       | <u>Capital Improvement Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Nonmajor Enterprise Fund</u> |                      |
| General                     | \$ -                 | \$ -                            | \$ 43,051                          | \$ 1,297,518                    | \$ 1,340,569         |
| Capital Improvement Fund    | 548,782              | -                               | -                                  | -                               | 548,782              |
| 7 Mill Fund                 | 1,406,000            | 25,955,785                      | 310,000                            | -                               | 27,671,785           |
| Nonmajor Governmental Funds | 4,768                | -                               | 115,000                            | -                               | 119,768              |
| Internal Service Fund       | 1,232,000            | -                               | -                                  | -                               | 1,232,000            |
| Total                       | <u>\$ 3,191,550</u>  | <u>\$ 25,955,785</u>            | <u>\$ 468,051</u>                  | <u>\$ 1,297,518</u>             | <u>\$ 30,912,904</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, 2010, the City transferred the assets and liabilities of the Golf Course Fund to the General Fund.

## NOTES TO FINANCIAL STATEMENTS

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### **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.

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, 2010 was 10.23% of eligible payroll.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Description (Continued)**

**Annual Pension Cost**

For the year ended September 30, 2010, 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, 2009 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.

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, 2009          |
| 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<br/>Year<br/>Ending</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Actual<br/>City<br/>Contribution</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|-----------------------------------|--|---|--|---------------------------------------|
| 9/30/2009                         | \$ 1,467,953                             | \$ 1,467,953                            | 100.0 %                                      | \$ -                                  |
| 9/30/2008                         | 1,255,485                                | 1,255,485                               | 100.0  | -                                     |
| 9/30/2007                         | 1,033,730                                | 1,033,730                               | 100.0  | -                                     |

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Annual Pension Cost (Continued)**

As of the most recent valuation date, September 30, 2009, the funded status of the Plan was as follows:

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(a)</b> | <b>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>Entry Age<br/>(b)</b> | <b>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio<br/>(a/b)</b> | <b>Covered<br/>Payroll<br/>(c)</b> | <b>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll<br/>(b-a)/c)</b> |
|---|--|--|--|-----------------------------------|------------------------------------|---|
| 09/30/09                                | \$ 31,343,744                                    | \$ 45,965,343  | \$ 14,621,599                                | 68.2 %                            | \$ 13,402,985                      | 109.1 %   |

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, 2009.

**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.

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10. RISK MANAGEMENT (CONTINUED)**

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:

|  | <u>September 30,<br/>2010</u> | <u>September 30,<br/>2009</u> |
|--|-------------------------------|-------------------------------|
| Unpaid claims, beginning of year         | \$ 176,133                    | \$ 214,600                    |
| Incurred claims and changes in estimates | 2,425,977                     | 2,536,967                     |
| Claim payments                           | <u>(2,476,251)</u>            | <u>(2,575,434)</u>            |
| Unpaid claims, end of year               | <u>\$ 125,859</u>             | <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.

**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, 2010, the City share of such operating costs was \$8,100.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 13. DEFICIT FUND BALANCES / NET ASSETS**

The 7 Mill Fund reported deficit fund balance of \$517,970 at September 30, 2010. 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 \$69,602 at September 30, 2010. 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**

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| <b>Actuarial Valuation Date</b> | <b>Actuarial Value of Assets (a)</b> | <b>Actuarial Accrued Liability (AAL) Entry Age (b)</b> | <b>Unfunded AAL (UAAL) (b-a)</b> | <b>Funded Ratio (a/b)</b> | <b>Covered Payroll (c)</b> | <b>UAAL as a Percentage of Covered Payroll (b-a)/c)</b> |
|---------------------------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|---|
| 09/30/09                        | \$ 31,343,744                        | \$ 45,965,343  | \$ 14,621,599                    | 68.2 %                    | \$ 13,402,985              | 109.1 %   |
| 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  |

