

**CITY OF PHENIX CITY, ALABAMA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED**  
**SEPTEMBER 30, 2012**

**CITY OF PHENIX CITY, ALABAMA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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**FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

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 (the "City") as of and for the year ended September 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We did not audit the financial statements of the Phenix City Board of Education for the year ended September 30, 2012. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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 as of September 30, 2012, 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 accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 4 - 11) and the Required Supplementary Information on page 59 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City'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.

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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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013, on our consideration of the City'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 in considering the City's internal control over financial reporting on compliance.

*Robinson, Grimes + Company, P.C.*

Certified Public Accountants

November 19, 2013

**CITY OF PHENIX CITY, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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, 2012. 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 is presented here.

**CITY OF PHENIX CITY, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**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.

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.



# CITY OF PHENIX CITY, ALABAMA

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

- 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 component unit and one blended component unit.

- 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 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.

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

#### Assets

Total assets of the City were \$190,547,732 for 2012 compared to \$185,320,988 for 2011. 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, 2012 was \$117,886,094, which is an increase of \$9,621,120 from September 30, 2011 of \$108,264,974. The City has recorded an accumulated \$60,819,618 in depreciation expense against these capital assets leaving a net asset book value of \$57,066,476. Debt outstanding related to capital assets was \$48,028,365 leaving an investment in capital assets of \$9,038,111 compared to \$9,624,120 for 2011. This decrease is related to the City's issuance of long-term debt to finance several large projects with capital additions being added and depreciation 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.

**CITY OF PHENIX CITY, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

The City's Business-type Activities had capital assets as of September 30, 2012 of \$108,166,485, which represents an increase of \$3,313,315 from September 2011 of \$104,853,170. Net of \$36,969,368 in accumulated depreciation expense, the City's Business-type Activities had \$71,197,117 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 \$35,594,175 leaving an investment in capital assets of \$35,602,942 for 2012 compared to \$36,722,941 for 2011.

**Revenues**

The City's total revenue from Governmental Funds was \$39,699,070, an increase of 23.55% from the previous year \$32,132,896. Intergovernmental revenues increased \$2,588,008 due to one-time grants. Net of this one-time revenue, total revenue increased \$4,978,166 or 16.40%. The largest revenue source for the City is the sales and use tax totaling \$19,248,687, which represents 48.49% of total revenues. Licenses and permits totaled \$5,087,193, charges for service totaled \$2,556,827, property taxes totaled \$5,402,560, other business taxes \$926,741 and interest totaled \$44,174. The property tax rate for the City is 19 mills with seven mills dedicated for education, seven mills dedicated for debt service, and the remaining five mills for operations. Of the total for property taxes, \$1,928,497 is dedicated to debt service and \$2,075,705 for education.

**Expenditures**

Departmental operating expenditures totaled \$31,127,924 or 89.65% of total non-capital expenditures of \$34,723,144. The City transferred \$2,075,269 to the Phenix City Board of Education and \$2,000,015 to Troy University and debt service on general obligation debt totaled \$3,595,170.

Expenditures for capital projects during the fiscal year were \$8,170,930.

Public safety (police, code enforcement and fire departments) is the largest category of departmental operating expenses totaling \$11,099,578 or 35.66%. General government, which includes the City manager's office, City clerk, finance, personnel, and the Municipal Court, is second with a total of \$7,407,336 or 23.80%. Public works at \$4,353,954 or 13.99% is third, followed by Culture and recreation at \$4,191,822 or 13.47% representing most of the balance of departmental operating expenditures. Most of the increase in departmental expenses came from increased expenditures in Public Works for street paving and maintenance and the addition of Parks and Recreation programs.

**CITY OF PHENIX CITY, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**Business-Type Activities**

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

Operating revenues in the Public Utilities division of \$9,787,968 were down \$18,936 in 2012 compared to \$9,806,904 in 2011 due to normal fluctuations in revenues from weather conditions and the amount of rainfall each year. Operating expenses of \$7,629,700, not including depreciation and amortization expenses, compared to \$6,083,615 were up \$1,545,085 primarily due to large one-time maintenance costs relating to system upgrades paid for with accumulated system development fees. Net of these one-time costs, operating expenses increased \$721,282. Operating income, not including depreciation and amortization decreased by \$1,565,021 to \$2,158,268 (\$2,982,071 net of the above mentioned one-time costs) in 2012 compared to \$3,723,289 in 2011. Depreciation and amortization expenses of \$2,636,806 decreased \$8,611 from \$2,645,417 in 2011. Interest expense increased to \$2,146,715 in 2012 compared to \$1,864,850 in 2011 due to increased indebtedness. Interest income was \$35,934 in 2012 compared to \$145,720 in 2011 and contributed assets were \$428,809 in 2012 compared to \$414,137 in 2011. The change in net assets was (\$1,809,997) for 2012, which was down from \$617,806 in 2011 due to \$355,855 in transfers to the Public Improvements Authority for debt service and significant one-time expenditures related to system upgrades. 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 and sewer rates by 4.5% in October of 2012 to account for increased operating expenses and planned capital improvements and renovations. The City is in the 4<sup>th</sup> year of a 5 year planned capital spending of 12 to 15 million dollars primarily in improvements to the wastewater plant and collection system and replacement of old water lines to accommodate expected growth and to meet new water safety testing requirements from the state which took effect in January 2012.

**Fund Balances/Net Assets**

The General Fund's Fund Balance increased by \$3,951,015 to \$8,440,002 in 2012 compared to \$4,488,987 in 2011 due to increases in revenue and cost cutting measures in departmental expenses. The fund balance for the City's other Governmental Funds decreased \$4,493,311 to \$31,606,684 in 2012 compared to \$36,099,995 in 2011 primarily due to bond proceeds held for completion of several capital projects.

Net assets in Public Utilities decreased \$1,809,997 to \$43,234,621 in 2012 compared to \$45,044,618 in 2011.

**CITY OF PHENIX CITY, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**Budgetary Highlights**

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

Total operating revenues were \$330,216 more than budgetary projections in the General Fund, due to higher than expected sales tax collections. Departmental expenditures were \$1,397,606 less than budgeted due to tightened budgetary controls.

Water and sewer revenues in Public Utilities were down \$18,936 due to reduced tap fees. The City raised water and sewer rates 4.5% and increased development fees in October of 2012 to offset increased operating expenses and to fund the Capital Improvement Plan. The City expects to experience continued growth, though at a slower rate, in customers over the next two to five years due to the increase in personnel and civilian jobs at Fort Benning and improvement in the local economy. 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, Fort Mitchell Water Authority and the Smith's Water and Sewer Authority. The City entered into new long term contracts with the three adjacent utilities 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 35-36.

The City issued \$2,035,000 general obligation debt and retired \$590,000 in Fiscal 2012, and had \$74,825,000 outstanding in long-term general obligation debt at Fiscal 2012 year-end compared to \$73,380,000 in 2011. General obligation debt of \$24,820,000 or 33.17% of the total outstanding in 2012 will be retired by the end of 2022.

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.

**CITY OF PHENIX CITY, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

The City's Public Utilities Fund retired \$740,000 of revenue debt in 2012 and did not reissue any new debt. The City had \$46,265,000 in revenue debt outstanding at the end of Fiscal Year 2012 compared to \$47,005,000 in 2011. Of the \$46,265,000 in Revenue Warrants payable from the Utility Fund revenues outstanding at Fiscal 2012 year-end, \$12,795,000 or 27.66% will be retired by 2022 year end. Details of the City's debt activity can be found in Note 7 on pages 37-49.

**Bond Ratings**

The City received its most recent bond rating, an AA- rating with a stable 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 2008 and 2009 in near-by cities reduced the amount of retail traffic from west Georgia and Lee County in east Alabama. Retail sales have since rebounded and the City has shown steady growth in its retail sales since mid-2011. The City has maintained a steadily growing property tax base for the last 5 years. General Fund revenues have rebounded from the extended economic downturn, and have begun to grow steadily and we expect growth to continue over the next 3 to 5 years. 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 remained at a lower rate than the state and nation due to continued, though slower growth. New housing spurred by faster than expected population growth has continued. While the rate of new housing is slower than it has been, it is higher than expected given the state of the housing market nationally. The construction of a new KIA automotive plant 30 miles north of the city, the expansion of Fort Benning and expansion of AFLAC in Columbus, Georgia has led to increased population in the metro area over the last three 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 2012 and raised rates and fees 4.25% effective November 1, 2012 to cover planned operations and capital expenses over the next three to 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 facilities 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 in Russell County, sewer service to the City of Smiths, Alabama in Lee County, and both water and sewer service to the Russell County Utility System, which has resulted in steady revenue growth from these sources at little cost to the City. The Russell County Utility System is now the City's largest water customer and Smith's Water and Sewer Authority is the City's largest sewer customer.

