

# THE CITY OF AUBURN, ALABAMA



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2010



City of Auburn



***The City of Auburn, Alabama***  
**Comprehensive Annual Financial Report**  
For the Fiscal Year Ended  
September 30, 2010

**City Council**

**Bill Ham, Jr., Mayor**

**Dick Phelan, Mayor Pro Tem**

**Arthur Dowdell**

**Sheila Eckman**

**Tom Worden**

**Brent Beard**

**Robin Kelley**

**Gene Dulaney**

**Bob Norman**

**Management**

**Charles M. Duggan, Jr., City Manager**

Kevin Cowper	Assistant City Manager	Steven A. Reeves	Human Resources Director
James C. Buston, III	Assistant City Manager/CIO	Margie B. Huffman	Library Director
Rick Davidson	City Attorney	Rebecca O. Richardson	Parks and Recreation Director
James McLaughlin	Municipal Judge	Forrest Cotten	Planning Director
Phillip Dunlap	Economic Development Director	William H. James	Public Safety Director
Timothy Woody	Environmental Services Director	Jeffery Ramsey	Public Works Dir./City Engineer
Penny L. Smith	Finance Director/Treasurer	Laura A. Koon	Water Resource Mgt. Director

**Prepared by**

***Finance Department***

**Penny L. Smith, CPA, CGFM, Director/Treasurer**

Allison Edge, CPA, Principal Financial Analyst

Andrew Zutter, Finance Information Officer



City of Auburn

City of Auburn, Alabama  
 Comprehensive Annual Financial Report  
 For the Fiscal Year Ended September 30, 2010

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## City of Auburn

Home of Auburn University

### Letter of Transmittal

March 31, 2011

To the Mayor, Members of Council, and the Citizens of the City of Auburn:

The Comprehensive Annual Financial Report (CAFR) of The City of Auburn (the government) for the fiscal year ended September 30, 2010 is hereby transmitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Auburn management. To the best of our knowledge and belief, the enclosed data are accurate in all material aspects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the government and its component units. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities have been included.

#### ***The Report***

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a copy of the City's Certificate of Achievement for Excellence in Financial Reporting, and the primary government's organization chart. The financial section includes the management's discussion and analysis (MD&A), the basic financial statements for the primary government and its separately presented component units, and the primary government's combining and individual financial statements and schedules, as well as the independent auditor's report on the financial statements and schedules. The MD&A contains a narrative introduction, overview, and analysis of the City's financial statements. It should be read in conjunction with this letter of transmittal. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. In contrast to the financial section information, the statistical section information has not been audited.

This report includes all funds of the primary government and its component units. The primary government provides a full range of services. These services include public safety, public works, environmental services, culture and recreation, economic and community development, planning, and general administrative services.

During fiscal 1994, the City of Auburn implemented the Governmental Accounting Standards Board's (GASB) statement on defining the reporting entity. As a result, the City's Board of Education, Water Works Board, Industrial Development Board, Commercial Development Authority, and Public Park and Recreation Board have been included as separately presented component units of the City's reporting entity in the CAFR.

The City's related organization, the Housing Authority of the City of Auburn, is not required to be included in the reporting entity and accordingly is excluded from this report. Audited financial statements for the Housing Authority are available upon request at the Authority's business office at 931 Booker Street, Auburn, AL 36832.

***GASB Reporting Requirements*** Each year, management evaluates new GASB reporting requirements to determine applicability to the City. The requirements issued by GASB that became effective during this fiscal period and those that will become effective in the next fiscal period are described in this document.

GASB Statement 51, "Accounting and Financial Reporting for Intangible Assets," became effective for the fiscal 2010 period. This statement establishes accounting requirements for intangible assets, such as easements, water

rights, and computer software. Intangible assets capitalized by the City included easements and computer software. As permitted by this statement, only easements acquired in fiscal year 2010 were valued and capitalized. No retroactive reporting was done for those assets having indefinite useful lives.

GASB Statement 53, "Accounting and Financial Reporting for Derivative Instruments," establishes requirements for the reporting of derivative instruments by state and local governments. This statement became effective during the fiscal 2010 period. The City does not own any derivative instruments at this time.

GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions," establishes new categories for reporting fund balance and revises definitions for governmental fund types. This statement becomes effective during the fiscal 2011 reporting period. Management is aware of the requirements of this statement and plans for implementation in 2011.

### **City Profile**

The City of Auburn, located in east central Alabama, is a thriving and diverse university-based community. The City was incorporated in Lee County in February of 1839. The establishment of Auburn University in 1856 marked the beginning of a mutually beneficial partnership producing what *Demographics Daily* recognized as a small city "dream town," offering a high quality of life to all its citizens.

In June 2009, Auburn was named as one of the "10 best places to live" by *U. S. News & World Report*. The list focused on areas with low costs of living, strong economies, and ample recreational opportunities for citizens. The article describes Auburn as "a diamond on the eastern Alabama plains." Auburn University, Chewacla State Park, and nearby Grand National golf course were mentioned as reasons to consider Auburn as a place to live.