# CITY OF PHENIX CITY, ALABAMA

## NONMAJOR GOVERNMENTAL FUNDS

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### 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, 2010**

| 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                  | \$ 34,997             | \$ 90,579         | \$ 61,146         | \$ 141,864         | \$ 81,969        |
| Taxes receivable                           | 1,804                 | 7,046             | 3,246             | 11,360             | -                |
| Accounts receivable                        | -                     | -                 | -                 | -                  | -                |
| Notes receivable                           | -                     | -                 | -                 | -                  | -                |
| Due from other funds                       | -                     | -                 | -                 | -                  | -                |
| Due from other governments                 | -                     | 5,688             | 2,800             | 9,801              | -                |
| <b>Total assets</b>                        | <b>\$ 36,801</b>      | <b>\$ 103,313</b> | <b>\$ 67,192</b>  | <b>\$ 163,025</b>  | <b>\$ 81,969</b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                       |                   |                   |                    |                  |
| <b>LIABILITIES</b>                         |                       |                   |                   |                    |                  |
| Accounts payable                           | \$ -                  | \$ -              | \$ 4,870          | \$ -               | \$ -             |
| Due to component units                     | -                     | -                 | -                 | -                  | -                |
| Deferred revenue                           | -                     | -                 | -                 | -                  | -                |
| <b>Total liabilities</b>                   | <b>-</b>              | <b>-</b>          | <b>4,870</b>      | <b>-</b>           | <b>-</b>         |
| <b>FUND BALANCES</b>                       |                       |                   |                   |                    |                  |
| Reserved for debt service                  | -                     | -                 | -                 | -                  | -                |
| Unreserved, designated                     | 36,801                | 103,313           | 62,322            | 163,025            | 81,969           |
| <b>Total fund balances</b>                 | <b>36,801</b>         | <b>103,313</b>    | <b>62,322</b>     | <b>163,025</b>     | <b>81,969</b>    |
| <b>Total liabilities and fund balances</b> | <b>\$ 36,801</b>      | <b>\$ 103,313</b> | <b>\$ 67,192</b>  | <b>\$ 163,025</b>  | <b>\$ 81,969</b> |

| Second<br>Mortgage | Local Law<br>Enforcement<br>Block Grant | Confiscated<br>Property | Phenix<br>Industrial<br>Park | Debt Service Funds |                   | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------|---|-------------------------|------------------------------|--------------------|-------------------|--|
|                    |   |                         |                              | 3 Mill             | 4 Mill            |  |
| \$ 185,097         | \$ -                                    | \$ 7,407                | \$ 1,164                     | \$ 8,706           | \$ 11,275         | \$ 624,204                                 |
| -                  | -                                       | -                       | -                            | 216,443            | 288,590           | 528,489                                    |
| 302,044            | -                                       | -                       | -                            | -                  | -                 | 302,044                                    |
| 390,000            | -                                       | -                       | -                            | -                  | -                 | 390,000                                    |
| -                  | -                                       | 1,350                   | -                            | -                  | -                 | 1,350                                      |
| -                  | -                                       | -                       | -                            | -                  | -                 | 18,289                                     |
| <u>\$ 877,141</u>  | <u>\$ -</u>                             | <u>\$ 8,757</u>         | <u>\$ 1,164</u>              | <u>\$ 225,149</u>  | <u>\$ 299,865</u> | <u>\$ 1,864,376</u>                        |
| <br>               |   |                         |                              |                    |                   |  |
| \$ 38              | \$ -                                    | \$ 50                   | \$ -                         | \$ -               | \$ -              | \$ 4,958                                   |
| -                  | -                                       | -                       | -                            | 7,705              | 10,274            | 17,979                                     |
| -                  | -                                       | -                       | -                            | 208,255            | 277,673           | 485,928                                    |
| <u>38</u>          | <u>-</u>                                | <u>50</u>               | <u>-</u>                     | <u>215,960</u>     | <u>287,947</u>    | <u>508,865</u>                             |
| <br>               |   |                         |                              |                    |                   |  |
| -                  | -                                       | -                       | -                            | 9,189              | 11,918            | 21,107                                     |
| 877,103            | -                                       | 8,707                   | 1,164                        | -                  | -                 | 1,334,404                                  |
| <u>877,103</u>     | <u>-</u>                                | <u>8,707</u>            | <u>1,164</u>                 | <u>9,189</u>       | <u>11,918</u>     | <u>1,355,511</u>                           |
| <br>               |   |                         |                              |                    |                   |  |
| <u>\$ 877,141</u>  | <u>\$ -</u>                             | <u>\$ 8,757</u>         | <u>\$ 1,164</u>              | <u>\$ 225,149</u>  | <u>\$ 299,865</u> | <u>\$ 1,864,376</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, 2010**