**CITY OF PHENIX CITY, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Both Lee and Russell Counties are among the fastest growing counties in Alabama with much of that growth centered in and around Phenix City.

The world's longest urban whitewater located on the Chattahoochee River in Columbus, GA and Phenix City opened in July of 2013. We expect this attraction to have a significant economic impact on both cities in 2014 and beyond.

**Contacting the City's Financial Management**

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

**CITY OF PHENIX CITY, ALABAMA**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2012**

ASSETS	Primary Government		Total	Component Unit Phenix City Board of Education
	Governmental Activities	Business-type Activities		
Cash and cash equivalents	\$ 8,290,092	\$ 3,481,339	\$ 11,771,431	\$ 4,623,155
Investments	-	-	-	9,286
Taxes receivable	3,087,475	-	3,087,475	-
Accounts receivable	601,140	1,165,544	1,766,684	1,010,565
Notes receivable	380,000	226,710	606,710	-
Internal balances	(521,890)	521,890	-	-
Due from other governments	376,783	-	376,783	-
Inventories	64,197	280,912	345,109	214,499
Prepaid expenses	161,577	25,981	187,558	85,474
Restricted assets:				
Cash and cash equivalents	31,494,462	10,020,566	41,515,028	2,429
Deferred charges	1,711,132	916,129	2,627,261	508,873
Capital assets, non-depreciable	20,306,263	1,236,255	21,542,518	635,026
Capital assets, depreciable, net of accumulated depreciation	36,760,213	69,960,862	106,721,075	65,123,515
Total assets	102,711,544	87,836,188	190,547,732	72,212,822
LIABILITIES				
Accounts payable	1,446,887	531,534	1,978,421	71,166
Accrued liabilities	657,910	96,485	754,405	3,632,781
Claims payable	256,964	-	256,964	-
Due to component units	25,413	-	25,413	-
Customer deposits	-	93,456	93,456	-
Accrued interest	267,031	257,596	524,627	-
Capital leases due within one year	115,817	24,462	140,279	-
Capital leases due in more than one year	411,523	91,568	503,091	-
Bonds payable due within one year	2,310,000	1,185,000	3,495,000	1,262,643
Bonds payable due in more than one year	68,918,656	41,952,107	110,870,763	40,530,548
Compensated absences due within one year	603,174	66,898	670,072	-
Compensated absences due in more than one year	150,794	26,451	177,245	-
Net other postemployment benefits obligation	1,568,000	276,000	1,844,000	-
Other liabilities	-	-	-	27,532
Total liabilities	76,731,169	44,601,567	121,332,736	45,524,670
NET ASSETS				
Invested in capital assets, net of related debt	9,038,111	35,602,942	44,641,053	24,097,544
Restricted for:				
Capital projects	8,248,826	-	8,248,826	2,429
Debt service	105,457	3,020,137	3,125,594	509,817
Unrestricted (deficit)	8,537,981	4,611,542	13,149,523	2,078,362
Total net assets	25,960,375	43,234,621	69,194,996	26,688,152

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

**CITY OF PHENIX CITY, ALABAMA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Functions/Programs Primary government:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units Phenix City Board of Education
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Governmental activities:							
General government	\$ 10,900,353	\$ 8,471,229	\$ 60,762	\$ (2,091,008)	\$ -	\$ (2,091,008)	\$ -
Public safety	11,660,585	627,326	-	(10,861,003)	-	(10,861,003)	-
Public works	5,019,523	2,740,908	4,574,511	2,295,896	-	2,295,896	-
Culture and recreation	4,868,073	1,162,558	4,000	(3,701,515)	-	(3,701,515)	-
Education	4,075,284	-	-	(4,075,284)	-	(4,075,284)	-
Interest on long-term debt	3,123,790	-	-	(3,123,790)	-	(3,123,790)	-
Total governmental activities	39,647,608	13,002,021	4,639,273	(21,556,704)	-	(21,556,704)	-
Business-type activities:							
Public Utilities	12,413,221	9,787,968	1,119,103	-	(1,506,150)	(1,506,150)	-
Total business-type activities	12,413,221	9,787,968	1,119,103	-	(1,506,150)	(1,506,150)	-
Total primary government	\$ 52,060,829	\$ 22,789,989	\$ 5,758,376	\$ (21,556,704)	\$ (1,506,150)	\$ (23,062,854)	\$ -
Component unit:							
Phenix City Board of Education	\$ 58,180,433	\$ 2,256,051	\$ -	\$ -	\$ -	\$ -	\$ (9,615,251)
Total component units	\$ 58,180,433	\$ 2,256,051	\$ -	\$ -	\$ -	\$ -	\$ (9,615,251)
General revenues:							
Property taxes				\$ 5,613,093	\$ -	\$ 5,613,093	\$ 8,231,618
Sales and use taxes				19,248,687	-	19,248,687	3,859,803
Business taxes				926,741	-	926,741	-
Unrestricted investment earnings				44,303	35,934	80,237	68,027
Gain (loss) on disposal of assets				(31,561)	16,074	(15,487)	-
Transfers				355,855	(355,855)	-	-
Total general revenues and transfers				26,157,118	(303,847)	25,853,271	12,159,448
Change in net assets				4,600,414	(1,809,997)	2,790,417	2,544,197
Net assets, beginning of year				21,379,961	45,044,618	66,424,579	24,143,955
Net assets, end of year				\$ 25,980,375	\$ 43,234,621	\$ 69,214,996	\$ 26,688,152

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



**CITY OF PHENIX CITY, ALABAMA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

ASSETS				Public	Nonmajor	Total
	General	Capital Improvement	7 Mill	Building Authority	Governmental Funds	
Cash and cash equivalents	\$ 8,011,242	\$ -	\$ -	\$ 2,283	\$ 276,567	\$ 8,290,092
Taxes receivable	1,659,198	-	715,068	-	713,209	3,087,475
Accounts receivable	96,368	-	-	-	504,772	601,140
Notes receivable	-	-	-	-	380,000	380,000
Due from other funds	396,533	164,464	53,091	200,582	-	814,670
Due from other governments	26,221	332,664	-	-	17,898	376,783
Inventory	64,197	-	-	-	-	64,197
Prepaid items	161,677	-	-	-	-	161,677
Restricted cash	-	11,969,720	1,431,562	17,538,538	437,205	31,377,025
<b>Total assets</b>	<b>\$ 10,415,436</b>	<b>\$ 12,466,848</b>	<b>\$ 2,199,721</b>	<b>\$ 17,741,403</b>	<b>\$ 2,329,651</b>	<b>\$ 45,153,059</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 701,793	\$ 538,248	\$ 918,071	\$ 195,569	\$ 11,277	\$ 2,364,958
Accrued expenses	657,910	-	-	-	-	657,910
Due to other funds	309,662	352	-	108,475	-	418,489
Due to component units	-	-	-	-	25,413	25,413
Deferred revenue	306,069	-	650,148	-	683,386	1,639,603
<b>Total liabilities</b>	<b>1,975,434</b>	<b>538,600</b>	<b>1,568,219</b>	<b>304,044</b>	<b>720,076</b>	<b>5,106,373</b>
<b>FUND BALANCES (DEFICIT)</b>						
Nonspendable:						
Inventories	64,197	-	-	-	-	64,197
Prepaid assets	161,677	-	-	-	-	161,677
Restricted for:						
Debt service	-	-	631,502	-	8,017	639,519
Capital projects	-	11,928,248	-	17,437,359	-	29,365,607
Street improvements	-	-	-	-	445,159	445,159
Revolving loans	-	-	-	-	1,037,111	1,037,111
Public safety	-	-	-	-	119,288	119,288
Assigned for:						
General self insurance liability	500,000	-	-	-	-	500,000
Unassigned	7,714,128	-	-	-	-	7,714,128
<b>Total fund balances</b>	<b>8,440,002</b>	<b>11,928,248</b>	<b>631,502</b>	<b>17,437,359</b>	<b>1,609,576</b>	<b>40,046,686</b>
<b>balances</b>	<b>\$ 10,415,436</b>	<b>\$ 12,466,848</b>	<b>\$ 2,199,721</b>	<b>\$ 17,741,403</b>	<b>\$ 2,329,651</b>	

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.	57,066,476
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,639,603
Bond issuance costs, net of accumulated amortization	1,711,132
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.	(138,527)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Bond payables	(71,228,656)
Accrued interest on long-term liabilities	(267,031)
Capital leases	(527,340)
Accrued compensated absences	(753,968)
Net other postemployment benefits obligation	(1,568,000)
<b>Net assets of governmental activities</b>	<b>\$ 25,980,375</b>

