

CITY OF PHENIX CITY, ALABAMA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2011

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FINANCIAL SECTION

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

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

Compliance

We have audited the City of Phenix City, Alabama's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Phenix City, Alabama's major federal programs for the year ended September 30, 2011. 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 \$11,999,405 in federal awards which is not included in the schedule during the year ended September 30, 2011. 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, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 3 - 8) and the Required Supplementary Information on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our 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 as a whole. 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. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Robinson, Grimes + Company, P.C.

Certified Public Accountants
February 15, 2013

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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, 2011. This report should be read in conjunction with the City's financial statements, which follow.

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

The City's financial statements consist of three parts: the management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements provide government-wide financial information about the City's overall financial status. The financial statements also include narrative notes that explain some of the information in the financial statements and provide more detailed data.

Government-Wide Statements

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

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

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

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

- Governmental Activities - most of the City's basic services are included here, such as general government (which includes administration, personnel, finance, and the City Courts) public safety, public works, parks and recreation, the Public Building Authority (a Blended Component Unit) and interest and fees on long-term debt;
- Business-Type Activities - the 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.

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Fund Financial Statements

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

- State law requires the various gas taxes to be accounted for separately because their expenditures are restricted to specific uses.
- The City Council has established Debt Service and Capital Projects Funds to better control the use of monies dedicated to a particular purpose such as the 7 Mill Tax Fund used for general obligation debt service.
- The City Council has also established funds to show compliance with certain legally restricted revenue sources, such as the Corrections Fund and Confiscated Property Funds that must be used for public safety related expenses.

The City's Funds are separated into three 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.

CITY OF PHENIX CITY, ALABAMA

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

This fund functions like a business activity, 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.

- Internal Service Funds. Services provided to other city funds for which the funds are charged a fee are generally reported in an Internal Service Fund. The City of Phenix City has one internal service fund:
 - Governmental Activities Internal Service Fund which provides health insurance for all city employees.

Component Units:

The City has one blended component unit and two discretely presented component units.

- The Public Building Authority is a Blended Component Unit and was established to issue debt needed to build facilities which are then leased back to the City. The City's lease payments to the Public Building Authority are equal to the annual debt service on the Warrants issued to fund the facilities. The activities of the Public Building Authority are reported as part of the Governmental Activities portion of the City's financial statements.
- The Phenix City-Russell County Library is a component unit of the City whose activities are reported separately in these financial statements. No separately issued financial statements are reported for the Library. Effective October 1, 2011 the Library was merged into the City and will be reported as a department of the city in any financial statement issued after that date.
- The Phenix City Board of Education is a component unit of the City established to manage the activities of the City's public school system. The City has issued bonds for the construction of facilities managed by the Board of Education and is obligated for the debt. Complete financial statements for the Board of Education are issued separately.

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Financial Analysis of the City (Primary Government)

Assets

Total assets of the City were \$185,305,376 for 2011 compared to \$143,844,099 for 2010. 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, 2011 was \$108,264,974, which is an increase of \$4,781,103 from September 30, 2010 of \$103,483,871. The City has recorded an accumulated \$58,456,389 in depreciation expense against these capital assets leaving a net asset book value of \$49,808,585. Debt outstanding related to capital assets was \$40,184,465 leaving an investment in capital assets of \$9,624,120 compared to \$10,408,856 for 2010. This decrease is related to the City's issuance of long-term debt to finance several large projects with capital additions being added and depreciated while the debt is not being paid down at the same rate. 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, 2011 of \$104,837,558, which represents an increase of \$5,482,197 from September 2010 of \$99,355,361. Net of \$34,487,376 in accumulated depreciation expense, the City's Business-type Activities had \$70,350,182 in capital assets most of which were related to Public Utilities (water and sewer). The City's water and sewer system debt outstanding related to capital assets was \$33,617,241 leaving an investment in capital assets of \$36,722,941 for 2011 compared to \$29,117,434 for 2010.

Revenues

The City's total revenue from Governmental Funds was \$31,968,815, an increase of 3.74% from the previous year \$30,816,198. The largest revenue source for the City is the sales and use tax totaling \$14,577,151, which represents 45.6% of total revenues. Licenses and permits totaled \$4,699,916, charges for service totaled \$2,563,639, property taxes totaled \$5,808,182, other business taxes \$714,412 and interest totaled \$88,042. The property tax rate for the City is 19 mills with seven mills dedicated for education and seven mills dedicated for debt service the remaining five mills is for operations. Of the total for property taxes, \$1,842,980 is dedicated to debt service and \$2,013,719 for education.

Expenditures

Departmental operating expenditures totaled \$26,873,461 or 91.19% of total non-capital expenditures of \$29,469,962. The City transferred \$2,027,568 to the Phenix City Board of Education and debt service on general obligation debt totaled \$2,596,501. The City refinanced the majority of its general obligation debt in September of 2010, reducing principle payments on outstanding long term debt for fiscal years 2011 and 2012 to improve cash flows during the recession.

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Expenditures for capital projects during the fiscal year were \$3,737,850.

Public safety (police, code enforcement and fire departments) is the largest category of departmental operating expenses totaling \$10,591,856 or 35.94%. General government, which includes the City manager's office, City clerk, finance, personnel, and the Municipal Court, is second with a total of \$7,418,520 or 25.17%. Culture and recreation at \$3,700,527 or 12.56% is third, followed by Public works at \$3,134,990 or 10.64% representing most of the balance of departmental operating expenditures. The decrease in departmental expenses resulted from the City's cost saving measures to improve cash flows.

Business-Type Activities

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

Operating revenues in the Public Utilities division of \$9,806,904 were down \$48,617 in 2011 compared to \$9,855,521 in 2010 due to normal fluctuations in revenues from weather conditions and the amount of rainfall each year. Operating expenses of \$6,083,615, not including depreciation and amortization expenses, compared to \$6,409,918 were down \$325,303 primarily due to tighter budgetary controls due to the economic recession. Operating income, not including depreciation and amortization increased \$277,686 to \$3,723,289 in 2011 compared to \$3,445,603 in 2010. Depreciation and amortization expenses of \$2,645,417 increased \$391,843 from \$2,253,574 in 2010. Interest expense decreased to \$1,864,850 in 2011 compared to \$1,874,152 in 2010 due to refinancing of existing debt. Interest income was \$130,108 in 2011 compared to \$29,198 in 2010 and contributed assets were \$414,137 in 2011 compared to \$439,001 in 2010. The change in net assets was \$602,194 for 2011, which was down from \$898,996 in 2010. 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 5 year planed 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 increased \$1,419,979 to \$4,487,823 in 2011 compared to \$3,067,844 in 2010 due increases in revenue and cost cutting measures in departmental expenses. The fund balance for the City's other Governmental Funds increased \$28,973,427 to \$36,101,159 in 2011 compared to \$7,127,732 in 2010 primarily due to bond proceeds held for completion of several capital projects.

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Net assets in Public Utilities increased \$617,806 to \$45,044,618 in 2011 compared to \$44,426,812 in 2010.

Budgetary Highlights

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

Total operating revenues were \$195,920 less than budgetary projections in the General Fund, due to revenue shortfalls in all taxes 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 in 2010. Sales tax revenues have remained lower than expected in 2011 due to those developments and the extended economic downturn. Departmental expenditures were \$256,717 more than budgeted.

Water and sewer revenues in Public Utilities were down \$48,617 due to normal fluctuations in rainfall. The City raised water rates 15% and sewer rates 40% and increased development fees in April of 2008 in anticipation of increased operating expenses and to fund the departments Capital Improvement Plan. The City expects to continue 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 35-37.

The City issued \$33,070,000 general obligation debt and retired \$1,085,000 in Fiscal 2011, and had \$73,380,000 outstanding in long-term general obligation debt at Fiscal 2011 year-end compared to \$41,395,000 in 2010. General obligation debt of \$20,745,000 or 28.27% of the total outstanding in 2011 will be retired by the end of 2021.

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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

The City's Public Utilities Fund retired \$12,365,000 of revenue debt in 2011 and issued \$19,420,000 in new debt. The City had \$47,045,000 in revenue debt outstanding at the end of Fiscal 2010 compared to \$39,950,000 in 2010. Of the \$47,045,000 in Revenue Warrants payable from the Utility Fund warrants outstanding at Fiscal 2011 year-end, \$12,035,000 or 25.6% will be retired by 2021 year end. Details of the City's debt activity can be found in Note 7 on pages 38-50.

The City issued \$20,875,000 in debt through the City of Phenix City Public Building Authority. The City pays lease payment to the Public Building Authority from its General Fund and from its Public Utilities Fund sufficient to cover the annual debt service on the Public Building Authority Debt. The General Fund of the City is obligated to pay 70.56% of the lease payments and the Public Utilities Fund is obligated for 29.44%. To guarantee the lease payments the City has pledged its sales tax revenue.

The City has issued General Obligation Debt to fund facilities for the City of Phenix City Board of Education. Debt service on the outstanding debt is paid by the Board of Education under a funding agreement with the City. The outstanding balance of this debt as of September 30, 2011 was \$33,180,000.

Bond Ratings

The City received its most recent bond rating, an A+ rating with a positive outlook, 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 5 years. 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 2012. The City raised its sales tax rate by .75% from 8% to 8.75% effective October 1, 2011 to fund capital projects and operating expenses. 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.

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

The construction of a new KIA automotive plant 30 miles north of the city and the expansion of Fort Benning and expansion of AFLAC in Columbus, Georgia is expected to increase population in the metro area over the next 3 years to five 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 60% capacity leaving ample room for growth. The City has entered into an agreement to provide water to Fort Mitchell, Alabama, sewer service to the City of Smiths, Alabama and both water and sewer service to the Russell County Utility System, which should result in steady revenue growth from these sources at little cost to the City. The Russell County Utility System is now the City's largest customer.