|  | <b>Special Revenue Funds</b> |                              |                              |                               |                    |
|--|------------------------------|------------------------------|------------------------------|-------------------------------|--------------------|
|  | <b>Two Cent<br/>Gas Tax</b>  | <b>Four Cent<br/>Gas Tax</b> | <b>Five Cent<br/>Gas Tax</b> | <b>Seven Cent<br/>Gas Tax</b> | <b>Corrections</b> |
| <b>Revenues:</b>   |                              |                              |                              |                               |                    |
| Property taxes   | \$ -                         | \$ -                         | \$ -                         | \$ -                          | \$ -               |
| Sales and use taxes  | 20,529                       | 140,633                      | 66,709                       | 233,571                       | -                  |
| Intergovernmental  | -                            | -                            | 44,126                       | -                             | -                  |
| Charges for services   | -                            | -                            | -                            | -                             | -                  |
| Fines and forfeitures  | -                            | -                            | -                            | -                             | 98,361             |
| Interest income  | 56                           | 95                           | 37                           | 176                           | 96                 |
| Other revenues   | -                            | -                            | -                            | -                             | 10                 |
| <b>Total revenues</b>  | <b>20,585</b>                | <b>140,728</b>               | <b>110,872</b>               | <b>233,747</b>                | <b>98,467</b>      |
| <b>Expenditures:</b>   |                              |                              |                              |                               |                    |
| Current  |                              |                              |                              |                               |                    |
| Public safety  | -                            | -                            | -                            | -                             | 10                 |
| Public works   | -                            | -                            | 182,747                      | -                             | -                  |
| Education  | -                            | -                            | -                            | -                             | -                  |
| <b>Total expenditures</b>                                    | <b>-</b>                     | <b>-</b>                     | <b>182,747</b>               | <b>-</b>                      | <b>10</b>          |
| Excess (deficiency) of revenues<br>over (under) expenditures | 20,585                       | 140,728                      | (71,875)                     | 233,747                       | 98,457             |
| <b>Other financing<br/>sources (uses):</b>                   |                              |                              |                              |                               |                    |
| Transfers in   | -                            | -                            | 115,000                      | -                             | -                  |
| Transfers out  | -                            | (135,000)                    | -                            | (290,000)                     | (43,051)           |
| <b>Total other financing<br/>sources (uses)</b>              | <b>-</b>                     | <b>(135,000)</b>             | <b>115,000</b>               | <b>(290,000)</b>              | <b>(43,051)</b>    |
| Net change in fund balances                                  | 20,585                       | 5,728                        | 43,125                       | (56,253)                      | 55,406             |
| <b>Fund balances (deficit),<br/>beginning of year</b>        | <b>16,216</b>                | <b>97,585</b>                | <b>19,197</b>                | <b>219,278</b>                | <b>26,563</b>      |
| <b>Fund balances, end of year</b>                            | <b>\$ 36,801</b>             | <b>\$ 103,313</b>            | <b>\$ 62,322</b>             | <b>\$ 163,025</b>             | <b>\$ 81,969</b>   |