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, 2012**

	General	Capital Improvement	7 Mill	Public Building Authority	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Property taxes	\$ 1,398,358	\$ -	\$ 1,928,497	\$ -	\$ 2,075,705	\$ 5,402,560
Sales and use taxes	18,786,667	-	-	-	462,020	19,248,687
Business taxes	169,084	-	757,657	-	-	926,741
Licenses and permits	5,087,193	-	-	-	-	5,087,193
Intergovernmental	514,372	3,850,621	-	-	-	4,364,993
Charges for services	2,440,811	-	-	-	116,016	2,556,827
Fines and forfeitures	454,502	-	-	-	128,724	583,226
Interest	13,746	8,333	2,149	19,155	791	44,174
Other revenues	323,423	2,068	-	-	-	325,491
Parks and recreation	1,159,178	-	-	-	-	1,159,178
<b>Total revenues</b>	<b>30,347,334</b>	<b>3,861,022</b>	<b>2,688,303</b>	<b>19,155</b>	<b>2,783,256</b>	<b>39,699,070</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	7,393,621	-	13,715	-	-	7,407,336
Public safety	11,080,602	-	-	-	18,976	11,099,578
Public works	3,590,389	-	-	-	763,565	4,353,954
Culture and recreation	4,191,822	-	-	-	-	4,191,822
Education	-	2,000,015	-	-	2,075,289	4,075,284
Capital outlay	-	6,812,949	-	1,357,981	-	8,170,930
<b>Debt service:</b>						
Principal	74,481	-	590,000	-	-	664,481
Interest	3,071	-	2,860,268	-	-	2,863,339
Fiscal agent fees	-	67,350	-	-	-	67,350
<b>Total expenditures</b>	<b>26,333,986</b>	<b>8,880,314</b>	<b>3,463,983</b>	<b>1,357,981</b>	<b>2,857,810</b>	<b>42,894,074</b>
Excess (deficiency) of revenues over (under) expenditures	4,013,348	(5,019,292)	(775,680)	(1,338,826)	(74,554)	(3,195,004)
<b>Other financing sources (uses):</b>						
Capital leases	498,517	-	-	-	-	498,517
Bond proceeds	-	2,035,000	-	-	-	2,035,000
Premium on bond issuance	-	32,336	-	-	-	32,336
Transfers in	55,004	291,850	478,963	-	450,000	1,275,817
Transfers out	(615,854)	(23,854)	(55,004)	(42,250)	(450,000)	(1,186,962)
<b>Total other financing sources (uses)</b>	<b>(62,333)</b>	<b>2,333,332</b>	<b>423,959</b>	<b>(42,250)</b>	<b>-</b>	<b>2,652,708</b>
<b>Net change in fund balances</b>	<b>3,951,015</b>	<b>(2,685,960)</b>	<b>(351,721)</b>	<b>(1,381,076)</b>	<b>(74,554)</b>	<b>(542,296)</b>
<b>Fund balances, beginning of year</b>	<b>4,488,987</b>	<b>14,614,208</b>	<b>983,223</b>	<b>18,818,435</b>	<b>1,684,129</b>	<b>40,588,982</b>
<b>Fund balances, end of year</b>	<b>\$ 8,440,002</b>	<b>\$ 11,928,248</b>	<b>\$ 631,502</b>	<b>\$ 17,437,359</b>	<b>\$ 1,609,575</b>	<b>40,046,686</b>

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, 2012**

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

Net change in fund balances - total governmental funds	\$ (542,296)
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.	6,586,911
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net assets.	670,980
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.	210,532
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,109,951)
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.	(454,228)
Internal service funds are used by management to charge the costs of insurance to individual funds.	(3,073,114)
The revenue of certain activities of internal service funds is reported with governmental activities.	<u>3,311,580</u>
Change in net assets of governmental activities	<u>\$ 4,600,414</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, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 1,409,686	\$ 1,409,686	\$ 1,398,358	\$ (11,328)
Sales and use taxes	17,848,591	17,848,591	18,786,667	938,076
Business taxes	210,280	210,280	169,084	(41,196)
Licenses and permits	5,482,104	5,482,104	5,087,193	(394,911)
Intergovernmental	619,400	619,400	514,372	(105,028)
Charges for services	2,581,500	2,581,500	2,440,811	(140,689)
Fines and forfeitures	419,205	419,205	454,502	35,297
Interest income	24,050	24,050	13,748	(10,304)
Miscellaneous Income	325,803	325,803	323,423	(2,380)
Parks and recreation	1,096,499	1,096,499	1,159,178	62,679
<b>Total revenues</b>	<b>30,017,118</b>	<b>30,017,118</b>	<b>30,347,334</b>	<b>330,216</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General government:</b>				
City manager	222,840	228,603	227,684	919
Personnel	275,315	275,315	257,165	18,150
City clerk	368,769	374,192	355,457	18,735
Information Technology	173,099	182,724	180,168	2,556
Municipal court	362,590	362,590	356,874	5,716
Finance	587,255	590,420	540,185	50,235
Finance - revenue collection	95,611	106,771	105,787	984
Non-departmental	4,009,704	4,360,764	4,763,111	(402,347)
Appropriations and contributions	584,977	584,977	122,804	462,173
Economic development	310,255	297,255	215,974	81,281
Building maintenance	291,280	291,350	268,412	22,938
<b>Total general government</b>	<b>7,281,695</b>	<b>7,654,961</b>	<b>7,393,621</b>	<b>261,340</b>
<b>Public safety:</b>				
Code enforcement	410,881	410,211	402,429	7,782
Fire	4,441,692	4,441,692	4,043,986	397,706
Police	6,731,354	6,735,639	6,505,173	230,466
Animal control	158,867	158,867	129,014	29,853
<b>Total public safety</b>	<b>11,742,794</b>	<b>11,746,409</b>	<b>11,080,602</b>	<b>665,807</b>

(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, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Expenditures: (Continued)</b>				
<b>Current:</b>				
<b>Public works:</b>				
Vehicle maintenance	\$ 217,314	\$ 217,314	\$ 205,261	\$ 12,053
Engineering	497,420	496,920	534,297	(37,377)
Administration	380,330	380,080	357,808	22,272
Limbs and debris	1,612,373	1,612,373	1,551,908	60,465
Refuse disposal	162,855	162,855	154,786	8,069
Streets and drainage	902,837	902,837	786,329	116,508
Total public works	<u>3,773,129</u>	<u>3,772,379</u>	<u>3,590,389</u>	<u>181,990</u>
<b>Culture and recreation:</b>				
Parks and recreation	3,003,388	2,983,666	2,745,840	237,826
Central activity center	88,000	88,000	85,468	2,532
Amphitheater	99,200	124,619	113,645	10,974
Golf course	975,820	946,243	939,033	7,210
	<u>337,763</u>	<u>337,763</u>	<u>307,836</u>	<u>29,927</u>
Total culture and recreation	<u>4,504,171</u>	<u>4,480,291</u>	<u>4,191,822</u>	<u>288,469</u>
<b>Debt service:</b>				
Principal	89,867	89,867	74,481	15,386
Interest	3,071	3,071	3,071	-
Total debt service	<u>92,938</u>	<u>92,938</u>	<u>77,552</u>	<u>15,386</u>
<b>Total expenditures</b>	<u>27,394,727</u>	<u>27,746,978</u>	<u>26,333,986</u>	<u>1,412,992</u>
<b>Excess of revenues over expenditures</b>	<u>2,622,391</u>	<u>2,270,140</u>	<u>4,013,348</u>	<u>1,743,208</u>
<b>Other financing sources (uses):</b>				
Capital leases	-	-	498,517	498,517
Transfers in	323,000	323,000	55,004	(267,996)
Transfers out	(1,619,380)	(1,619,380)	(615,854)	1,003,526
Total other financing sources (uses)	<u>(1,296,380)</u>	<u>(1,296,380)</u>	<u>(62,333)</u>	<u>1,234,047</u>
<b>Net change in fund balances</b>	<u>1,326,011</u>	<u>973,760</u>	<u>3,951,015</u>	<u>2,977,255</u>
<b>Fund balance, beginning of year</b>	<u>4,488,987</u>	<u>4,488,987</u>	<u>4,488,987</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 5,814,998</u>	<u>\$ 5,462,747</u>	<u>\$ 8,440,002</u>	<u>\$ 2,977,255</u>