Contacting the City's Financial Management

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

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

ASSETS	Primary Government		Total
	Governmental Activities	Business-type Activities	
Cash and cash equivalents	\$ 2,268,360	\$ 3,380,246	\$ 5,648,606
Investments	2,000,000	-	2,000,000
Taxes receivable	2,539,740	-	2,539,740
Accounts receivable	400,782	1,456,067	1,856,849
Interest receivable	-	-	-
Notes receivable	390,000	236,640	626,640
Internal balances	(678,778)	678,778	-
Due from other governments	614,959	-	614,959
Due from component units	-	-	-
Inventories	66,513	190,435	256,948
Prepaid expenses	160,071	39,801	199,872
Restricted assets:			
Cash and cash equivalents	35,795,342	12,903,903	48,699,245
Investments	-	-	-
Deferred charges	1,730,202	973,548	2,703,750
Capital assets, non-depreciable	17,663,158	2,586,200	20,249,358
Capital assets, depreciable, net of accumulated depreciation	32,145,427	67,779,594	99,925,021
Total assets	<u>95,095,776</u>	<u>90,225,212</u>	<u>185,320,988</u>
LIABILITIES			
Accounts payable	850,060	770,889	1,620,949
Accrued liabilities	624,259	103,380	727,639
Claims payable	381,613	-	381,613
Due to other governments	13,413	-	13,413
Due to component units	21,966	-	21,966
Unearned revenues	24,618	-	24,618
Customer deposits	-	85,245	85,245
Accrued interest	282,508	259,888	542,396
Capital leases due within one year	21,235	23,202	44,437
Capital leases due in more than one year	82,069	72,178	154,247
Bonds payable due within one year	590,000	740,000	1,330,000
Bonds payable due in more than one year	68,971,812	42,830,674	111,802,486
Compensated absences due within one year	541,009	70,510	611,519
Compensated absences due in more than one year	135,253	17,628	152,881
Net other postemployment benefits obligation	1,176,000	207,000	1,383,000
Other liabilities	-	-	-
Total liabilities	<u>73,715,815</u>	<u>45,180,594</u>	<u>118,896,409</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,624,120	36,722,941	46,347,061
Restricted for:			
Capital projects	6,291,056	-	6,291,056
Debt service	749,404	2,948,028	3,697,432
Unrestricted (deficit)	4,715,381	5,373,649	10,089,030
Total net assets	<u>\$ 21,379,961</u>	<u>\$ 45,044,618</u>	<u>\$ 66,424,579</u>

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

Component Units			
Phenix City Board of Education		Phenix City- Russell County Library	
\$	4,275,246	\$	20,555
	9,263		-
	-		-
	775,074		-
	-		-
	-		-
	-		-
	-		-
	168,351		-
	55,112		-
	2,851,048		-
	-		-
	548,397		-
	5,030,172		-
	57,435,062		6,442
	<u>71,147,725</u>		<u>26,997</u>
	663,602		-
	3,717,536		24,224
	-		-
	-		-
	-		-
	-		-
	-		-
	-		-
	-		-
	1,279,523		-
	41,261,363		-
	-		-
	-		-
	81,746		-
	<u>47,003,770</u>		<u>24,224</u>
	20,628,723		6,442
	2,281,780		-
	8,159		-
	1,225,293		(3,669)
\$	<u>24,143,955</u>	\$	<u>2,773</u>

CITY OF PHENIX CITY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Program Revenues			Primary Government			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Phenix City Board of Education	Phenix City-Russell County Library	Component Units	
								Total	
Primary government:									
General government	\$ 7,475,102	\$ 177,814	\$ 581,867	\$ (3,052,723)	\$ -	\$ -	\$ -	\$ -	\$ -
Judicial	-	-	-	-	-	-	-	-	-
Public safety	591,066	193,852	-	(10,390,344)	-	-	-	-	-
Public works	2,758,368	956	1,468,934	201,978	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-	-	-
Culture and recreation	885,193	-	-	(3,664,713)	-	-	-	-	-
Education	2,027,567	-	-	(2,027,567)	-	-	-	-	-
Interest on long-term debt	1,867,604	-	-	(1,867,604)	-	-	-	-	-
Total governmental activities	\$ 11,709,729	\$ 372,622	\$ 2,050,801	\$ (20,800,973)	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities:									
Public Utilities	9,806,904	-	1,445,374	-	658,396	-	-	-	-
Total business-type activities	\$ 9,806,904	-	\$ 1,445,374	-	\$ 658,396	-	-	-	-
Total primary government	\$ 21,516,633	\$ 372,622	\$ 3,496,175	\$ (20,800,973)	\$ 658,396	\$ (9,317,728)	\$ -	\$ (21,473)	\$ (21,473)
Component units:									
Phenix City Board of Education	\$ 2,179,066	\$ 47,945,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Phenix City-Russell County Library	33,530	243,107	-	-	-	-	-	-	-
Total component units	\$ 2,212,596	\$ 48,188,376	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General revenues:									
Property taxes	\$ 6,257,604	\$ -	\$ -	\$ 6,257,604	\$ -	\$ 7,903,030	\$ -	\$ -	\$ -
Sales and use taxes	14,577,151	-	-	14,577,151	-	3,528,688	-	-	-
Business taxes	714,412	-	-	714,412	-	6,676	-	-	-
Unrestricted investment earnings	88,202	-	-	88,202	145,720	-	-	-	-
Transfers	186,310	-	-	186,310	(186,310)	-	-	-	-
Total general revenues and transfers	\$ 21,823,679	\$ (40,590)	\$ -	\$ 21,783,089	\$ -	\$ 11,438,394	\$ -	\$ 436	\$ 436
Change in net assets	1,022,706	-	-	1,022,706	617,806	2,120,666	-	(21,037)	-
Net assets, beginning of year	20,357,255	-	-	20,357,255	44,426,812	22,023,289	-	23,810	-
Net assets, end of year	\$ 21,379,961	\$ -	\$ -	\$ 21,379,961	\$ 45,044,618	\$ 24,143,955	\$ -	\$ 2,773	\$ -

* Restated, see Note 14.

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

CITY OF PHENIX CITY, ALABAMA

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

ASSETS	General	Capital Improvement	Public Building Authority	Nonmajor Governmental Funds	Total
Cash and cash equivalents	\$ 2,002,132	\$ -	\$ -	\$ 266,227	\$ 2,268,359
Investments	2,000,000	-	-	-	2,000,000
Taxes receivable	1,266,684	-	-	1,273,056	2,539,740
Accounts receivable	6,809	-	-	393,973	400,782
Notes receivable	-	-	-	390,000	390,000
Due from other funds	468,059	885,530	-	-	1,353,589
Due from other governments	85,225	511,706	-	18,028	614,959
Inventory	66,513	-	-	-	66,513
Prepaid items	160,071	-	-	-	160,071
Restricted cash	-	13,507,768	19,791,728	2,491,226	35,790,722
Total assets	\$ 6,055,493	\$ 14,905,004	\$ 19,791,728	\$ 4,832,510	\$ 45,584,735
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 571,228	\$ 277,383	\$ -	\$ 1,449	\$ 850,060
Accrued expenses	624,259	-	-	-	624,259
Due to other funds	95,511	-	973,293	963,563	2,032,367
Due to other governments	-	13,413	-	-	13,413
Due to component units	-	-	-	21,966	21,966
Deferred revenue	276,672	-	-	1,177,016	1,453,688
Total liabilities	1,567,670	290,796	973,293	2,163,994	4,995,753
FUND BALANCES (DEFICIT)					
Nonspendable:					
Inventories	66,513	-	-	-	66,513
Prepaid assets	160,071	-	-	-	160,071
Restricted for:					
Debt service	-	-	42,250	990,663	1,032,913
Capital projects	-	14,614,208	18,776,185	-	33,390,393
Street improvements	-	-	-	650,111	650,111
Revolving loans	-	-	-	1,017,090	1,017,090
Public safety	-	-	-	9,488	9,488
Economic development	-	-	-	1,164	1,164
Assigned for:					
General self insurance liability	500,000	-	-	-	500,000
Unassigned	3,761,239	-	-	-	3,761,239
Total fund balances	4,487,823	14,614,208	18,818,435	2,668,516	40,588,982
Total liabilities and fund balances	\$ 6,055,493	\$ 14,905,004	\$ 19,791,728	\$ 4,832,510	
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. 49,808,585					
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 1,429,071					
Bond issuance costs, net of accumulated amortization 1,730,202					
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. (376,993)					
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					
Bond payables (69,561,812)					
Accrued interest on long-term liabilities (282,508)					
Capital leases (103,304)					
Accrued compensated absences (676,262)					
Net other postemployment benefits obligation (1,176,000)					
Net assets of governmental activities \$ 21,379,961					

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, 2011

	General	Capital Improvement	Public Building Authority	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 2,109,806	\$ -	\$ -	\$ 3,856,699	\$ 5,966,505
Sales and use taxes	14,118,986	-	-	458,165	14,577,151
Business taxes	92,175	-	-	622,237	714,412
Licenses and permits	4,699,916	-	-	-	4,699,916
Intergovernmental	935,693	841,292	-	-	1,776,985
Charges for services	2,403,065	-	-	160,574	2,563,639
Fines and forfeitures	421,457	-	-	130,443	551,900
Interest	10,210	33,244	41,250	3,338	88,042
Other revenues	323,311	-	-	16	323,327
Parks and recreation	871,019	-	-	-	871,019
Total revenues	25,985,638	874,536	41,250	5,231,472	32,132,896
Expenditures:					
Current:					
General government	7,405,065	-	-	13,455	7,418,520
Public safety	10,560,231	-	-	31,625	10,591,856
Public works	2,939,844	-	-	195,146	3,134,990
Culture and recreation	3,700,527	-	-	-	3,700,527
Education	-	-	-	2,027,568	2,027,568
Capital outlay	-	2,764,557	973,293	-	3,737,850
Debt service:					
Principal	-	-	-	135,000	135,000
Interest	-	617,833	-	817,540	1,435,373
Fiscal agent fees	-	387,901	638,227	-	1,026,128
Total expenditures	24,605,667	3,770,291	1,611,520	3,220,334	33,207,812
Excess (deficiency) of revenues over (under) expenditures	1,379,971	(2,895,755)	(1,570,270)	2,011,138	(1,074,916)
Other financing sources (uses):					
Capital leases	111,949	-	-	-	111,949
Bond proceeds	-	12,195,000	20,875,000	-	33,070,000
Discount on bond issuance	-	(196,640)	(486,295)	-	(682,935)
Payment to refunded debt escrow agent	-	(737,502)	-	-	(737,502)
Transfers in	407,559	-	-	390,000	797,559
Transfers out	(479,500)	(41,086)	-	(570,163)	(1,090,749)
Total other financing sources (uses)	40,008	11,219,772	20,388,705	(180,163)	31,468,322
Net change in fund balances	1,419,979	8,324,017	18,818,435	1,830,975	30,393,406
Fund balances, beginning of year	3,067,844 *	6,290,191	-	837,541	10,195,576
Fund balances, end of year	\$ 4,487,823	\$ 14,614,208	\$ 18,818,435	\$ 2,668,516	40,588,982

* Restated, see Note 14.