| Second<br>Mortgage | Local Law<br>Enforcement<br>Block Grant | Confiscated<br>Property | Phenix<br>Industrial<br>Park | Debt Service Funds |                  | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------|---|-------------------------|------------------------------|--------------------|------------------|--|
|                    |   |                         |                              | 3 Mill             | 4 Mill           |  |
| \$ -               | \$ -                                    | \$ -                    | \$ -                         | \$ 768,631         | \$ 1,024,841     | \$ 1,793,472                               |
| -                  | -                                       | -                       | -                            | -                  | -                | 461,442                                    |
| -                  | -                                       | -                       | -                            | -                  | -                | 44,126                                     |
| 41,538             | -                                       | -                       | -                            | -                  | -                | 41,538                                     |
| -                  | -                                       | 11,350                  | -                            | -                  | -                | 109,711                                    |
| 548                | -                                       | 24                      | 1                            | 65                 | 56               | 1,154                                      |
| 4                  | -                                       | -                       | -                            | -                  | -                | 14   |
| <u>42,090</u>      | <u>-</u>                                | <u>11,374</u>           | <u>1</u>                     | <u>768,696</u>     | <u>1,024,897</u> | <u>2,451,457</u>                           |
| -                  | -                                       | 15,542                  | -                            | -                  | -                | 15,552                                     |
| 111,247            | -                                       | -                       | 318                          | -                  | -                | 294,312                                    |
| -                  | -                                       | -                       | -                            | 799,801            | 1,066,371        | 1,866,172                                  |
| <u>111,247</u>     | <u>-</u>                                | <u>15,542</u>           | <u>318</u>                   | <u>799,801</u>     | <u>1,066,371</u> | <u>2,176,036</u>                           |
| (69,157)           | -                                       | (4,168)                 | (317)                        | (31,105)           | (41,474)         | 275,421                                    |
| -                  | 4,768                                   | -                       | -                            | -                  | -                | 119,768                                    |
| -                  | -                                       | -                       | -                            | -                  | -                | (468,051)                                  |
| -                  | 4,768                                   | -                       | -                            | -                  | -                | (348,283)                                  |
| (69,157)           | 4,768                                   | (4,168)                 | (317)                        | (31,105)           | (41,474)         | (72,862)                                   |
| 946,260            | (4,768)                                 | 12,875                  | 1,481                        | 40,294             | 53,392           | 1,428,373                                  |
| <u>\$ 877,103</u>  | <u>\$ -</u>                             | <u>\$ 8,707</u>         | <u>\$ 1,164</u>              | <u>\$ 9,189</u>    | <u>\$ 11,918</u> | <u>\$ 1,355,511</u>                        |

## **COMPLIANCE SECTION**

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**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***

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**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, 2010, which collectively comprise the City of Phenix City, Alabama's basic financial statements and have issued our report thereon dated January 25, 2012. 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**

Management of the City of Phenix City, Alabama is responsible for establishing and maintaining effective 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.

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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 2010-1 through 2010-7 to be material weaknesses.

### **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 25, 2012.

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 25, 2012



**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**

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**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, 2010. 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 \$12,092,172 in federal awards which is not included in the schedule during the year ended September 30, 2010. 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, 2010.



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### **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 25, 2012

**CITY OF PHENIX CITY, ALABAMA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

| <b>Federal Grantor/Pass-through<br/>Grantor/Program Title</b>                      | <b>Federal<br/>CFDA<br/>Number</b> | <b>Agency or<br/>Pass-through<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|--|------------------------------------|--|---------------------------------|
| <b>U.S. Department of Homeland Security</b>  |                                    |  |                                 |
| Direct Awards  |                                    |  |                                 |
| Homeland Security Cluster  | 97.004                             | EMW-2008-FO-11063                            | \$ 27,000                       |
| Disaster Recovery Program  | 97.036                             | N/A  | 82,197                          |
| Total U.S. Department of Homeland Security   |                                    |  | <u>109,197</u>                  |
| <b>U.S. Department of Transportation</b>   |                                    |  |                                 |
| <b>Passed through the Alabama Department of Transportation</b>                     |                                    |  |                                 |
| Highway Planning and Construction Cluster  | 20.205                             | STPPC-8015                                   | 3,520                           |
| Highway Planning and Construction Cluster  | 20.205                             | STPPC-8045                                   | 486,378                         |
| Highway Planning and Construction Cluster  | 20.205                             | STMPC-8007                                   | 27,241                          |
| Highway Planning and Construction Cluster  | 20.205                             | STMPC-8018                                   | 16,885                          |
| Highway Planning and Construction Cluster  | 20.205                             | STPPC-8016                                   | 212,928                         |
| Highway Planning and Construction Cluster  | 20.205                             | STPPC-8040                                   | 34,627                          |
| Total U.S. Department of Transportation  |                                    |  | <u>781,579</u>                  |
| <b>U.S. Department of Justice</b>  |                                    |  |                                 |
| Direct Awards  |                                    |  |                                 |
| Public Safety Partnership and Community Policing Grant - ARRA                      | 16.710                             | 2009-RK-WX-0047                              | 156,436                         |
| Bullet Proof Vest Partnership Program  | 16.607                             | 2006-BU-BX-6439                              | 4,986                           |
| Edward Byrne Memorial Competitive Grant Program - ARRA                             | 16.808                             | 2009-G8054-AL-SB                             | 91,402                          |
| Edward Byrne Memorial Competitive Grant Program - ARRA                             | 16.808                             | DOJ-BX-0021                                  | 20,443                          |
| Total Edward Byrne Memorial Competitive Grant Program                              |                                    |  | <u>111,845</u>                  |
| Total U.S. Department of Justice   |                                    |  | <u>273,267</u>                  |
| <b>U.S. Department of Housing and Urban Development</b>                            |                                    |  |                                 |
| Direct Award   |                                    |  |                                 |
| HOME Investment Partnership Program  | 14.239                             | B-08-SP-AL-0321                              | 107,186                         |
| <b>Passed through the Alabama Department of Economic<br/>and Community Affairs</b> |                                    |  |                                 |
| Homeless Prevention and Rapid Rehousing Program - ARRA                             | 14.257                             | HP-GV-09-004                                 | 470,820                         |
| Total U.S. Department of Housing and Urban Development                             |                                    |  | <u>578,006</u>                  |
| <b>U.S. Department of Agriculture</b>  |                                    |  |                                 |
| Direct Award   |                                    |  |                                 |
| Emergency Watershed Protection Program - ARRA                                      | 10.923                             | 69-4101-10                                   | 234,708                         |
| Total U.S. Department of Agriculture   |                                    |  | <u>234,708</u>                  |
| <b>U.S. Department of Energy</b>   |                                    |  |                                 |
| <b>Passed through the Alabama Department of Economic<br/>and Community Affairs</b> |                                    |  |                                 |
| Energy Efficiency and Conservation Block Grant Program - ARRA                      | 81.128                             | 1-ARRA-EECBG 36                              | 23,589                          |
| Total U.S. Department of Energy  |                                    |  | <u>23,589</u>                   |
| Total Expenditures of Federal Awards   |                                    |  | <u>\$ 2,000,346</u>             |