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

**CITY OF PHENIX CITY, ALABAMA**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2012**

	<b>Business-type Activities</b>	
	<b>Enterprise Funds</b>	<b>Governmental Activities</b>
	<b>Public Utilities</b>	<b>Internal Service Fund</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,481,339	\$ -
Accounts receivable, net of allowances	1,165,544	-
Notes receivable	70,110	-
Due from other funds	832,853	-
Inventories	280,912	-
Prepaid expenses	25,981	-
Total current assets	<u>5,856,739</u>	<u>-</u>
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	<u>10,020,566</u>	<u>117,437</u>
<b>NONCURRENT ASSETS</b>		
Deferred bond issuance, unamortized balance	916,129	-
Notes receivable, net of current portion	156,600	-
Capital assets:		
Nondepreciable	1,236,255	-
Depreciable, net of accumulated depreciation	69,960,862	-
Total noncurrent assets	<u>72,269,846</u>	<u>-</u>
Total assets	<u>88,147,151</u>	<u>117,437</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	531,534	-
Accrued expenses	96,495	-
Claims payable	-	255,964
Due to other funds	310,963	-
Customer deposits	93,456	-
Accrued interest	257,596	-
Current portion - capital lease	24,462	-
Current portion - bonds payable	1,185,000	-
Current portion - compensated absences	66,898	-
Total current liabilities	<u>2,566,404</u>	<u>255,964</u>
<b>LONG-TERM LIABILITIES</b>		
Capital lease, net of current portion	91,568	-
Bonds payable, net of current portion	41,952,107	-
Compensated absences, net of current portion	26,451	-
Net other postemployment benefits obligation	276,000	-
Total long-term liabilities	<u>42,346,126</u>	<u>-</u>
Total liabilities	<u>44,912,530</u>	<u>255,964</u>
<b>NET ASSETS (DEFICIT)</b>		
Invested in capital assets, net of related debt	35,602,942	-
Restricted for debt service	3,020,137	-
Unrestricted (deficit)	4,611,542	(138,527)
Total net assets (deficit)	<u>\$ 43,234,621</u>	<u>\$ (138,527)</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, 2012**

	<b>Business-type Activities Enterprise Funds</b>	<b>Governmental Activities Internal Service Fund</b>
	<b>Public Utilities</b>	
<b>OPERATING REVENUES</b>		
Charges for services	\$ 9,573,550	\$ 3,311,454
Miscellaneous	214,418	-
Total operating revenues	<u>9,787,968</u>	<u>3,311,454</u>
<b>OPERATING EXPENSES</b>		
Administrative	2,301,694	-
Water plant	1,416,634	-
Water distribution	1,555,172	-
Wastewater distribution	1,372,317	-
Wastewater plant	983,883	-
Depreciation and amortization	2,636,806	-
Claims and damages	-	3,342,114
Total operating expenses	<u>10,266,506</u>	<u>3,342,114</u>
Operating loss	<u>(478,538)</u>	<u>(30,660)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Intergovernmental	162,493	-
Interest income	35,934	126
Gain on disposal of assets	16,074	-
Interest expense	(2,146,715)	-
System development fees	527,801	-
Total nonoperating income (loss)	<u>(1,404,413)</u>	<u>126</u>
Income (loss) before contributions and transfers	<u>(1,882,951)</u>	<u>(30,534)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>428,809</u>	<u>-</u>
<b>TRANSFERS</b>		
Transfers in	-	269,000
Transfers out	(355,855)	-
Total transfers	<u>(355,855)</u>	<u>269,000</u>
Change in net assets	<u>(1,809,997)</u>	<u>238,466</u>
<b>NET ASSETS (deficit), beginning of year</b>	<u>45,044,618</u>	<u>(376,993)</u>
<b>NET ASSETS (deficit), end of year</b>	<u>\$ 43,234,621</u>	<u>\$ (138,527)</u>

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

**CITY OF PHENIX CITY, ALABAMA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	<b>Business-type Activities</b>	
	<b>Enterprise Funds</b>	<b>Governmental Activities</b>
	<b>Public Utilities</b>	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 10,253,520	\$ 3,311,454
Payments to suppliers	(4,925,662)	(3,467,763)
Payments to employees	(2,952,724)	-
Net cash provided by (used in) operating activities	<u>2,375,134</u>	<u>(156,309)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	-	269,000
Transfers out	(355,855)	-
Intergovernmental	162,493	-
System development fees	627,801	-
Net cash provided by noncapital financing activities	<u>334,439</u>	<u>269,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(2,690,488)	-
Principal paid on bonds	(740,000)	-
Principal paid on capital lease	(15,336)	-
Interest paid	(2,081,927)	-
Net cash used in capital and related financing activities	<u>(5,527,751)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	35,934	126
Net cash provided by investing activities	<u>35,934</u>	<u>126</u>
 Net increase (decrease) in cash and cash equivalents	 <u>(2,782,244)</u>	 <u>112,817</u>
<b>Cash and cash equivalents:</b>		
Beginning of year	<u>16,284,149</u>	<u>4,620</u>
End of year	<u>\$ 13,501,905</u>	<u>\$ 117,437</u>
<b>Classified as:</b>		
Cash	\$ 3,481,339	\$ -
Restricted assets, cash	10,020,566	117,437
	<u>\$ 13,501,905</u>	<u>\$ 117,437</u>

(Continued)



**CITY OF PHENIX CITY, ALABAMA**

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	<b>Business-type Activities</b>	
	<b>Enterprise Funds</b>	<b>Governmental Activities</b>
	<b>Public Utilities</b>	<b>Internal Service Fund</b>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>		
Operating income (loss)	\$ (478,538)	\$ (30,660)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	2,636,808	-
Landfill closure/postclosure care expense	-	-
Decrease in accounts receivable	290,523	-
Increase in due from other governments	-	-
Decrease in notes receivable	9,930	-
Decrease in due from other funds	108,302	-
Increase in inventory	(90,477)	-
Decrease in prepaid expenses	13,820	-
Increase in accounts payable	(239,355)	-
Increase in accrued expenses	(6,885)	-
Increase in claims payable	-	(125,649)
Decrease in due to other funds	48,586	-
Decrease in customer deposits	8,211	-
Decrease in deferred revenues	-	-
Decrease in compensated absences	5,211	-
Increase in other postretirement benefits obligation	69,000	-
Net cash provided by (used in) operating activities	<u>\$ 2,375,134</u>	<u>\$ (156,309)</u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Contributions of donated assets	\$ 428,809
Assets acquired by capital lease	129,905
Acquisition of capital lease	129,905
Settlement of capital lease	93,919
Gain on disposal of leased asset	16,073
Capitalized interest	239,353
Amortization of bond discounts and premiums, net	306,433

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

**CITY OF PHENIX CITY, ALABAMA**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Phenix City, Alabama (the "City") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. The Financial Reporting Entity**

The City was created by a legislative act of the State of Alabama in 1889. The City is a municipal corporation which operates under the mayor-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 one discretely presented component units and one blended component unit. The discretely presented component unit is reported separately in the government-wide financial statements to emphasize that it is legally separate from the City. The discretely presented component unit has a September 30 year-end. 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 9<sup>th</sup> Avenue, Phenix City, Alabama 36868.

The Phenix City-Russell County Library Authority (the "Library") – In prior years, the Library was reported as a discretely presented component unit. At the beginning of the current fiscal year, the Library was no longer a legally separate entity from the City and, therefore, is reported as a department of the General Fund. The Library continues to retain a Board appointed by the Council that acts in an advisory capacity to the Council.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### A. The Financial Reporting Entity (Continued)

##### Blended Component Unit

The Public Building Authority (the "PBA") – 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

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

The **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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Cash and Cash Equivalents

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

#### E. Investments

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

#### 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.

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City elected to record infrastructure assets prior to 1980. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend useful lives are expensed as incurred.

Major outlays for capital assets and major improvements are capitalized as projects are constructed. Interest incurred during the construction period of capital assets in the Public Utilities Fund is included as part of the capitalized value of the assets constructed. Interest expense of approximately \$239,200 was capitalized in the Public Utilities Fund during the fiscal year ending September 30, 2012.

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

**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

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### 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

In accordance with the requirements of GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions, 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

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### M. Management Estimates

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this \$71,228,656 difference are as follows:

Bonds payable	\$ (74,825,000)
Unamortized deferred charge on refunding	2,969,610
Unamortized original issue discount	659,070
Unamortized original issue premium	<u>(32,336)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ (71,228,656)</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 \$6,586,911 difference are as follows:

Capital outlay	\$ 9,335,080
Depreciation expense	(2,748,169)
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>	\$ 6,586,911

Another element of that reconciliation explains that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$2,109,951 difference are as follows:

Issuance of bonds	\$ (2,035,000)
Premium on bond issuance	(32,336)
Bond issuance costs on bond issuance	67,350
Capital lease	(498,517)
Principal repayment - capital lease	74,481
Principal repayment - bonds	590,000
Amortization of discounts, premiums and defeasance on bonds	(189,508)
Amortization of bond issuance costs	(86,421)
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>	\$ (2,109,951)

**NOTES TO FINANCIAL STATEMENTS**

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

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

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$454,228 difference are as follows:

Accrued interest	\$ 15,478
Compensated absences	(77,706)
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>\$ (454,228)</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 3<sup>rd</sup> Tuesday of September of each year. The City Council approves budget amendments during the year.