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, 2011

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

Net change in fund balances - total governmental funds	\$ 30,393,406
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.	1,463,177
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net assets.	646,439
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.	291,100
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.	(30,777,975)
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.	(686,050)
Internal service funds are used by management to charge the costs of insurance to individual funds.	(3,007,478)
The revenue of certain activities of internal service funds is reported with governmental activities.	<u>2,700,087</u>
Change in net assets of governmental activities	<u>\$ 1,022,706</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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,399,998	\$ 1,399,998	\$ 2,109,806	\$ 709,808
Sales and use taxes	14,825,964	14,825,964	14,118,986	(706,978)
Business taxes	226,488	226,488	92,175	(134,313)
Licenses and permits	4,778,263	4,778,263	4,699,916	(78,347)
Intergovernmental	559,400	559,400	935,693	376,293
Charges for services	2,551,456	2,551,456	2,403,065	(148,391)
Fines and forfeitures	495,839	495,839	421,457	(74,382)
Interest income	72,550	72,550	10,210	(62,340)
Miscellaneous Income	310,400	310,400	323,311	12,911
Parks and recreation	961,200	961,200	871,019	(90,181)
Total revenues	<u>26,181,558</u>	<u>26,181,558</u>	<u>25,985,638</u>	<u>(195,920)</u>
Expenditures:				
Current:				
General government:				
City manager	214,350	220,119	220,001	118
Personnel	253,947	254,691	252,773	1,918
City clerk	332,159	322,571	317,202	5,369
Information Technology	199,513	197,392	210,888	(13,496)
Municipal court	356,057	355,565	357,196	(1,631)
Finance	483,925	449,905	437,068	12,837
Finance - revenue collection	92,409	104,588	104,199	389
Non-departmental	4,051,796	4,118,674	4,789,514	(670,840)
Appropriations and contributions	340,736	343,261	344,525	(1,264)
Economic development	235,325	204,362	162,507	41,855
Building maintenance	298,025	235,119	209,192	25,927
Total general government	<u>6,858,242</u>	<u>6,806,247</u>	<u>7,405,065</u>	<u>(598,818)</u>
Public safety:				
Code enforcement	406,095	397,896	393,575	4,321
Fire	4,421,395	4,042,193	3,918,589	123,604
Police	6,373,582	6,150,509	6,122,015	28,494
Animal control	170,176	119,713	126,052	(6,339)
Total public safety	<u>11,371,248</u>	<u>10,710,311</u>	<u>10,560,231</u>	<u>150,080</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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures: (Continued)				
Current:				
Public works:				
Vehicle maintenance	\$ 172,093	\$ 169,941	\$ 156,868	\$ 13,073
Engineering	462,675	398,607	408,463	(9,856)
Administration	355,514	363,435	349,704	13,731
Limbs and debris	1,201,659	1,153,113	1,123,418	29,695
Refuse disposal	232,171	250,272	250,080	192
Streets and drainage	850,328	672,796	651,311	21,485
Total public works	<u>3,274,440</u>	<u>3,008,164</u>	<u>2,939,844</u>	<u>68,320</u>
Culture and recreation:				
Parks and recreation	2,933,903	2,640,843	2,500,788	140,055
Central activity center	88,000	92,450	81,869	10,581
Amphitheater	99,200	101,925	100,141	1,784
Golf course	958,992	989,010	1,017,729	(28,719)
Total culture and recreation	<u>4,080,095</u>	<u>3,824,228</u>	<u>3,700,527</u>	<u>123,701</u>
Total expenditures	<u>25,584,025</u>	<u>24,348,950</u>	<u>24,605,667</u>	<u>(256,717)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>597,533</u>	<u>1,832,608</u>	<u>1,379,971</u>	<u>(452,637)</u>
Other financing sources (uses):				
Capital leases	-	-	111,949	111,949
Transfers in	375,000	375,000	407,559	32,559
Transfers out	(250,000)	(250,000)	(479,500)	(229,500)
Total other financing sources (uses)	<u>125,000</u>	<u>125,000</u>	<u>40,008</u>	<u>(84,992)</u>
Net change in fund balances	722,533	1,957,608	1,419,979	(537,629)
Fund balance, beginning of year	<u>3,067,844</u>	<u>3,067,844</u>	<u>3,067,844</u>	<u>*</u>
Fund balance, end of year	<u>\$ 3,790,377</u>	<u>\$ 5,025,452</u>	<u>\$ 4,487,823</u>	<u>\$ (537,629)</u>

* Restated, see Note 14.

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

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011**

	Business-type Activities	
	Enterprise Funds	Governmental Activities
	Public Utilities	Internal Service Fund
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,380,246	\$ -
Accounts receivable, net of allowances	1,456,067	-
Notes receivable	10,740	-
Due from other funds	941,155	-
Inventories	190,435	-
Prepaid expenses	39,801	-
Total current assets	<u>6,018,444</u>	<u>-</u>
RESTRICTED ASSETS		
Cash and cash equivalents	12,903,903	4,620
NONCURRENT ASSETS		
Deferred bond issuance, unamortized balance	973,548	-
Notes receivable, net of current portion	225,900	-
Capital assets:		
Nondepreciable	2,586,200	-
Depreciable, net of accumulated depreciation	67,779,594	-
Total noncurrent assets	<u>71,565,242</u>	<u>-</u>
Total assets	<u>90,487,589</u>	<u>4,620</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	770,889	-
Accrued expenses	103,380	-
Claims payable	-	381,613
Due to other funds	262,377	-
Customer deposits	85,245	-
Accrued interest	259,888	-
Current portion - capital lease	23,202	-
Current portion - bonds payable	740,000	-
Current portion - compensated absences	70,510	-
Total current liabilities	<u>2,315,491</u>	<u>381,613</u>
LONG-TERM LIABILITIES		
Capital lease, net of current portion	72,178	-
Bonds payable, net of current portion	42,830,674	-
Compensated absences, net of current portion	17,628	-
Net other postemployment benefits obligation	207,000	-
Total long-term liabilities	<u>43,127,480</u>	<u>-</u>
Total liabilities	<u>45,442,971</u>	<u>381,613</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	36,722,941	-
Restricted for debt service	2,948,028	-
Unrestricted (deficit)	5,373,649	(376,993)
Total net assets (deficit)	<u>\$ 45,044,618</u>	<u>\$ (376,993)</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, 2011**

	Business-type Activities Enterprise Funds	Governmental Activities Internal Service Fund
	Public Utilities	
OPERATING REVENUES		
Charges for services	\$ 9,696,419	\$ 2,699,928
Miscellaneous	110,485	-
Total operating revenues	<u>9,806,904</u>	<u>2,699,928</u>
OPERATING EXPENSES		
Administrative	2,197,634	-
Water plant	1,270,474	-
Water distribution	824,587	-
Wastewater distribution	773,820	-
Wastewater plant	1,017,100	-
Depreciation and amortization	2,645,417	-
Claims and damages	-	3,486,978
Total operating expenses	<u>8,729,032</u>	<u>3,486,978</u>
Operating income (loss)	<u>1,077,872</u>	<u>(787,050)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	76,870	-
Interest income	145,720	159
Interest expense	(1,864,850)	-
System development fees	954,367	-
Total nonoperating income (loss)	<u>(687,893)</u>	<u>159</u>
Income (loss) before contributions and transfers	389,979	(786,891)
CAPITAL CONTRIBUTIONS	<u>414,137</u>	<u>-</u>
TRANSFERS		
Transfers in	-	479,500
Transfers out	(186,310)	0
Total transfers	<u>(186,310)</u>	<u>479,500</u>
Change in net assets	617,806	(307,391)
NET ASSETS (deficit), beginning of year	<u>44,426,812</u> *	<u>(69,602)</u>
NET ASSETS (deficit), end of year	<u>\$ 45,044,618</u>	<u>\$ (376,993)</u>

* Restated, see Note 14.

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, 2011**

	Business-type Activities	
	Enterprise Funds	Governmental Activities
	Public Utilities	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 10,065,771	\$ 2,699,928
Payments to suppliers	(2,760,055)	(3,231,224)
Payments to employees	(2,824,807)	-
Net cash provided by (used in) operating activities	<u>4,480,909</u>	<u>(531,296)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	-	479,500
Transfers out	(186,310)	-
Intergovernmental	76,870	-
System development fees	954,367	-
Net cash provided by noncapital financing activities	<u>844,927</u>	<u>479,500</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,943,466)	-
Principal paid on bonds	(725,000)	-
Proceeds from bond issuance	5,584,832	-
Principal paid on capital lease	(22,454)	-
Interest paid	(1,820,524)	-
Net cash used in capital and related financing activities	<u>(1,926,612)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	145,720	159
Net cash provided by investing activities	<u>145,720</u>	<u>159</u>
Net increase (decrease) in cash and cash equivalents	3,544,944	(51,637)
Cash and cash equivalents:		
Beginning of year	<u>12,739,205</u>	<u>56,257</u>
End of year	<u>\$ 16,284,149</u>	<u>\$ 4,620</u>
Classified as:		
Cash	\$ 3,380,246	\$ -
Restricted assets, cash	12,903,903	4,620
	<u>\$ 16,284,149</u>	<u>\$ 4,620</u>

(Continued)

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

	Business-type Activities	
	Enterprise Funds	Governmental Activities
	Public Utilities	Internal Service Fund
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ 1,077,872	\$ (787,050)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	2,645,417	-
Decrease in accounts receivable	105,163	-
Decrease in notes receivable	32,460	-
Decrease in due from other funds	188,310	-
Increase in inventory	(30,462)	-
Decrease in prepaid expenses	7,096	-
Increase in accounts payable	459,245	-
Increase in accrued expenses	10,615	-
Increase in claims payable	-	255,754
Decrease in due to other funds	(62,586)	-
Decrease in customer deposits	(4,480)	-
Decrease in compensated absences	(16,741)	-
Increase in other postretirement benefits obligation	69,000	-
Net cash provided by (used in) operating activities	<u>\$ 4,480,909</u>	<u>\$ (531,296)</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Contributions of donated assets	\$ 414,137	\$ -
	<u>\$ 414,137</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, 2011

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-council 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 GAAP, 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 in Section 2100 of the GASB's Codification of Governmental Accounting and Financial Reporting Standards for including organizations as component units within the City's reporting entity, the City has two discretely presented component units and one blended component unit. 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. The blended component unit is reported as a major governmental fund and is included in governmental activities in the government-wide financial statements.