The schedule of expenditures of federal awards includes the federal grant activity of the City of 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, 2010

SECTION I  
SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

Type of auditor's report issued Unqualified

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

Significant deficiencies identified?  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?  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>                 |
|--------------------|---|
| 14.257             | Homeless Prevention and Rapid Rehousing<br>Program - ARRA |
| 20.205             | Highway Planning and Construction Cluster                 |

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, 2010

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

#### 2010 - 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 sales taxes receivable in the General Fund, and 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, 2010.

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, 2010.

Effect: Adjustments to decrease sales taxes receivable in the amount of \$970,689, increase deferred revenue in the amount of \$75,071, and decrease tax revenues in the amount of \$1,045,760 were required to be recorded in the General Fund. An adjustment to increase deferred revenue in the amount of \$359,651 and increase property tax revenues in the same amount was required to be recorded in the 7 Mill Fund. Adjustments to increase property taxes receivable in the amount of \$5,688, decrease due from other governments in the amount of \$16,620, increase deferred revenue in the amount of \$326,686, and decrease tax revenues in the amount of \$337,618 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.

#### 2010 - 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 during the fiscal year ended September 30, 2010.

# CITY OF PHENIX CITY, ALABAMA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### **2010 - 2. Management of Capital Asset Accounts (Continued)**

Context: See above condition.

Effect: Adjustments to increase capital assets in the amount of \$1,511,339, increase contributed capital in the amount of \$439,001, and decrease expenses in the amount of \$1,072,338 were required to be recorded in the Public Utilities Fund.

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.

#### **2010 - 3. Debt Transactions**

Criteria: Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. As part of that reporting process, the City should record the issuance of debt and debt related items as other finances sources (uses) in the statement of revenues, expenditures and changes in fund balance. Additionally, expenditures related to debt service, including compensated absences, are recorded only when payment is due. 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 improperly recorded compensated absences in the General Fund. Additionally, the City did not properly record the issuance of bonds payable, interest payable, or the amortization of cost in the Capital Improvement Fund and did properly record debt service in the Public Utilities Fund.

Context: See above condition.