**B. Encumbrances**

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

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3. LEGAL COMPLIANCE – BUDGETS (CONTINUED)**

**C. Excess Expenditures Over Appropriations**

For the year ended September 30, 2012, the following departments had excess of actual expenditures over appropriations, which were funded by available fund balance of the General Fund:

	<u>Excess</u>
Non-departmental	\$ (402,347)
Public Works Engineering	(37,377)

For the year ended September 30, 2012, non-departmental expenditures exceeded budget by approximately \$402,000 primarily as a result of non-budgeted expenditures including a \$271,000 property acquisition for economic development, \$22,000 to replace traffic signals, \$54,000 in design fees for the State DHR Building that may be reimbursed in future and \$50,000 in accrued payroll. Public Works engineering department was over budget due to non-budgeted expenditures for new software.

**NOTE 4. CASH AND INVESTMENTS**

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

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

**Custodial credit risk – deposits.** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits with Alabama financial institutions that are in excess of the FDIC insurance are secured under the Security for Alabama Funds Enhancement Act (SAFE Program). Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury. As of September 30, 2012, the City and the Board of Education had no uncollateralized deposits.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. RECEIVABLES

Receivables consisted of the following at September 30, 2012:

	General	7 Mill	Nonmajor Governmental Funds	Public Utilities	Total
Receivables:					
Taxes	\$ 1,817,521	\$ 715,068	\$ 713,209	\$ -	\$ 3,245,798
Accounts	96,368	-	504,772	2,845,876	3,447,016
Notes	-	-	380,000	226,710	606,710
Gross receivables	1,913,889	715,068	1,597,981	3,072,586	7,299,524
Less allowance for uncollectibles	(158,323)	-	-	(1,680,332)	(1,838,655)
Net total receivable	<u>\$ 1,755,566</u>	<u>\$ 715,068</u>	<u>\$ 1,597,981</u>	<u>\$ 1,392,254</u>	<u>\$ 5,460,869</u>

Property taxes attached as an enforceable lien on property as of January 1, 2011. Property taxes were levied on October 1, 2011, and payable on or before December 31, 2011. Property taxes levied for 2011 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during the year ended September 30, 2012, and collected by November 30, 2012, are recognized as revenues in the year ended September 30, 2012. Net receivables estimated to be collected subsequent to November 30, 2012, 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, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities:</b>					
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ 15,811,685	\$ 271,196	\$ (4,127)	\$ -	\$ 16,078,754
Construction in progress	1,851,473	7,189,956	-	(4,813,920)	4,227,509
<b>Total capital assets, not being depreciated</b>	<b>17,663,158</b>	<b>7,461,152</b>	<b>(4,127)</b>	<b>(4,813,920)</b>	<b>20,306,263</b>
<b>Capital assets, being depreciated:</b>					
Buildings	24,905,718	495,061	-	-	25,400,779
Machinery and equipment	12,921,052	1,296,406	(433,722)	-	13,783,736
Infrastructure	52,775,046	806,350	-	4,813,920	58,395,316
<b>Total capital assets, being depreciated</b>	<b>90,601,816</b>	<b>2,597,817</b>	<b>(433,722)</b>	<b>4,813,920</b>	<b>97,579,831</b>
<b>Less accumulated depreciation for:</b>					
Buildings	(15,520,357)	(897,171)	-	-	(16,417,528)
Machinery and equipment	(8,470,531)	(1,198,865)	384,940	-	(9,284,456)
Infrastructure	(34,465,501)	(652,133)	-	-	(35,117,634)
<b>Total accumulated depreciation</b>	<b>(58,456,389)</b>	<b>(2,748,169)</b>	<b>384,940</b>	<b>-</b>	<b>(60,819,618)</b>
<b>Total capital assets, being depreciated, net</b>	<b>32,145,427</b>	<b>(150,352)</b>	<b>(48,782)</b>	<b>4,813,920</b>	<b>36,760,213</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 49,808,585</b>	<b>\$ 7,310,800</b>	<b>\$ (52,909)</b>	<b>\$ -</b>	<b>\$ 57,066,476</b>
<b>Business-type Activities:</b>					
<b>Capital assets, not being depreciated:</b>					
Land	\$ 272,544	\$ -	\$ -	\$ -	\$ 272,544
Construction in progress	2,313,656	2,793,120	-	(4,143,065)	963,711
<b>Total capital assets, not being depreciated</b>	<b>2,586,200</b>	<b>2,793,120</b>	<b>-</b>	<b>(4,143,065)</b>	<b>1,236,255</b>
<b>Capital assets, being depreciated:</b>					
Building and improvements	994,976	-	-	-	994,976
Machinery and equipment	5,625,736	266,627	(175,241)	-	5,717,122
Plant facilities	95,646,258	428,809	-	4,143,065	100,218,132
<b>Total capital assets, being depreciated</b>	<b>102,266,970</b>	<b>695,436</b>	<b>(175,241)</b>	<b>4,143,065</b>	<b>106,930,230</b>
<b>Less accumulated depreciation for:</b>					
Building and Improvements	(518,726)	(39,860)	-	-	(558,586)
Machinery and equipment	(4,250,818)	(322,280)	97,396	-	(4,475,502)
Plant facilities	(29,718,032)	(2,217,248)	-	-	(31,935,280)
<b>Total accumulated depreciation</b>	<b>(34,487,376)</b>	<b>(2,579,388)</b>	<b>97,396</b>	<b>-</b>	<b>(36,969,368)</b>
<b>Total capital assets, being depreciated, net</b>	<b>67,779,594</b>	<b>(1,883,952)</b>	<b>(77,845)</b>	<b>4,143,065</b>	<b>69,960,862</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 70,365,794</b>	<b>\$ 909,168</b>	<b>\$ (77,845)</b>	<b>\$ -</b>	<b>\$ 71,197,117</b>

**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	\$	57,762
Public safety		831,454
Public works		1,085,294
Culture and recreation		773,659
Total depreciation expense - governmental activities	\$	<u>2,748,169</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	4,395,146	-	(4,395,146)	-
Total capital assets, not being depreciated	5,030,172	-	(4,395,146)	635,026
Capital assets, being depreciated:				
Building and improvements	71,483,219	9,390,424	-	80,873,643
Machinery and equipment	6,757,818	250,644	(72,840)	6,935,622
Total	78,241,037	9,641,068	(72,840)	87,809,265
Less accumulated depreciation:	(20,805,975)	(1,949,165)	69,390	(22,685,750)
Total capital assets, being depreciated, net	57,435,062	7,691,903	(3,450)	65,123,515
Discretely presented component unit capital assets, net	\$ 62,465,234	\$ 7,691,903	\$ (4,398,596)	\$ 65,758,541

**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, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds payable	\$ 73,380,000	\$ 2,035,000	\$ (590,000)	\$ 74,825,000	\$ 2,310,000
Less deferred amounts:					
Unamortized premium	-	32,336	-	32,336	-
Unamortized discount	(682,934)	-	23,864	(659,070)	-
Unamortized refunding	(3,135,254)	-	165,644	(2,969,610)	-
Net bonds payable	<u>69,561,812</u>	<u>2,067,336</u>	<u>(400,492)</u>	<u>71,228,656</u>	<u>2,310,000</u>
Capital leases payable	103,304	498,517	(74,481)	527,340	115,817
Compensated absences	676,262	77,706	-	753,968	603,174
Claims payable	381,613	2,918,278	(3,043,927)	255,964	-
Governmental activities long-term liabilities	<u>\$ 70,722,991</u>	<u>\$ 5,561,837</u>	<u>\$ (3,518,900)</u>	<u>\$ 72,765,928</u>	<u>\$ 3,028,991</u>
<b>Business-type activities:</b>					
Bonds payable	\$ 47,005,000	\$ -	\$ (740,000)	\$ 46,265,000	\$ 1,185,000
Less deferred amounts:					
Unamortized discount	(96,793)	-	7,042	(89,751)	-
Unamortized premium	113,453	-	(4,442)	109,011	-
Unamortized refunding	(3,450,986)	-	303,833	(3,147,153)	-
Net bonds payable	<u>43,570,674</u>	<u>-</u>	<u>(433,567)</u>	<u>43,137,107</u>	<u>1,185,000</u>
Capital leases payable	95,380	129,905	(109,255)	116,030	24,462
Compensated absences	88,138	5,211	-	93,349	66,898
Business-type activities long-term liabilities	<u>\$ 43,754,192</u>	<u>\$ 135,116</u>	<u>\$ (542,822)</u>	<u>\$ 43,346,486</u>	<u>\$ 1,276,360</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 and revenue bonds outstanding at September 30, 2012, are as follows:

	<b>Interest Rates</b>	<b>Balance September 30, 2012</b>
2007-A Issue	3.6% - 5.0%	\$ 3,125,000
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
2012-A Issue	2.00%	2,035,000
2011-A Issue - Public Building Authority	1.0% - 4.375%	20,425,000
		74,825,000
Less: Deferred amounts		(3,596,344)
		\$ 71,228,656

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, 2012 in the amount of \$3,125,000. 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

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

#### A. Primary Government (Continued)

##### Governmental Activities Debt (Continued)

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

##### General Obligation Bonds, Series 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, 2012 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, 2012 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

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

#### A. Primary Government (Continued)

#### Governmental Activities Debt (Continued)

#### General Obligation Bonds (Continued)

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

The City has tax exempt General Obligation Refunding Bonds, Series 2011-A (Series 2011-A Bonds) outstanding at September 30, 2012 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 included 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.