Discretely Presented Component Units

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

The Phenix City-Russell County Library Authority (the "Library") – The City appoints all members of the Library's governing body. Additionally, the City provides a significant operating subsidy to the Library, primarily to finance operations. There are no separately issued financial statements for the Library.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Financial Reporting Entity (Continued)

Blended Component Unit

The Public Building Authority (the "PBA") –The PBA was created during the current year. The main purpose of the PBA is to provide buildings and facilities for lease to and use by the City in performance of its public functions. The PBA is a blended component unit based on the aforementioned criteria, specifically in that it has a separate governing body that is appointed by the Council and the Council can impose its will upon the PBA. The PBA is presented as a blended component unit since its purpose is to provide services to the City and it is fiscally dependent upon the City. There are no separately issued financial statements for the PBA.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 as specified by bond resolutions.

The **PBA** is a blended component unit of the City. It is presented as a major capital projects fund. It accounts for specific capital projects of the PBA and the related debt associated with the projects.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

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 in the Public Utilities Fund is included as part of the capitalized value of the assets constructed. Interest expense of approximately \$137,200 was capitalized in the Public Utilities Fund during the fiscal year ending September 30, 2011.

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

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

J. Long-Term Obligations

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Beginning with fiscal year 2011, the City implemented GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – The City's nonspendable fund balance consists solely of amounts that are not in spendable form such as inventories and prepaid expenses;

Restricted fund balance – Amounts constrained to specific purposes by their providers such as grantors, bondholders, and higher levels of government, through constitutional provisions, or by enabling legislation;

Committed fund balance - Amounts constrained to specific purposes by the City itself, using its highest level of decisions-making authority (the Council); to be reported as committed, amounts cannot be used for any other purpose unless the Council takes the same highest level action to remove or change the constraint;

Assigned fund balance - Amounts the City intends to use for a specific purpose; intent can be expressed by the Council or by a designee to whom the Council delegates authority. The Council has designated authority to the Director of Finance;

Unassigned fund balance - Amounts that are available for any legal purpose.

The Council establishes (and modifies or rescinds) fund balance commitments through adoptions and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Council through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes). When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Management Estimates

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$69,561,812 difference are as follows:

Bonds payable	\$ (73,380,000)
Unamortized deferred charge on refunding	3,135,254
Unamortized bond issuance cost	<u>682,934</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$ (69,561,812)</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 \$1,463,177 difference are as follows:

Capital outlay	\$ 4,134,664
Depreciation expense	(2,671,487)
Net adjustment to increase net changes in fund balances - total <i>governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 1,463,177

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 \$30,777,975 difference are as follows:

Issuance of bonds	\$ (33,070,000)
Capital lease	(111,949)
Principal repayment - capital lease	8,645
Principal repayment - bonds	948,066
Discount on bond issuance, net of amortization	682,934
Loss on defeasance of bonds, net of amortization	(212,498)
Bond issuance cost, net of amortization	976,827
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ (30,777,975)

NOTES TO FINANCIAL STATEMENTS

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

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

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$686,050 difference are as follows:

Accrued interest	\$ (244,512)
Compensated absences	(49,538)
Increase in net other postemployment benefits obligation	<u>(392,000)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ (686,050)</u></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 on the 3rd Tuesday of September of each year. The City Council approves budget amendments during the year.

B. Encumbrances

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LEGAL COMPLIANCE – BUDGETS (CONTINUED)

C. Excess Expenditures Over Appropriations

For the year ended September 30, 2011, the following departments had excess of actual expenditures over appropriations, which were funded by available fund balance of the General Fund:

	Excess
Information Technology	\$ (13,496)
Municipal court	(1,631)
Non-departmental	(670,840)
Appropriations and contributions	(1,264)
Animal control	(6,339)
Engineering	(9,856)
Gof course	(28,719)

For the year ended September 31, 2011, non-departmental expenditures exceeded budget by approximately \$670,000 as a result of non-budgeted grant award revenue and related expenditures subsequent to the adoption of the budget in the approximate amount of \$440,000 and other expenditures including accrued payroll, legal fees, bond insurance and garbage services that exceeded budget by approximately \$230,000. The over expenditures in the General Fund were funded by grant revenue which is included in intergovernmental revenues and sales tax receipts. Municipal Court receives additional revenue from court fines to use for expenditures of the court, which are not quantifiable at the time of the budget. Additional expenditures incurred by Animal Control are offset by contributions from Russell County to support the operation costs of the shelter. Additional capital expenditures resulted from emergency technology repairs and other capital needs, which were approved by the Council.

NOTE 4. CASH AND INVESTMENTS

At September 30, 2011, the City had the following investments:

Investments	Maturities	Rating	Fair Value
<i>Unrestricted investments:</i>			
Certificates of Deposit	6 months	n/a	\$ 2,000,000

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. CASH AND INVESTMENTS (CONTINUED)

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, 2011, the City and the Board of Education had no uncollateralized deposits.

NOTE 5. RECEIVABLES

Receivables consisted of the following at September 30, 2011:

	General	Other Governmental Funds	Public Utilities	Total
Receivables:				
Taxes	\$ 1,425,007	\$ 1,273,056	\$ -	\$ 2,698,063
Accounts	6,809	393,973	3,045,085	3,445,867
Notes	0	390,000	236,640	626,640
Gross receivables	1,431,816	2,057,029	3,281,725	6,770,570
Less allowance for uncollectibles	(158,323)	-	(1,589,018)	(1,747,341)
Net total receivable	\$ 1,273,493	\$ 2,057,029	\$ 1,692,707	\$ 5,023,229

Property taxes attached as an enforceable lien on property as of January 1, 2010. Property taxes were levied on October 20, 2010, and payable on or before December 20, 2010. Property taxes levied for 2010 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during the year ended September 30, 2011, and collected by November 30, 2011, are recognized as revenues in the year ended September 30, 2011. Net receivables estimated to be collected subsequent to November 30, 2011, 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, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land and improvements	\$ 15,226,765	\$ 584,920	\$ -	\$ -	\$ 15,811,685
Construction in progress	653,945	1,851,473	-	(653,945)	1,851,473
Total capital assets, not being depreciated	<u>15,880,710</u>	<u>2,436,393</u>	<u>-</u>	<u>(653,945)</u>	<u>17,663,158</u>
Capital assets, being depreciated:					
Buildings	24,618,254	287,464	-	-	24,905,718
Machinery and equipment	12,361,776	559,276	-	-	12,921,052
Infrastructure	50,623,131	1,497,970	-	653,945	52,775,046
Total capital assets, being depreciated	<u>87,603,161</u>	<u>2,344,710</u>	<u>-</u>	<u>653,945</u>	<u>90,601,816</u>
Less accumulated depreciation for:					
Buildings	(14,539,215)	(981,142)	-	-	(15,520,357)
Machinery and equipment	(7,290,512)	(1,180,019)	-	-	(8,470,531)
Infrastructure	(33,955,175)	(510,326)	-	-	(34,465,501)
Total accumulated depreciation	<u>(55,784,902)</u>	<u>(2,671,487)</u>	<u>-</u>	<u>-</u>	<u>(58,456,389)</u>
Total capital assets, being depreciated, net	<u>31,818,259</u>	<u>(326,777)</u>	<u>-</u>	<u>653,945</u>	<u>32,145,427</u>
Governmental activities capital assets, net	<u>\$ 47,698,969</u>	<u>\$ 2,109,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,808,585</u>
Business-type Activities:					
Capital assets, not being depreciated:					
Land	\$ 272,544	\$ -	\$ -	\$ -	\$ 272,544
Construction in progress	2,862,257	4,533,192	-	(5,081,793)	2,313,656
Total capital assets, not being depreciated	<u>3,134,801</u>	<u>4,533,192</u>	<u>-</u>	<u>(5,081,793)</u>	<u>2,586,200</u>
Capital assets, being depreciated:					
Building and improvements	994,976	-	-	-	994,976
Machinery and equipment	5,448,423	177,313	-	-	5,625,736
Plant facilities	89,780,160	784,305	-	5,081,793	95,646,258
Total capital assets, being depreciated	<u>96,223,559</u>	<u>961,618</u>	<u>-</u>	<u>5,081,793</u>	<u>102,266,970</u>
Less accumulated depreciation for:					
Building and improvements	(478,867)	(39,859)	-	-	(518,726)
Machinery and equipment	(3,926,891)	(323,727)	-	-	(4,250,618)
Plant facilities	(27,801,016)	(1,917,016)	-	-	(29,718,032)
Total accumulated depreciation	<u>(32,206,774)</u>	<u>(2,280,602)</u>	<u>-</u>	<u>-</u>	<u>(34,487,376)</u>
Total capital assets, being depreciated, net	<u>64,016,785</u>	<u>(1,318,984)</u>	<u>-</u>	<u>5,081,793</u>	<u>67,779,594</u>
Business-type activities capital assets, net	<u>\$ 67,151,586</u>	<u>\$ 3,214,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,365,794</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

A. Primary Government (Continued)

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

Governmental activities:		
General government	\$	48,799
Public safety		853,133
Public works		904,402
Culture and recreation		865,153
Total depreciation expense - governmental activities	\$	<u>2,671,487</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 635,026	\$ -	\$ -	\$ 635,026
Construction in progress	630,659	3,764,487	-	4,395,146
Total capital assets, not being depreciated	1,265,685	3,764,487	-	5,030,172
Capital assets, being depreciated:				
Building and improvements	70,745,708	737,511	-	71,483,219
Machinery and equipment	5,814,276	950,842	(7,300)	6,757,818
Total	76,559,984	1,688,353	(7,300)	78,241,037
Less accumulated depreciation for:				
Total	(19,050,115)	(1,763,160)	7,300	(20,805,975)
Total capital assets, being depreciated, net	57,509,869	(74,807)	-	57,435,062
Discretely presented component unit capital assets, net	\$ 58,775,554	\$ 3,689,680	\$ -	\$ 62,465,234