# CITY OF PHENIX CITY, ALABAMA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### **2010 - 3. Debt Transactions (Continued)**

Effect: An adjustment to decrease compensated absences in the amount of \$630,431 and decrease expenditures in the same amount was required to be recorded in the General Fund. Adjustments to increase cash in the amount of \$25,537,852, decrease bonds payable in the amount of \$2,099,818, increase bond proceeds in the amount of \$31,739,072, increase bond issuance cost in the amount of \$614,257, increase bond discount in the amount of \$154,723, increase bond payments in the amount of \$2,203,311, increase revenue in the amount of \$17, and increase transfers out in the amount of \$1,129,128 were required to be recorded in the Capital Improvement Fund. Adjustments to decrease bonds payable in the amount of \$1,340,493, decrease bond cost in the amount of \$46,126, decrease accrued interest in the amount of \$1,946, and decrease expenses in the amount of \$1,296,313 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.

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.

#### **2010 - 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, Capital Improvement Fund, or Public Utilities Fund as of September 30, 2010.

Context: See above condition.

Effect: An adjustment to increase accounts receivable in the amount of \$59,577 and increase revenue in the same amount was required to be recorded in the General Fund. An adjustment to increase accounts receivable in the amount of \$220,352 and increase revenue in the same amount was required to be recorded in the Capital Improvement Fund. An adjustment to decrease accounts receivable in the amount of \$284,586 and decrease revenue in the same amount was 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.

# CITY OF PHENIX CITY, ALABAMA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### **2010 - 4. Management of Accounts Receivable Accounts (Continued)**

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.

#### **2010 - 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 General Fund, Public Utilities Fund, or the Non-major Funds.

Context: See above condition.

Effect: Adjustments to decrease due from balance in the amount of \$708,357 and decrease revenue in the same amount were required to be recorded in the General Fund. Adjustments to increase due from balance in the amount of \$526,085, increase net assets in the amount of \$158,755, and increase revenue in the amount of \$367,330 were required to be recorded in the Public Utilities Fund. An adjustment to increase due from balance in the amount of \$5,117 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.

#### **2010 - 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, 2010 as it relates to accounts payable within the General Fund, Capital Improvement Fund, Public Utilities 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, 2010.

# CITY OF PHENIX CITY, ALABAMA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### **2010 - 6. Management of Accounts Payable (Continued)**

Effect: An adjustment to increase accounts payable in the amount of \$203,547 and to increase expenditures in the same amount was required to be recorded in the General Fund. Adjustments to increase accounts payable in the amount of \$134,625 and to increase expenditures in the same amount were required to be recorded in the Capital Improvement Fund. An adjustment to increase accounts payable in the amount of \$25,780 and to increase expenditures in the same amount was required to be recorded in the Public Utilities Fund. An adjustment to decrease accounts payable in the amount of \$50,274 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.

#### **2010 - 7. Fund Balance/Net Assets**

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, 2010, the City did not properly record the transfer of the Golf Course Fund, a Non-major Fund, to the General Fund. Additionally, the City did not properly reconcile fund balance to the prior year financial statements.

Context: We addressed this matter with City management, and they were able to determine the adjustments necessary to properly state fund balance/net assets at September 30, 2010.

Effect: An adjustment to decrease fund balance in the amount of \$2,388,195, decrease accounts payable in the amount of \$563, decrease inventory in the amount of \$2,429,131, and increase expenditures in the amount of \$40,373 was required to be recorded in the General Fund. Adjustments to increase net assets in the amount of \$1,293,368, decrease fund balance in the amount of \$7,784, decrease accounts receivable in the amount of \$2,996, decrease due from other funds in the amount of \$5,117, increase revenue in the amount of \$7,762, increase expenses in the amount of \$3,592, and increase transfers out in the amount of \$1,297,867 were required to be recorded in the Non-major Funds.

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

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



**CITY OF PHENIX CITY, ALABAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

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**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)**

**2010 - 7. Fund Balance/Net Assets (Continued)**

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 yearend reporting purposes.

**SECTION III  
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None noted.

# CITY OF PHENIX CITY, ALABAMA

## SCHEDULE OF PRIOR YEAR FINDINGS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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### **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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2010-1.

### **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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2010-2.

### **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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2010-3.

# CITY OF PHENIX CITY, ALABAMA

## SCHEDULE OF PRIOR YEAR FINDINGS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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### **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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2010-4.

### **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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2010-5.

### **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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2010-6

### **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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2010-7.