#### General Obligation Bonds, Series 2012-A, \$2,035,000 Principal

During the current year, the City issued tax exempt General Obligation Refunding Bonds, Series 2012-A (Series 2012-A Bonds) outstanding at September 30, 2012 in the amount of \$2,035,000. The proceeds of the bonds were donated to Troy University to finance a portion of the University's construction of a new downtown Phenix City campus. The City has pledged revenues from business and professional license fees to service the debt.

The Series 2012-A Bonds are not subject to redemption prior to maturity.

## NOTES TO FINANCIAL STATEMENTS

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

#### A. Primary Government (Continued)

##### Governmental Activities Debt (Continued)

##### Revenue Bonds – Blended Component Unit

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

The PBA has Revenue Bonds, Series 2011-A (PBA Series 2011-A Bonds) outstanding at September 30, 2012 in the amount of \$20,425,000. 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.

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.

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>
2013	\$ 2,310,000	\$ 2,759,338	\$ 5,069,338
2014	2,470,000	2,708,263	5,178,263
2015	2,525,000	2,659,063	5,184,063
2016	2,586,000	2,598,888	5,183,888
2017	2,645,000	2,542,200	5,187,200
2018 - 2022	12,285,000	11,464,503	23,749,503
2023 - 2027	14,745,000	9,014,803	23,759,803
2028 - 2032	17,995,000	5,764,376	23,759,376
2033 - 2037	17,265,000	1,737,008	19,002,008
	<u>74,825,000</u>	<u>\$ 41,248,442</u>	<u>\$ 116,073,442</u>
Less deferred amounts	(3,596,344)		
	<u>\$ 71,228,656</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, 2012:

	<b>Governmental Activities</b>
Equipment	\$ 610,466
Less: Accumulated depreciation	(53,779)
	\$ 556,687

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of September 30, 2012:

	<b>Governmental Activities</b>
Fiscal year ending September 30,	
2013	\$ 130,798
2014	130,798
2015	130,798
2016	120,671
2017	53,246
Total minimum lease payments	566,311
Less amount representing interest	(38,971)
Present value of future minimum lease payments	\$ 527,340

**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, 2012, are as follows:

	<b>Interest Rates</b>	<b>Balance September 30, 2012</b>
2003 Water and Sewer Revenue Bonds	2.98 %	\$ 110,000
2009-A Water and Sewer Revenue Bonds	3.00% - 5.00%	26,865,000
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%	3,915,000
		46,265,000
Less: Deferred amounts		(3,127,893)
		<b>\$ 43,137,107</b>

**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, 2012 in the amount of \$110,000. The proceeds from the bonds are to be used for 1) improvements to the system and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System.

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

## NOTES TO FINANCIAL STATEMENTS

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

#### A. Primary Government (Continued)

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

##### Revenue Bonds (Continued)

##### 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, 2012 in the amount of \$26,865,000. 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 has tax-exempt Water and Sewer Revenue Bonds, Series 2010-A (Series 2010-A Bonds) outstanding at September 30, 2012 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 tax-exempt Water and Sewer Revenue Bonds, Series 2011-A (Series 2011-A Bonds) outstanding at September 30, 2012 in the amount of \$3,915,000. 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,	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 1,185,000	\$ 2,080,766	\$ 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	1,230,000	1,904,513	3,134,513
2018 - 2022	6,910,000	8,770,091	15,680,091
2023 - 2027	8,485,000	7,194,502	15,679,502
2028 - 2032	8,950,000	6,079,171	14,029,171
2033 - 2037	9,685,000	2,987,626	12,672,626
2038 - 2041	6,350,000	645,250	6,995,250
	<u>46,265,000</u>	<u>\$ 34,570,733</u>	<u>\$ 80,835,733</u>
Less deferred amounts	(3,127,893)		
	<u>\$ 43,137,107</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 inception. The following is an analysis of leased assets under capital leases as of September 30, 2012:

	<b>Business-type Activities</b>
Equipment	\$ 129,905
Less: Accumulated depreciation	(12,991)
	\$ 116,914

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of September 30, 2012:

	<b>Business-type Activities</b>
Fiscal year ending September 30,	
2013	\$ 27,750
2014	27,750
2015	27,750
2016	27,750
2017	13,875
Total minimum lease payments	124,875
Less amount representing interest	(8,845)
Present value of future minimum lease payments	\$ 116,030

## NOTES TO FINANCIAL STATEMENTS

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2006 Series Warrants	\$ 10,840,000	\$ -	\$ (415,000)	\$ 10,425,000	\$ 425,000
2007-B Series Warrants	22,340,000	-	(285,000)	22,055,000	295,000
2006 Installment Purchase Agreements	284,113	-	(51,123)	232,990	53,826
School Construction Bonds	8,105,000	-	-	8,105,000	421,794
2011 CB&T	843,007	-	-	843,007	67,023
<b>Total</b>	<b>\$ 42,412,120</b>	<b>\$ -</b>	<b>\$ (751,123)</b>	<b>\$ 41,660,997</b>	<b>\$ 1,262,643</b>

Details of Long-Term Debt are as follows:

2011 Installment Purchase Agreement: During the prior 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 rate is 5.00%.

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 \$151,158 for the current year and are \$151,158 for each of the remaining 14 years until the bond matures. Interest is at 1.865%. Net earnings of the sinking fund may reduce final interest or principal payments.

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.

## NOTES TO FINANCIAL STATEMENTS

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

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

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%.

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%.

The annual requirements to amortize all debt outstanding at September 30, 2012 are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Payment	Total
2013	\$ 840,849	\$ 1,735,416	\$ 421,794	\$ 2,998,059
2014	1,192,046	1,702,727	421,794	3,316,567
2015	1,243,562	1,655,742	421,794	3,321,098
2016	1,305,411	1,593,392	421,794	3,320,597
2017	1,306,466	1,528,691	421,794	3,256,951
2018 - 2022	7,442,663	6,719,920	2,108,970	16,271,553
2023 - 2027	11,119,884	4,467,639	1,687,176	17,274,699
2028 - 2032	11,305,000	1,581,925	-	12,886,925
	<u>\$ 35,755,881</u>	<u>\$ 20,985,462</u>	<u>\$ 5,905,116</u>	<u>\$ 62,646,449</u>

**NOTES TO FINANCIAL STATEMENTS**

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

The composition of interfund balances as of September 30, 2012, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	7 Mil Fund	\$ 85,218
General Fund	Capital Improvements Fund	352
General Fund	Public Utilities Fund	310,963
Capital Improvements Fund	Public Building Authority	108,475
Capital Improvements Fund	General Fund	55,989
Public Building Authority	General Fund	200,582
7 Mil Fund	General Fund	53,091
Public Utilities Fund	7 Mil Fund	832,853
		<u>\$ 1,647,523</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:

Transfer To	Transfer From					Total	
	General	Capital Improvement Fund	7 Mil Fund	Public Building Authority	Nonmajor Governmental Funds		Public Utilities Fund
General	\$ -	\$ -	\$ 55,004	\$ -	\$ -	\$ -	\$ 55,004
Capital Improvement Fund	291,850	-	-	-	-	-	291,850
7 Mil Fund	55,004	25,854	-	42,250	-	355,855	478,963
Nonmajor Governmental Funds	-	-	-	-	450,000	-	450,000
Internal Service Fund	269,000	-	-	-	-	-	269,000
<b>Total</b>	<u>\$ 615,854</u>	<u>\$ 25,854</u>	<u>\$ 55,004</u>	<u>\$ 42,250</u>	<u>\$ 450,000</u>	<u>\$ 355,855</u>	<u>\$ 1,544,817</u>

Transfers are used to (1) move revenues from the fund that statute or budget require 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**

**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 2012, 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:

	<b>Governmental</b>	<b>Business-type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
Normal cost	\$ 178,000	\$ 32,000	\$ 210,000
Amortization of actuarial liability	416,000	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	1,176,000	207,000	1,383,000
Net OPEB obligation - end of year	<u>\$ 1,568,000</u>	<u>\$ 276,000</u>	<u>\$ 1,844,000</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, 2012 and the two preceding years were as follows:

Year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation
9/30/2010	\$ 699,000	34.05%	\$ 922,000
9/30/2011	699,000	34.05%	1,383,000
9/30/2012	699,000	34.05%	1,844,000

**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

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### 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 7.25% 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, 2012 was 8.52% of eligible payroll. Eligible payroll was approximately \$14,638,000 for the year ended September 30, 2012.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Description (Continued)**

**Annual Pension Cost**

For the year ended September 30, 2012, the City's annual pension contribution of approximately \$1,247,000 was equal to the required and actual contribution. The required contribution was determined as part of the September 30, 2011 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 7.25% at age 20 to 3.75% at age 65. Both (1) and (2) include an inflation component of 3.0%. 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, 2011
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	3.75%-7.25% based on age
Expected annual inflation	3.00%
Cost-of-living adjustments	None

**Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Actual City Contribution	Percentage of APC Contributed	Net Pension Obligation
9/30/2009	\$ 1,467,953	\$ 1,467,953	100%	-
9/30/2010	1,497,285	1,497,285	100%	-
9/30/2011	1,526,073	1,526,073	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, 2011, 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)
9/30/2011 <sup>1,2</sup>	\$ 30,203,833	\$ 47,950,038	\$ 17,746,205	63.0%	\$ 14,236,220	124.7%

<sup>1</sup> Reflects the impact of 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.