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Furniture and equipment	\$ 266,129	\$ 2,761	\$ -	\$ 268,890
Total	<u>266,129</u>	<u>2,761</u>	<u>-</u>	<u>268,890</u>
Less accumulated depreciation for:				
Furniture and equipment	(251,527)	(10,921)	-	(262,448)
Total	<u>(251,527)</u>	<u>(10,921)</u>	<u>-</u>	<u>(262,448)</u>
Total capital assets, being depreciated, net	<u>14,602</u>	<u>(8,160)</u>	<u>-</u>	<u>6,442</u>
Discretely presented component unit capital assets, net	<u>\$ 14,602</u>	<u>\$ (8,160)</u>	<u>\$ -</u>	<u>\$ 6,442</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT

A. Primary Government

The following is a summary of long-term debt activity for the year ended September 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable	\$ 41,395,000	\$ 33,070,000	\$ (1,085,000)	\$ 73,380,000	\$ 590,000
Less deferred amounts:					
Unamortized discount	-	(682,934)	-	(682,934)	-
Unamortized refunding	(3,484,686)	212,498	136,934	(3,135,254)	-
Net bonds payable	37,910,314	32,599,564	(948,066)	69,561,812	590,000
Capital leases payable	-	111,949	(8,645)	103,304	21,235
Compensated absences	626,724	49,538	-	676,262	541,009
Claims payable	125,859	2,732,005	(2,476,251)	381,613	-
Governmental activities long-term liabilities	<u>\$ 38,662,897</u>	<u>\$ 35,493,056</u>	<u>\$ (3,432,962)</u>	<u>\$ 70,722,991</u>	<u>\$ 1,152,244</u>
Business-type activities:					
Bonds payable	\$ 39,950,000	\$ 19,420,000	\$ (12,365,000)	\$ 47,005,000	\$ 740,000
Less deferred amounts:					
Unamortized discount	(118,703)	(94,313)	116,223	(96,793)	-
Unamortized premium	-	116,957	(3,504)	113,453	-
Unamortized refunding	(1,914,978)	(2,398,806)	862,798	(3,450,986)	-
Net bonds payable	37,916,319	17,043,838	(11,389,483)	43,570,674	740,000
Capital leases payable	117,834	-	(22,454)	95,380	23,202
Compensated absences	104,879	-	(16,741)	88,138	70,510
Business-type activities long-term liabilities	<u>\$ 38,139,032</u>	<u>\$ 17,043,838</u>	<u>\$ (11,428,678)</u>	<u>\$ 43,754,192</u>	<u>\$ 833,712</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. 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, 2011, are as follows:

	<u>Interest Rates</u>	<u>Balance September 30, 2011</u>
2007-A Issue	3.6 % - 5.0 %	\$ 3,265,000
2009-A Issue	2.4 % - 3.45%	3,105,000
2010-B Issue	2.1 % - 3.94%	33,940,000
2011-A Issue	1.625 % - 4.375 %	12,195,000
2011-A Issue - Public Building Authority	1.0 % - 4.375 %	20,875,000
		<u>73,380,000</u>
Less: Deferred amounts		<u>(3,818,188)</u>
		<u><u>\$ 69,561,812</u></u>

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

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

The City has tax-exempt General Obligation Bonds, Series 2007-A (Series 2007-A Bonds) outstanding at September 30, 2011 in the amount of \$3,265,000. Proceeds of the bonds were used for the purpose of financing 1) all or a portion of the cost of acquisition, construction, development and equipping of various capital outlay projects located within the City; and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General Obligation Bonds (Continued)

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

The City has tax-exempt General Obligation Refunding Bonds, Series 2009-A (Series 2009-A Bonds) outstanding at September 30, 2011 in the amount of \$3,105,000. The proceeds from the bonds were 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. 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, 2018 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after February 1, 2017, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date. The bond principal was refunded through February 1, 2015 and the interest was refunded through the maturity date with the Series 2010-B issuance.

General Obligation Bonds, Series 2010-B, \$33,940,000 Principal

The City has tax-exempt General Obligation Refunding Bonds, Series 2010-B (Series 2010-B Bonds) outstanding at September 30, 2011 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. The transaction also resulted in an economic gain of \$2,929,008.

The Series 2010-B Bonds maturing on February 1, 2021 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after February 1, 2020, 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)

Governmental Activities Debt (Continued)

General Obligation Bonds (Continued)

General Obligation Bonds, Series 2011-A, \$12,195,000 Principal

During the current year, the City issued tax exempt General Obligation Refunding Bonds, Series 2011-A (Series 2011-A Bonds) outstanding at September 30, 2011 in the amount of \$12,195,000. The proceeds of the bonds are to be used for 1) financing various capital improvements of the City, 2) refunding certain outstanding debt of the City and, 3) paying the costs of issuance of the bonds. The advanced refunding includes the remaining outstanding balance of the Series 2001 Bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$212,498. This difference is reported in the accompanying financial statements as an increase to revenue bonds payable, and is being charged to interest expense through the year 2014 using the effective interest method. The City completed the advance refunding to reduce its total debt service payments by \$98,942 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$ 87,867.

The Series 2011-A Bonds maturing on April 1, 2022 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after April 1, 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.

Revenue Bonds – Blended Component Unit

Revenue Bonds, Series 2011-A, \$20,875,000 Principal – Public Building Authority

During the current year, the PBA issued Revenue Bonds, Series 2011-A (PBA Series 2011-A Bonds) outstanding at September 30, 2011 in the amount of \$20,875,000. The proceeds of the bonds are to be used for 1) financing the costs of acquiring, constructing and equipping certain facilities of the PBA (bond-financed facilities), and 2) paying the costs of issuance of the bonds. The bonds are limited obligations of the PBA and are payable solely out of payments by the City pursuant to a lease agreement.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

Revenue Bonds – Blended Component Unit (Continued)

The bond financed facilities have been leased to the City pursuant to a lease agreement dated September 1, 2011. The bond-financed facilities will consist of a 1) new municipal office for the City, 2) new municipal parking deck for the City 3) new municipal community facility for the City, 4) new public works maintenance facility for the City, and 5) new municipal utility warehouse and employee building for the City. The lease agreement will be for a period of no longer than the current fiscal year but contains an option to renew the agreement until the PBA Series 2011-A Bonds are paid.

The City's obligation to make payments under the Lease Agreement will be a general obligation of the City. Revenues available for payment under the lease agreement include sales and use tax revenues, certain ad valorem taxes, revenues from City-owned enterprises and other general revenues of the City. The Phenix City Utilities Fund will finance, out of water and sewer revenues, a significant portion of the annual debt service on the PBA Series 2011-A Bonds as the Utilities department will occupy portions of the facilities financed with the bonds. In addition, the City has pledged sales tax collected in the corporate limits as security for the lease payments. Lease payments will be due in relation to the debt service requirements of the bond. No lease payments were due or paid as of September 30, 2011.

The PBA Series 2011-A Bonds maturing on April 1, 2022 or thereafter are subject to redemption prior to maturity, at the option of the City, on or after April 1, 2021, 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)

Governmental Activities Debt (Continued)

General obligation bonds debt service requirements to maturity for revenue bonds are as follows (including debt service for blended component unit bonds):

Fiscal Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 590,000	\$ 2,115,766	\$ 2,705,766
2013	1,920,000	2,594,413	4,514,413
2014	2,070,000	2,551,138	4,621,138
2015	2,120,000	2,634,163	4,754,163
2016	2,170,000	2,582,088	4,752,088
2017 - 2021	11,875,000	11,878,246	23,753,246
2022 - 2026	14,190,000	9,567,082	23,757,082
2027 - 2031	17,285,000	6,475,249	23,760,249
2032 - 2036	21,160,000	2,593,813	23,753,813
	<u>73,380,000</u>	<u>\$ 42,991,958</u>	<u>\$ 116,371,958</u>
Less deferred amounts	(3,818,188)		
	<u>\$ 69,561,812</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, 2011:

	Governmental Activities
Equipment	\$ 111,949
Less: Accumulated depreciation	(12,128)
	\$ 99,821

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of September 30, 2011:

	Governmental Activities
Fiscal year ending September 30,	
2012	\$ 24,306
2013	24,306
2014	24,306
2015	24,306
2016	14,179
Total minimum lease payments	111,403
Less amount representing interest	(8,099)
Present value of future minimum lease payments	\$ 103,304

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, 2011, are as follows:

	Interest Rates	Balance September 30, 2011
2003 Water and Sewer Revenue Bonds	2.98 %	\$ 215,000
2009-A Water and Sewer Revenue Bonds	3.00 % - 5.00 %	27,370,000
2010-A Water and Sewer Revenue Bonds	4.25 % - 5.00 %	15,375,000
2011-A Water and Sewer Revenue Bonds	1.00% - 4.375 %	4,045,000
		47,005,000
Less: Deferred amounts		(3,434,326)
		\$ 43,570,674

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, 2011 in the amount of \$215,000. 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

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt (Continued)

Revenue Bonds (Continued)

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

The City has tax-exempt Water and Sewer Revenue Bonds, Series 2009-A (Series 2009-A Bonds) outstanding at September 30, 2011 in the amount of \$27,370,000. The proceeds from the bonds were 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. 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.

Water and Sewer Refunding Bonds, Series 2010-A, \$15,375,000 Principal

The City issued tax-exempt Water and Sewer Revenue Bonds, Series 2010-A (Series 2010-A Bonds) outstanding at September 30, 2011 in the amount of \$15,375,000. The proceeds from the bonds are to be used for 1) financing certain capital improvements to the water and sewer system, specifically warrant-financed facilities, 2) refunding certain outstanding debt of the City, 4) funding interest on a portion of the Series 2010-A Bonds for the period ending August 15, 2012 and 5) 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. A portion of the Series 2010-A Bonds refunded the remaining outstanding balance plus accrued interest on the Series 2004 Bond and Series 2006-A Bonds as well as a portion of the Series 2009-A Bonds. The reacquisition price of the new debt exceeded the carrying value of the old debt in the amount of \$2,398,807. This difference, reported in the accompanying financial statements as a decrease to revenue bonds payable, is being charged to interest expense through the year 2029 using the effective interest method. The advance refunding resulted in an increase in total estimated debt service payments relating to the refunding of approximately \$12,509,000 and an economic loss (difference between the present values of the old and new debt service payments) of \$1,324,178.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt (Continued)

Revenue Bonds (Continued)

The Series 2010-A Bonds maturing on August 15, 2035 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2020 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 Bonds, Series 2011-A, \$4,045,000 Principal

The City has issued tax-exempt Water and Sewer Revenue Bonds, Series 2011-A (Series 2011-A Bonds) outstanding at September 30, 2011 in the amount of \$4,045,000. The proceeds from the bonds are to be used for 1) improvements to the water and sewer system; 2) funding a reserve fund 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 Series 2011-A Bonds maturing on August 15, 2022 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2021 in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2012	\$ 740,000	\$ 2,079,103	\$ 2,819,103
2013	1,185,000	2,060,766	3,245,766
2014	1,110,000	2,017,938	3,127,938
2015	1,160,000	1,972,013	3,132,013
2016	1,200,000	1,938,863	3,138,863
2017 - 2021	6,640,000	9,039,541	15,679,541
2022 - 2026	8,135,000	7,542,247	15,677,247
2027 - 2031	9,065,000	5,514,721	14,579,721
2032 - 2036	9,505,000	3,426,145	12,931,145
2037 - 2040	8,265,000	1,058,500	9,323,500
	<u>47,005,000</u>	<u>\$ 36,649,837</u>	<u>\$ 83,654,837</u>
Less deferred amounts	(3,434,326)		
	<u>\$ 43,570,674</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt

Capital leases

The City has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inceptions. The following is an analysis of leased assets under capital leases as of September 30, 2011:

	Business-type Activities
Equipment	\$ 119,672
Less: Accumulated depreciation	(35,929)
	\$ 83,743

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of September 30, 2011:

	Business-type Activities
Fiscal year ending September 30,	
2012	\$ 25,983
2013	25,983
2014	25,983
2015	23,818
Total minimum lease payments	101,767
Less amount representing interest	(6,387)
Present value of future minimum lease payments	\$ 95,380

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2006 Series Warrants	\$ 11,235,000	\$ -	\$ (395,000)	\$ 10,840,000	\$ 415,000
2007-B Series Warrants	22,595,000	-	(255,000)	22,340,000	285,000
2003 Installment Purchase Agreements	208,477	-	(208,477)	-	-
2006 Installment Purchase Agreements	332,668	-	(48,555)	284,113	51,123
2009-D Series Qualified School Construction Bonds	8,105,000	-	-	8,105,000	421,794
2011 CB&T	-	843,007	-	843,007	67,023
Total	<u>\$ 42,476,145</u>	<u>\$ 843,007</u>	<u>\$ (907,032)</u>	<u>\$ 42,412,120</u>	<u>\$ 1,239,940</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. Of this issuance, \$4,000,000 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)**

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 2010, 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.

2011 Installment Purchase Agreement: During the current year, the school board entered into an installment agreement for 9 school buses over 10 years with annual payments of \$109,173 beginning October 5, 2012 through October 5, 2021. The cash value of the school buses is \$843,007. The effective interest rate is 5.00%.

The annual requirements to amortize all debt outstanding at September 30, 2011 are as follows:

Fiscal Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Sinking Fund Payment</u>	<u>Total</u>
2012	\$ 818,146	\$ 1,612,336	\$ 421,794	\$ 2,852,276
2013	844,200	1,580,907	421,794	2,846,901
2014	1,195,565	1,548,049	421,794	3,165,408
2015	1,247,256	1,500,888	421,794	3,169,938
2016	1,309,291	1,438,353	421,794	3,169,438
2017 - 2021	7,132,665	6,272,178	2,108,970	15,513,813
2022 - 2026	10,273,090	4,401,853	2,108,970	16,783,913
2027 - 2031	10,800,000	2,088,025	-	12,888,025
2032 - 2036	2,465,000	110,925	-	2,575,925
	<u>\$ 36,085,213</u>	<u>\$ 20,553,514</u>	<u>\$ 6,326,910</u>	<u>\$ 62,965,637</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2011, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Public Building Authority	\$ 183,274
General Fund	Nonmajor Funds	22,408
General Fund	Public Utilities Fund	262,377
Capital Improvements Fund	Public Building Authority	790,019
Capital Improvements Fund	General Fund	95,511
Public Utilities Fund	Nonmajor Funds	941,155
		<u>\$ 2,294,744</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>Public Utilities Fund</u>	
General	\$ -	\$ 41,086	\$ 180,163	\$ 186,310	\$ 407,559
Nonmajor Governmental Funds	-	-	390,000	-	390,000
Internal Service Fund	479,500	-	-	-	479,500
Total	<u>\$ 479,500</u>	<u>\$ 41,086</u>	<u>\$ 570,163</u>	<u>\$ 186,310</u>	<u>\$ 1,277,059</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.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS

Beginning with fiscal year ending September 30, 2009, the City should have implemented Government Accounting Standards Board Statement Number 45, Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions (GASB 45). Beginning net assets in the governmental and business-type activities is restated to record the estimated net other postemployment benefit obligation (OPEB) that accrued in the two prior years. See Note 14.

Plan Description

The City of Phenix City's medical benefits are provided through a comprehensive self-insured medical benefit plan. The plan provisions are contained in the official plan documents. Medical benefits are provided to employees upon actual retirement. The earliest retirement eligibility provisions are as follows: 25 years of service; or, age 60 and 10 years of service.

Funding Policy and Contribution Rates

Employees do not contribute to their post employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rates are contained in the official plan documents. The City recognizes the cost of providing post-employment medical benefits (the City's portion of the retiree medical benefit premiums) as an expense when the benefit premiums are due and thus finance the cost of the post-employment benefits on a pay-as-you-go basis. In 2011, the City of Phenix City's portion of health care funding cost for retired employees totaled approximately \$238,000.

Annual OPEB Cost and Net OPEB Obligation

The City's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The ARC is the sum of the Normal Cost plus the contribution to amortize the Unfunded Actuarial Accrued Liability (UAAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The actuarially computed ARC and net OPEB obligation is as follows:

	Governmental	Business-type	
	Activities	Activities	Total
Normal cost	\$ 179,000	\$ 32,000	\$ 210,000
Amortization of actuarial liability	415,000	73,000	489,000
Annual required contribution (ARC)	594,000	105,000	699,000
Current year retiree premium	(202,000)	(36,000)	(238,000)
Increase in Net OPEB obligation	392,000	69,000	461,000
Net OPEB obligation - beginning of year	784,000	138,000	922,000
Net OPEB obligation - end of year	<u>\$ 1,176,000</u>	<u>\$ 207,000</u>	<u>\$ 1,383,000</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for September 30, 2011 and the two preceding years were as follows:

Year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation
9/30/2009	\$ 699,000	34.05%	\$ 461,000
9/30/2010	699,000	34.05%	922,000
9/30/2011	699,000	34.05%	1,383,000

Funded Status and Funding Progress

The City has made no contributions to its post employment benefits plan. The plan is not funded, has no assets, and hence has a funded ratio of zero. Based on the October 1, 2011 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) and Unfunded Actuarial Accrued Liability (UAAL) was \$8,461,604 which is defined as that portion of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. The UAAL is 58.61% of covered payroll (active plan members) which is approximately \$14.438 million.

As of October 1, 2011, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / c
10/1/2011	\$ -	\$ 8,461,604	\$ 8,461,604	0.00%	\$ 14,438,352	58.61%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post employment benefits includes estimates and assumptions regarding the following:

Current valuation date	October 1, 2011
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level dollar, open amortization period of 30 years
Turnover rate	19%
Eligibility requirements	25 years of service or age 60 with 10 years of service
Discount rate	4%
Health care cost trend rate	National Health Care Expenditures Projections: 2003 to 2013, Table 3 for years 2008 - 2013; for years after 2013 rates used are graduated down to an ultimate annual rate of 5% for 2016 and later.
Mortality rate	1994 Group Annuity Reserving (94GAR) table, projected to 2002
Inflation rate	2.5% annually

NOTES TO FINANCIAL STATEMENTS

NOTE 10. 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 Council 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, 2011 was 11.72% of eligible payroll.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (Continued)

Annual Pension Cost

For the year ended September 30, 2011, the City's annual pension contribution of \$1,545,788 was equal to the required and actual contribution. The required contribution was determined as part of the September 30, 2010 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, 2010
Actuarial cost method	Entry Age
Amortization method	Level Percent of Pay (Open)
Remaining amortization period	30 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	4.50%
Cost-of-living adjustments	None

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual City Contribution	Percentage of APC Contributed	Net Pension Obligation
9/30/2008	\$ 1,255,485	\$ 1,255,485	100%	\$ -
9/30/2009	1,467,953	1,467,953	100%	-
9/30/2010	1,497,285	1,497,285	100%	-

NOTES TO FINANCIAL STATEMENTS

NOTE 10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost (Continued)

As of the most recent valuation date, September 30, 2010, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / c)
9/30/2010 ¹	\$ 30,909,676	\$ 47,172,381	\$ 16,262,705	65.5%	\$ 13,559,809	119.9%
9/30/2010 ²	30,909,676	47,329,021	16,419,345	65.3%	13,559,809	121.1%

¹ Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

² Reflects the impact of Act 2011-27 as well as Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

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, 2010.

NOTE 11. 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

NOTE 11. 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:

	September 30, 2011	September 30, 2010	September 30, 2010
Unpaid claims, beginning of year	\$ 125,859	\$ 176,133	\$ 214,600
Incurred claims and changes in estimates	3,299,681	2,425,977	2,536,967
Claim payments	(3,043,927)	(2,476,251)	(2,575,434)
Unpaid claims, end of year	<u>\$ 381,613</u>	<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 coverage.