<sup>2</sup> Reflects changes in actuarial assumptions.

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, 2011.

**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:

	<b>September 30, 2012</b>	September 30, 2011	September 30, 2010
Unpaid claims, beginning of year	\$ 381,613	\$ 125,859	\$ 176,133
Incurred claims and changes in estimates	2,740,639	3,299,681	2,425,977
Claim payments	(2,866,288)	(3,043,927)	(2,476,251)
Unpaid claims, end of year	\$ 255,964	\$ 381,613	\$ 125,859

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 \$138,527 at September 30, 2012. 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

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### **NOTE 14. SUBSEQUENT EVENTS**

In January 2013, the City of Phenix City Downtown Redevelopment Authority (the "DRA"), issued bonds in the amount of \$9.310 million. The proceeds will be used for the construction of a 99 room Courtyard Hotel by Marriott on 3<sup>rd</sup> Avenue with access to the river walk and white water rafting. The debt will be serviced by the City through a lease agreement with the Ram Riverfront Hospitality, LLC.

In fiscal year 2013, the City issued General Obligation School Warrants of \$9.48 million. The Board of Education has pledged three revenues streams to the City for warrant repayment including the Board of Education's share of a countywide sales tax levied exclusively for school purposes, a 13-mill property tax levy and a 4.5-mill property tax levy.

During fiscal year 2013, the City was awarded Alabama Transportation Rehabilitation and Improvement Program ("ATRIP") grants of approximately \$4.07 million for various construction projects including street resurfacings and bridge replacements, some of which are joint projects with Russell County. The City will provide match funding for the projects of approximately \$986,000.

**CITY OF PHENIX CITY, ALABAMA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS**

**RETIREMENT SYSTEMS OF ALABAMA**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) Entry Age (b) <sup>1</sup></b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a) / c</b>
9/30/2011 <sup>4,5</sup>	\$ 30,203,833	\$ 47,950,038	\$ 17,746,205	63.0%	\$ 14,236,220	124.7%
9/30/2010 <sup>3,4</sup>	30,909,676	47,172,381	16,262,705	65.5%	13,559,809	119.9%
9/30/2010 <sup>3</sup>	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 <sup>2</sup>	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%

<sup>1</sup> Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

<sup>2</sup> Reflects changes in actuarial assumptions.

<sup>3</sup> Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

<sup>4</sup> Reflects the impact of 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.

<sup>5</sup> Reflects changes in actuarial assumptions.

**OPEB Health Care Plan**

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

## CITY OF PHENIX CITY, ALABAMA

### NONMAJOR GOVERNMENTAL FUNDS

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#### Special Revenue Funds

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

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

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

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

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

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

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

**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.

#### Debt Service Funds

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

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

**CITY OF PHENIX CITY, ALABAMA**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

	Special Revenue Funds				
	Two Cent Gas Tax	Four Cent Gas Tax	Five Cent Gas Tax	Seven Cent Gas Tax	Corrections
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 109,162
Taxes receivable	1,862	7,148	3,287	11,510	-
Accounts receivable	-	-	-	-	-
Notes receivable	-	-	-	-	-
Due from other governments	-	5,569	2,740	9,589	-
Restricted cash	36,796	71,853	194,044	107,098	-
<b>Total assets</b>	<b>\$ 38,658</b>	<b>\$ 84,570</b>	<b>\$ 200,071</b>	<b>\$ 128,197</b>	<b>\$ 109,162</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ -	\$ 6,337	\$ -	\$ -
Due to component units	-	-	-	-	-
Deferred revenue	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>6,337</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	-
Restricted for:					
Street improvements	38,658	84,570	193,734	128,197	-
Debt service	-	-	-	-	-
Revolving loans	-	-	-	-	-
Public safety	-	-	-	-	109,162
Economic development	-	-	-	-	-
<b>Total fund balances</b>	<b>38,658</b>	<b>84,570</b>	<b>193,734</b>	<b>128,197</b>	<b>109,162</b>
<b>Total liabilities and fund balances</b>	<b>\$ 38,658</b>	<b>\$ 84,570</b>	<b>\$ 200,071</b>	<b>\$ 128,197</b>	<b>\$ 109,162</b>



Debt Service Funds				Total Nonmajor Governmental Funds
Second Mortgage	Confiscated Property	3 Mill	4 Mill	
\$ 152,339	\$ 15,066	\$ -	\$ -	\$ 276,567
-	-	295,459	393,943	713,209
504,772	-	-	-	504,772
380,000	-	-	-	380,000
-	-	-	-	17,898
-	-	11,802	15,522	437,205
<u>\$ 1,037,111</u>	<u>\$ 15,066</u>	<u>\$ 307,351</u>	<u>\$ 409,465</u>	<u>\$ 2,329,651</u>
\$ -	\$ 4,940	\$ -	\$ -	\$ 11,277
-	-	10,891	14,522	25,413
-	-	292,880	390,506	683,386
-	4,940	303,771	405,028	720,076
-	-	-	-	445,159
-	-	-	-	8,017
1,037,111	-	3,580	4,437	1,037,111
-	10,126	-	-	119,288
<u>1,037,111</u>	<u>10,126</u>	<u>3,580</u>	<u>4,437</u>	<u>1,609,575</u>
<u>\$ 1,037,111</u>	<u>\$ 15,066</u>	<u>\$ 307,351</u>	<u>\$ 409,465</u>	<u>\$ 2,329,651</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, 2012**

	Special Revenue Funds				
	Two Cent Gas Tax	Four Cent Gas Tax	Five Cent Gas Tax	Seven Cent Gas Tax	Corrections
<b>Revenues:</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	21,097	140,985	66,644	233,294	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	108,221
Interest income	20	121	118	172	39
<b>Total revenues</b>	<b>21,117</b>	<b>141,106</b>	<b>66,762</b>	<b>233,466</b>	<b>108,260</b>
<b>Expenditures:</b>					
<b>Current</b>					
Public safety	-	-	-	-	55
Public works	-	-	667,403	-	-
Education	-	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>667,403</b>	<b>-</b>	<b>55</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>21,117</b>	<b>141,106</b>	<b>(600,641)</b>	<b>233,466</b>	<b>108,205</b>
<b>Other financing sources (uses):</b>					
Transfers in	-	-	450,000	-	-
Transfers out	-	(150,000)	-	(300,000)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(150,000)</b>	<b>450,000</b>	<b>(300,000)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>21,117</b>	<b>(8,894)</b>	<b>(150,641)</b>	<b>(66,534)</b>	<b>108,205</b>
<b>Fund balances (deficit), beginning of year</b>	<b>17,541</b>	<b>93,464</b>	<b>344,375</b>	<b>194,731</b>	<b>957</b>
<b>Fund balances, end of year</b>	<b>\$ 38,658</b>	<b>\$ 84,570</b>	<b>\$ 193,734</b>	<b>\$ 128,197</b>	<b>\$ 109,162</b>

Debt Service Funds				Total Nonmajor Governmental Funds
Second Mortgage	Confiscated Property	3 Mill	4 Mill	
\$ -	\$ -	\$ 889,688	\$ 1,188,117	\$ 2,075,705
116,016	-	-	-	482,020
-	20,503	-	-	116,016
167	13	81	60	128,724
<u>116,183</u>	<u>20,516</u>	<u>889,669</u>	<u>1,188,177</u>	<u>2,783,256</u>
-	18,921	-	-	18,978
96,162	-	-	-	763,565
-	-	889,422	1,185,847	2,075,269
<u>96,162</u>	<u>18,921</u>	<u>889,422</u>	<u>1,185,847</u>	<u>2,857,810</u>
20,021	1,595	247	330	(74,554)
-	-	-	-	450,000
-	-	-	-	(450,000)
-	-	-	-	-
20,021	1,595	247	330	(74,554)
<u>1,017,090</u>	<u>8,531</u>	<u>3,333</u>	<u>4,107</u>	<u>1,684,129</u>
<u>\$ 1,037,111</u>	<u>\$ 10,126</u>	<u>\$ 3,580</u>	<u>\$ 4,437</u>	<u>\$ 1,609,575</u>

## COMPLIANCE SECTION

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

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

We have audited, 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, 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 (the "City") as of and for the year ended September 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 19, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Phenix City Board of Education, as described in our report on the City'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 of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Item 2012-1 through 2012-7 to be material weaknesses.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City'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's Response to Findings***

The City'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's responses and, accordingly, we express no opinion on them .