NOTE 12. 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 13. DEFICIT FUND BALANCES / NET ASSETS

The Self Insurance Internal Service Fund reported a deficit net asset balance of \$376,993 at September 30, 2011. The Self Insurance Internal Service Fund deficit is intended to be eliminated through increased user charges and transfers from the General Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 14. RESTATEMENT

Prior period adjustments that involved restating beginning net assets and fund balance to properly accrue sales tax revenue and garbage fee revenue are summarized as follows:

	Governmental	Proprietary Net	Government-wide Net Assets		
	Fund Balance	Assets			
	General Fund	Public Utilities Fund	Governmental Activities	Business-type Activities	Total
Accrue sales tax revenue	\$ 970,689	\$ -	\$ 970,689	\$ -	\$ 970,689
Adjust inventory balance	-	(283,959)	-	(283,959)	(283,959)
Adjust due to/from general fund/public utilities fund for garbage fees	296,200	(296,200)	296,200	(296,200)	-
To record other post-employment benefits obligation	-	(138,000)	(784,000)	(138,000)	(922,000)
Total restatement	1,266,889	(718,159)	482,889	(718,159)	(235,270)
Beginning balances	1,800,955	45,144,971	19,874,366	45,144,971	65,019,337
Restated beginning balances	<u>\$ 3,067,844</u>	<u>\$ 44,426,812</u>	<u>\$ 20,357,255</u>	<u>\$ 44,426,812</u>	<u>\$ 64,784,067</u>

NOTE 15. SUBSEQUENT EVENTS

Subsequent to September 30, 2011, the City donated \$2 million to Troy University for the construction of a campus along the riverfront in downtown Phenix City. During 2012, the City issued warrants of approximately \$2 million to fund the donation to Troy. The debt will be funded by a new business license fee on residential rental property owners of 1.5% of revenue.

The City increased the sales and use tax rate from 8% to 8.75% effective October 1, 2011.

CITY OF PHENIX CITY, ALABAMA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS**

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a
		Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)			Percentage of Covered Payroll (b-a) / c)
9/30/2010 ¹	\$ 30,909,676	\$ 47,172,381	\$ 16,262,705	65.5%	\$ 13,559,809	119.9%
9/30/2010 ²	30,909,676	47,329,021	16,419,345	65.3%	13,559,809	121.1%
9/30/2009	31,343,744	45,965,343	14,621,599	68.2%	13,402,985	109.1%
9/30/2008	31,303,556	42,811,843	11,508,287	73.1%	13,162,716	87.4%
9/30/2007	30,700,386	39,588,019	8,887,633	77.5%	12,751,009	69.7%
9/30/2006	27,740,298	34,280,385	6,540,087	80.9%	12,237,464	53.4%
9/30/2005	27,740,298	34,280,385	6,540,087	80.9%	12,237,464	53.4%

¹ Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

² Reflects the impact of Act 2011-27 as well as Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

OPEB Health Care Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a
		Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)			Percentage of Covered Payroll (b-a) / c)
10/1/2011	\$ -	\$ 8,461,604	\$ 8,461,604	0.00%	14,438,352	58.61%

CITY OF PHENIX CITY, ALABAMA
NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

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

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

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

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.

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.

CITY OF PHENIX CITY, ALABAMA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

ASSETS	Special Revenue Funds					
	Two Cent Gas Tax	Four Cent Gas Tax	Five Cent Gas Tax	Seven Cent Gas Tax	Corrections	Second Mortgage
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 23,365	\$ 233,117
Taxes receivable	2,014	7,199	3,313	11,596	-	-
Accounts receivable	-	-	-	-	-	393,973
Notes receivable	-	-	-	-	-	390,000
Due from other governments	-	5,606	2,760	9,662	-	-
Restricted cash	15,527	80,659	339,701	173,473	-	-
Total assets	\$ 17,541	\$ 93,464	\$ 345,774	\$ 194,731	\$ 23,365	\$ 1,017,090
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 1,399	\$ -	\$ 0	\$ 0
Due to other funds	-	-	-	-	22,408	-
Due to component units	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	-	-	1,399	-	22,408	-
FUND BALANCES						
Restricted for:						
Street improvements	17,541	93,464	344,375	194,731	-	-
Debt service	-	-	-	-	-	-
Revolving loans	-	-	-	-	-	1,017,090
Public safety	-	-	-	-	957	-
Economic development	-	-	-	-	-	-
Total fund balances	17,541	93,464	344,375	194,731	957	1,017,090
Total liabilities and fund balances	\$ 17,541	\$ 93,464	\$ 345,774	\$ 194,731	\$ 23,365	\$ 1,017,090

		Debt Service Funds			Total
Confiscated Property	Phenix Industrial Park	3 Mill	4 Mill	7 Mill	Nonmajor Governmental Funds
\$ 8,581	\$ 1,164	\$ -	\$ -	\$ -	\$ 266,227
-	-	260,536	347,381	641,017	1,273,056
-	-	-	-	-	393,973
-	-	-	-	-	390,000
-	-	-	-	-	18,028
-	-	10,416	13,552	1,857,898	2,491,226
<u>\$ 8,581</u>	<u>\$ 1,164</u>	<u>\$ 270,952</u>	<u>\$ 360,933</u>	<u>\$ 2,498,915</u>	<u>\$ 4,832,510</u>
\$ 50	\$ -	\$ -	\$ -	\$ -	\$ 1,449
-	-	-	-	941,155	963,563
-	-	9,414	12,552	-	21,966
-	-	258,205	344,274	574,537	1,177,016
<u>50</u>	<u>-</u>	<u>267,619</u>	<u>356,826</u>	<u>1,515,692</u>	<u>2,163,994</u>
-	-	-	-	-	650,111
-	-	3,333	4,107	983,223	990,663
-	-	-	-	-	1,017,090
8,531	-	-	-	-	9,488
-	1,164	-	-	-	1,164
<u>8,531</u>	<u>1,164</u>	<u>3,333</u>	<u>4,107</u>	<u>983,223</u>	<u>2,668,516</u>
<u>\$ 8,581</u>	<u>\$ 1,164</u>	<u>\$ 270,952</u>	<u>\$ 360,933</u>	<u>\$ 2,498,915</u>	<u>\$ 4,832,510</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, 2011

	Special Revenue Funds					
	Two Cent Gas Tax	Four Cent Gas Tax	Five Cent Gas Tax	Seven Cent Gas Tax	Corrections	Second Mortgage
Revenues:						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	20,665	139,967	66,118	231,415	-	-
Business taxes	0	0	0	0	-	-
Charges for services	-	-	-	-	-	160,574
Fines and forfeitures	-	-	-	-	99,061	-
Interest income	75	184	86	291	135	408
Other revenues	-	-	-	-	0	0
Total revenues	<u>20,740</u>	<u>140,151</u>	<u>66,204</u>	<u>231,706</u>	<u>99,196</u>	<u>160,982</u>
Expenditures:						
Current						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	45	-
Public works	-	-	174,151	-	-	20,995
Education	-	-	-	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>174,151</u>	<u>-</u>	<u>45</u>	<u>20,995</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,740</u>	<u>140,151</u>	<u>(107,947)</u>	<u>231,706</u>	<u>99,151</u>	<u>139,987</u>
Other financing sources (uses):						
Proceeds from capital leases	-	-	-	-	-	-
Transfers in	-	-	390,000	-	-	-
Transfers out	(40,000)	(150,000)	-	(200,000)	(180,163)	-
Total other financing sources (uses)	<u>(40,000)</u>	<u>(150,000)</u>	<u>390,000</u>	<u>(200,000)</u>	<u>(180,163)</u>	<u>-</u>
Net change in fund balances	(19,260)	(9,849)	282,053	31,706	(81,012)	139,987
Fund balances (deficit), beginning of year	<u>36,801</u>	<u>103,313</u>	<u>62,322</u>	<u>163,025</u>	<u>81,969</u>	<u>877,103</u>
Fund balances, end of year	<u>\$ 17,541</u>	<u>\$ 93,464</u>	<u>\$ 344,375</u>	<u>\$ 194,731</u>	<u>\$ 957</u>	<u>\$ 1,017,090</u>

Confiscated Property	Phenix Industrial Park	Debt Service Funds			Total Nonmajor Governmental Funds
		3 Mill	4 Mill	7 Mill	
\$ -	\$ -	\$ 863,022	\$ 1,150,697	\$ 1,842,980	\$ 3,856,699
-	-	-	-	-	458,165
-	-	-	-	622,237	622,237
-	-	-	-	-	160,574
31,382	-	-	-	-	130,443
22	-	56	126	1,955	3,338
-	-	-	-	16	16
<u>31,404</u>	<u>-</u>	<u>863,078</u>	<u>1,150,823</u>	<u>2,467,188</u>	<u>5,231,472</u>
-	-	-	-	13,455	13,455
31,580	-	-	-	-	31,625
-	-	-	-	-	195,146
-	-	868,934	1,158,634	0	2,027,568
-	-	-	-	135,000	135,000
-	-	-	-	817,540	817,540
<u>31,580</u>	<u>-</u>	<u>868,934</u>	<u>1,158,634</u>	<u>965,995</u>	<u>3,220,334</u>
(176)	-	(5,856)	(7,811)	1,501,193	2,011,138
-	-	-	-	-	-
-	-	-	-	-	390,000
-	-	-	-	-	(570,163)
-	-	-	-	-	(180,163)
(176)	-	(5,856)	(7,811)	1,501,193	1,830,975
8,707	1,164	9,189	11,918	(517,970)	837,541
<u>\$ 8,531</u>	<u>\$ 1,164</u>	<u>\$ 3,333</u>	<u>\$ 4,107</u>	<u>\$ 983,223</u>	<u>\$ 2,668,516</u>

COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Phenix City, Alabama as of and for the year ended September 30, 2011, which collectively comprise the City of Phenix City, Alabama's basic financial statements and have issued our report thereon dated February 15, 2013. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Phenix City Board of Education, as described in our report on the City of Phenix City, Alabama's financial statements. The report does not include our consideration of the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 City of Phenix City, Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 be 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.

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 2011-1 through 2011-9 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*.

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.

Robinson, Grimes + Company, P.C.

Certified Public Accountants
February 15, 2013

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2011, 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 99.95% and 99.43% of the assets and revenues, respectively, of the aggregately discretely presented component units for the year ended September 30, 2011. 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, 2011, 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.

As discussed in Note 1, the City of Phenix City, Alabama implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of October 1, 2010.

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.

Robinson, Grimes + Company, P.C.

Certified Public Accountants
February 15, 2013

CITY OF PHENIX CITY, ALABAMA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed through the Alabama Department of Transportation			
Highway Planning and Construction Cluster	20.205	STPPC-8015	\$ 47,038
Highway Planning and Construction Cluster	20.205	STPPC-8045	44,824
Highway Planning and Construction Cluster	20.205	STPTE-TE06-955	515,765
Highway Planning and Construction Cluster	20.205	STPPC-0001	78,796
Highway Planning and Construction Cluster	20.205	STPPC-8016	15,744
Highway Planning and Construction Cluster	20.205	STPPC-8040	38,189
Total U.S. Department of Transportation			740,356
Delta Regional Authority Grant			
Direct Awards			
Phenix City Geographic Information System Grant	90.201	AL-5198	5,847
U.S. Department of Justice			
Direct Awards			
Public Safety Partnership and Community Policing Grant - ARRA	16.710	2009-RK-WX-0047	173,670
U.S. Department of Housing and Urban Development			
Direct Award			
HOME Investment Partnership Program	14.239	B-08-SP-AL-0321	25,501
Passed through the Alabama Department of Economic and Community Affairs			
Homeless Prevention and Rapid Rehousing Program - ARRA	14.257	HP-GV-09-004	414,795
Total U.S. Department of Housing and Urban Development			440,296
U.S. Department of Energy			
Passed through the Alabama Department of Economic and Community Affairs			
Energy Efficiency and Conservation Block Grant Program - ARI	81.128	1-ARRA-EECBG 36	26,579
Total Expenditures of Federal Awards			\$ 1,386,748

The schedule of expenditures of federal awards includes the federal grant activity of the City of Phenix City, Alabama and has been prepared on the modified accrual basis of accounting. Under this method, revenues are recognized when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities for the current period. Expenditures are recognized when incurred. 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, 2011

SECTION I
SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:
Material weaknesses identified? yes 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 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, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 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.

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

Effect: An adjustment to increase beginning fund balance for the prior year sales tax receivable of \$970,689, increase taxes receivable in the amount of \$1,010,746 and increase sales tax revenue in the amount of \$40,057 was required to be recorded in the General Fund.

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.

2011 - 2. Management of Capital Asset Accounts

Criteria: Generally accepted accounting principles 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. In addition, for proprietary funds, interest expense incurred on tax exempt debt restricted for specified capital projects should be capitalized until the completion of the capital projects and then amortized over the life of the completed capital asset.

Condition: The City did not properly record contributed capital assets and did not properly capitalize interest during the fiscal year ended September 30, 2011.

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

CITY OF PHENIX CITY, ALABAMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

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

2011 - 2. Management of Capital Asset Accounts (Continued)

Effect: Adjustments to increase capital assets (including capitalized interest) in the amount of \$543,805, increase contributed capital in the amount of \$414,137, and decrease interest expense in the amount of \$137,206 and increase depreciation expense in the amount of \$7,538, were required to be recorded in the Public Utilities Fund.

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 record capital asset activity appropriately as it occurs during the year.

2011 - 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, 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 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. Additionally, the City did not properly record capital leases in the General Fund.

Cause: See above condition.

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2011 - 3. Debt Transactions (Continued)

Effect: Adjustments to decrease capital lease payable and increase other financing sources in the amount of \$111,949 were required to be recorded in the General Fund. Adjustments to decrease bonds payable in the amount of \$565,658, increase accrued interest in the amount of \$181,531, increase bond issuance costs in the amount of \$161,470, decrease cash in the amount of \$159,531, increase interest income in the amount of \$18,094, decrease bond cost amortization in the amount of \$2,129, and decrease interest expense in the amount of \$365,843 were required to be recorded in the Public Utilities Fund. In addition, adjustment was required to decrease capital leases payable by \$22,454, decrease expenses by \$22,454 in the Public Utilities Fund.

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.

2011 - 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 and grants receivable in the General Fund, Capital Improvement Fund, or Public Utilities Fund as of September 30, 2011.

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

Effect: An adjustment to increase accounts receivable in the amount of \$188,385 and increase grant revenue by the same amount was required to be recorded in the Capital Improvement Fund. An adjustment to increase receivables in the amount of \$29,116, increase tax revenue in the amount of \$10,330, and decrease due from other funds in the amount of \$18,780 was required to be recorded in the Nonmajor funds.

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2011 - 4. Management of Accounts Receivable Accounts (Continued)

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.

2011 - 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 or the Public Utilities Fund.

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

Effect: Adjustments to increase due from other funds in the amount of \$243,628, increase fund balance in the amount of \$296,200, and decrease revenue in the amount of \$52,572 were required to be recorded in the General Fund. An adjustment to increase transfers in the amount of \$81,323, decrease expenditures in the amount of \$112,311, decrease intergovernmental revenues in the amount of \$193,634 was required to be recorded in the General Fund. Adjustments to increase the due to balance in the amount of \$436,829, decrease net assets in the amount of \$296,200, and decrease revenue in the amount of \$140,629 were required to be recorded in the Public Utilities Fund related to garbage fees due to the General Fund. In addition, in the Public Utilities Fund, an adjustment to increase the due from in the amount of \$76,870 and increase intergovernmental revenues by the same amount was required. An adjustment to decrease transfers in the amount of \$81,323, decrease payables in the amount of \$112,311, and decrease grant receivables in the amount of \$193,634 was required in the Capital Improvements Fund.

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

CITY OF PHENIX CITY, ALABAMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

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

2011 - 5. Management of Due to / from (Internal) Accounts (Continued)

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

2011 - 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, 2011 as it relates to accounts payable within the General Fund, Capital Improvement Fund, Public Utilities Fund, and Non-major Funds.

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

Effect: An adjustment to increase accounts payable in the amount of \$197,301 and to increase expenditures in the same amount was required to be recorded in the General Fund. Adjustments to increase accounts payable and due to other governments in the amounts of \$260,737 and \$13,413, respectively, and to increase expenditures and decrease intergovernmental revenues in the same amounts, respectively, were required to be recorded in the Capital Improvement Fund. An adjustment to increase accounts payable in the amount of \$630,722 and to increase construction in progress by the same amount was required to be recorded in the Public Utilities Fund. An adjustment to increase claims payable and increase medical claims expense in the amount of \$255,754 was required in the employee self insurance fund.

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

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

CITY OF PHENIX CITY, ALABAMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

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

2011 - 7. Management of Cash Accounts

Criteria: Internal controls should be in place to ensure that all cash accounts are reconciled timely and all transactions are recorded in the proper period.

Condition: The City did not properly reconcile all cash accounts, specifically cash accounts holding bond proceeds used for capital project funding.

Cause: The City did not timely reconcile all cash accounts.

Effect: An adjustment to increase cash in the amount of \$2,179,474, decrease expenses in the amount of \$2,370,525, increase interest income in the amount of \$15,612, and increase capital assets in the amount of \$206,663 were required to be recorded in the Public Utilities Fund. An adjustment to record cash in the amount of \$25,823 and increase bond proceeds received of the same amount was required in the Capital Improvements Fund.

Recommendation: The City should reconcile all cash accounts on a timely basis.

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

2011 - 8. Management of Inventory Accounts

Criteria & Condition: Internal controls should be in place to ensure that general ledger inventory counts are reconciled periodically to detailed listings that reflect physical counts.

Cause – General ledger balances for inventory were not reconciled to detailed listings of inventory.

Effect – An adjustment to decrease inventory and increase expenditures in the amount of \$46,530 was required in the General Fund. Adjustments to decrease inventory in the amount of \$300,534, increase expenses in the amount of \$16,575 and decrease beginning net assets in the amount of \$283,959 were required to be recorded in the Public Utilities Fund.

CITY OF PHENIX CITY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2011 -8. Management of Inventory Accounts (Continued)

Recommendation – The City should reconcile physical count listing reports to general ledger accounts periodically.

Views of Responsible Officials and Planned Corrective Action. We concur. We will establish procedures to reconcile detail inventory listings to general ledger accounts on a monthly basis.

2011 - 9. Implementation of Governmental Accounting Standards (GASB)

Criteria: New accounting standards were not implemented as required by Governmental Accounting Standards.

Condition: The City did not properly recognize other postemployment benefits (OPEB) obligations in the current period or in prior periods according to GASB No.45. Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.

Cause: The City did not implement GASB 45 as required beginning with fiscal year ending September 30, 2009 and did not record the OPEB obligation.

Effect: An adjustment to decrease prior period net assets in the amount of \$138,000, increase OPEB obligation in the amount of \$207,000 and increase expenses in the amount of \$69,000 was required to be recorded in the Public Utilities Fund. An adjustment to decrease prior period net assets in the amount of \$784,000, increase OPEB obligation in the amount of \$1,176,000 and increase expenses in the amount of \$392,000 was required to be recorded on the Statement of Net Assets for governmental activities.

Recommendation: Management should monitor changes to Governmental Accounting Standards and implements new standards as required.

Views of Responsible Officials and Planned Corrective Action: We concur. We will establish procedures to monitor new accounting pronouncements and implement new policies on a timely basis as required by governmental accounting standards.

CITY OF PHENIX CITY, ALABAMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

**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, 2011

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 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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2011-1.

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. 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, 2010.

Auditee Response/Status: Unresolved – See current year financial audit finding 2011-2.

2010 - 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 2011-3.

CITY OF PHENIX CITY, ALABAMA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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 or Public Utilities Fund as of September 30, 2010.

Auditee Response/Status: Unresolved – See current year financial audit finding 2011-4.

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 Public Utilities Fund or the Non-major Funds.

Auditee Response/Status: Unresolved – See current year financial audit finding 2011-5.

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, and Non-major Funds.

Auditee Response/Status: Unresolved – See current year financial audit finding 2011-6.

2010 - 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.

CITY OF PHENIX CITY, ALABAMA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

2010 - 6. Management of Accounts Payable (Continued)

Condition: For 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 findings 2011-1, 2011-5, 2011-8, and 2011-9 that required restatements of beginning balances.