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Robinson, Grimes & Company, P.C.*

Certified Public Accountants  
Columbus, Georgia

November 19, 2013

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

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

**Compliance**

We have audited the City of Phenix City, Alabama's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the City's compliance with the applicable compliance requirements based on our compliance audit.

The City's basic financial statements include the operations of the Phenix City Board of Education, a component unit of the City, which received \$8,298,254 in federal awards which is not included in the schedule during the year ended September 30, 2012. 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 compliance audit 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination on the City's compliance with those requirements.

### **Opinion**

In our opinion, the City, 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, 2012.

### **Internal Control over Compliance**

The management of the City 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 compliance audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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'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 or significant deficiencies, as defined above.



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**Restricted Use**

The purpose of this report is solely to report on compliance with U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* for each major program as identified in the Schedule of Findings and Questioned Costs and the result of that testing. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Accordingly, this report is not suitable for any other purpose.

*Robinson, Grimes & Company, P.C.*

Certified Public Accountants  
Columbus, Georgia

November 19, 2013

**CITY OF PHENIX CITY, ALABAMA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

<b>Federal Grantor/Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Agency or Pass-through Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Transportation</b>			
<b>Passed through the Alabama Department of Transportation</b>			
Highway Planning and Construction Cluster	20.205	STPPC-8015	\$ 671,911
Highway Planning and Construction Cluster	20.205	STPPC-8045	2,778
Highway Planning and Construction Cluster	20.205	STPTE-TE06-955	1,393,797
Highway Planning and Construction Cluster	20.205	STPPC-0001	6,586
Highway Planning and Construction Cluster	20.205	STPPC-8016	2,880
Highway Planning and Construction Cluster	20.205	STPPC-8040	1,545,444
Highway Planning and Construction Cluster	20.205	STPPC-CN09	2,743
Total U.S. Department of Transportation			<u>3,626,139</u>
<b>U.S. Department of Justice</b>			
<b>Direct Awards</b>			
Policing Grant - ARRA	16.710	2009-RK-WX-0047	185,385
<b>Passed through the Alabama Department of Economic and Community Affairs</b>			
Homeless Prevention and Rapid Rehousing Program - ARRA	14.257	HP-GV-09-004	37,507
<b>U.S. Department of Energy</b>			
<b>Passed through the Alabama Department of Economic and Community Affairs</b>			
Energy Efficiency and Conservation Block Grant Program - ARRA	81.128	1-ARRA-EECBG 36	250,000
<b>U.S. Department of Energy</b>			
<b>Passed through the Alabama Department of Economic and Community Affairs</b>			
CDBG Community Enhancement Grant	14.228	LR-CE-PF-11-006	162,493
Total Expenditures of Federal Awards			<u>\$ 4,261,524</u>

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, 2012

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:

CFDA Number

20.205

Name of Federal Program or Cluster

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, 2012**

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**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

**2012 - 1. Taxes and Licenses Revenues and Receivables**

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 and business licenses receivables 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 taxes receivable and business license fee revenue of \$91,295 was required to be recorded in the General Fund. In addition, an adjustment to decrease deferred tax revenue and increase 5-mill property tax revenue in the amount of \$158,323 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.

**2012 - 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, properly capitalize interest, or properly record disposal of assets, during the fiscal year ended September 30, 2012.

**CITY OF PHENIX CITY, ALABAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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

**2012 - 2. Management of Capital Asset Accounts (Continued)**

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

Effect: In the Capital Improvements Fund, grant revenue and corresponding capital outlay expenditures were not recorded in the amount of \$2,198,148 which also resulted in an understatement of governmental activities capital assets as presented on the Statement of Net Assets. In addition, capital assets and capital contributions reported by governmental activities were required to be increased in the amount of \$169,311. Adjustment to decrease net assets and increase capital contributions revenue in the amount of \$428,809 was required to be recorded in the Public Utilities Fund. Adjustment to decrease capital assets in the amount of \$59,881, decrease depreciation expense in the amount of \$17,964 and decrease gain on asset disposal in the amount of \$77,845 was required 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.

**2012 - 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 financing 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. Also, as part of the reporting process, the City should reconcile debt activity from the fund financial statements to the amounts reported in the government-wide statements.

Condition: The City did not properly record the amortization of bond discounts/premiums in the Public Utilities Fund. In addition, debt issuance and related costs and debt service in the governmental funds were not classified properly for financial statement presentation. Additionally, the City did not properly record capital leases in the General Fund.

**CITY OF PHENIX CITY, ALABAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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

**2012 - 3. Debt Transactions (Continued)**

Cause: See above condition.

Effect: Adjustments to increase net bonds payable and increase interest expense in the amount of \$147,081 were required to be recorded in the Public Utilities Fund. Adjustments to decrease payables for capital leases and increase other financing sources in the amount of \$445,271 were required to be recorded in the General Fund. Reclassifications of \$2,035,000 for bond proceeds, \$32,336 for bond premium and \$30,525 for bond issuance costs were required for presentation of fund financial statements in the Capital Improvements Fund. In addition, adjustments were required in the 7 Mill Fund to properly report debt service as follows: decrease prepaid expenses in the amount of \$259,573, increase transfers in by \$108,302 and increase interest expense in the amount of \$367,875. In the Public Building Authority fund balance was required to be increased in the amount of \$19,750,478 to close prior year other financing sources related to the bond issuance in the prior year. In the Public Utilities Fund, to properly record debt service paid to the 7 Mill fund, an adjustment was required to decrease prepaid items and increase transfers out in the amount of \$108,302. In the government-wide conversion process, adjustments were required to be made to increase accrued interest in the amount of \$19,550, decrease bonds payable in the amount of \$281,183, increase capital lease payable in the amount of \$424,036 and increase interest expense in the amount of \$387,529.

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.

**2012 - 4. Management of Accounts Receivable and Revenue 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 grants receivable in the Capital Improvement Fund as of September 30, 2012.

**CITY OF PHENIX CITY, ALABAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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

**2012 - 4. Management of Accounts Receivable and Revenue Accounts (Continued)**

**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 \$54,307 and increase grant revenue by the same amount was required to be recorded in the Capital Improvement 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.

**2012 - 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. Transfers in/out were not properly reported in the funds.

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

**Effect:** Adjustments to increase due from other funds and increase intergovernmental revenues in the amount of \$67,857 related to garbage fees were required to be recorded in the General Fund. Reclassifications to decrease capital outlay expenditures and transfers in were required in the Capital Improvements Fund in the amount of \$96,050. Adjustments to increase due to the General Fund in the amount of \$63,267, decrease garbage fees in the amount of \$67,857 and decrease fuel expenses in the amount of \$4,590 were required in the Public Utilities 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, 2012**

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

**2012 - 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.

**2012 - 6. Management of Accounts Payable and Due to Other Governments**

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, 2012 as it relates to accounts payable within the Capital Improvement Fund.

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

Effect: A net adjustment to decrease accounts payable and due to other governments and decrease capital outlay expenditures in the amount of \$12,340 was required to be recorded in the Capital Improvements 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, 2012**

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

**2012 - 7. Other Post Employment Benefit (OPEB) Liability Accrual**

Criteria: Internal controls should be in place to ensure that accrued liabilities are recorded in accordance with standards.

Condition: The City did not properly record the increase in the OPEB Liability.

Cause: See condition.

Effect: An adjustment to decrease the OPEB liability in the amount of \$138,000 and increase Net Assets by the same amount was required to be recorded in the Public Utilities Fund.

Recommendation: Management should reconcile and monitor accrued liability accounts for proper accrual and presentation as required by accounting standards.

Views of Responsible Officials and Planned Corrective Action We concur. We will establish procedures to monitor accrued liabilities.

**CITY OF PHENIX CITY, ALABAMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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**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, 2012**

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**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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2012-2.

**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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2012-3.

**CITY OF PHENIX CITY, ALABAMA**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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**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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2012-4.

**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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2012-5.

**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.

Auditee Response/Status: Unresolved – See current year financial audit finding 2012-6.