Located near Georgia's west central border, Auburn is conveniently located on Interstate Highway 85, 115 miles southwest of Atlanta and 60 miles east of Montgomery, the Alabama State Capitol. Auburn is 120 miles southeast of Birmingham, the largest city in Alabama, and is 40 miles northwest of Columbus, Georgia's second largest city. With easy access to highway, rail, and air transportation, Auburn's location has been a significant factor in its continuing growth.



***Auburn is conveniently located on Interstate 85.***

Auburn's population has grown from 1,831 in 1900 to an estimated 57,608 in 2010. Population growth has averaged 3% per year. As the population has grown and the economic base diversified, the City of Auburn has responded with expanded and innovative government services to provide for the needs and the expectations of a highly educated and multi-cultural citizenry.

Auburn has a Council-Manager form of municipal government. The City Council consists of nine members: eight elected from eight single-member wards, and the Mayor, who is elected at large. This legislative body establishes policy to guide the various City departments in providing services to its citizens. The City Manager is the chief executive officer of the City, directing and managing the daily activities of the City Government. Charles M.



Duggan, Jr., a graduate of Auburn University, has served as City Manager since October 2006. The City departments include:

Office of the City Manager	Judicial
Information Technology	Library
Human Resources	Finance
Economic Development	Planning
Parks and Recreation	Public Works
Environmental Services	Public Safety
Water Resource Management	

Approximately 459 regular, full-time employees staff these departments, producing high quality and cost-effective public services.

### ***Major Initiatives***

In fiscal 2010, the City continued its priority of school funding. The City contributed \$7.0 million from its General Fund to the Auburn Board of Education, maintaining a commitment that ranks the municipal government among the highest in Alabama in terms of the level of local school support.

During fiscal year 2010, the City issued debt four times to take advantage of favorable interest rates, convert variable rate debt to fixed rate debt, and purchase property to be used for future City facilities.

- On June 1, 2010, the City refunded the 2002 General Obligation School Refunding Warrant. The new warrant, totaling \$27.0 million, will reduce the City's total debt service payments by approximately \$1.3 million over the next 15 years.
- In July, the City issued two general obligation warrants to refund debt of the Industrial Development Board, its component unit. The first of these warrants, totaling \$3.0 million, refunded the Board's Series 2000-A Infrastructure Improvement Bonds. These bonds were issued originally for the acquisition, construction, and installation of streets, sidewalks, and utilities within industrial parks located in the City. In an effort to eliminate exposure risk related to the variable interest rate of this debt, the City issued fixed-rate debt. The second warrant of \$10.3 million refunded the Board's Series 2004-A Taxable Industrial Development Bonds. These bonds were also issued for financing certain capital improvements within the City.
- On August 20, 2010, the City issued its \$1.9 million General Obligation Capital Improvement Warrant for the purpose of acquiring land and an office building. After renovations, the building will be used for the Public Works and Environmental Services functions.

A major initiative that began in late 2009 continued during fiscal 2010. During the summer of 2009, the Planning Department invited citizens to participate in the development of a new comprehensive plan for the City of Auburn. CompPlan 2030 is designed to develop the City's mission to provide economical delivery of quality services, and was created in response to the needs of Auburn's citizens. The City of Auburn would like to plan and manage growth, so that Auburn has an attractive and sustainable built environment where natural resources are protected and conserved. The Plan's recommendations will help guide the City's future growth and development for the next 20 years. The Plan could also result in substantial changes to zoning ordinances and subdivision regulations. Citizens were encouraged to participate in public meetings and share their ideas about the future of Auburn. The result will provide guidance for the future in the form of a policy document that will be considered for approval by the Auburn City Council in spring 2011.

### ***Government Services***

***Public Safety Services*** The Public Safety Department is comprised of five divisions: Police, Fire, Communications, Codes Enforcement, and Administration. The Police Division includes 107 sworn officer positions, providing an average emergency call response time of 2-3 minutes. The Auburn University Police Department merged with the

City of Auburn Public Safety Department effective July 1, 2004. All law enforcement and public safety services for the campus are now handled by the City.

The Fire Division includes 43 regular, full-time firefighters and 66 student firefighters, operating five fire stations. The City currently has a 3/9 fire insurance rating. The Communications Division provides E-911 emergency response and dispatch services to the public. The Codes Enforcement Division monitors construction activities within the City for compliance with public safety ordinances. Ambulance services are provided via a contract with East Alabama Medical Center.

**Public Works Services** The City's Public Works Department oversees the development and maintenance of the City's transportation systems. The City's roadway system currently includes over 650 miles of paved streets and less than 2.2 miles of unpaved road. Public Works expends approximately \$1.5 million per fiscal year on road maintenance. The Engineering Division of the Public Works Department performs planning and design services for the City's future highway, bikeway, and sidewalk systems. In addition, Public Works also monitors and inspects the construction and renovation of City facilities, including buildings and parks. The Traffic Engineering Division maintains 59 traffic signalized intersections, along with over 250 City-owned street lights.

**Environmental Services** Given Auburn University's origins as an agricultural and mechanical college, it is not surprising that Auburn's residents give a high priority to its environmental quality of life. The City's Environmental Services Department maintains the cleanliness of the City's rights of way to a standard considered remarkable for a university town. Environmental Services collects household waste, recyclables, and yard waste, offering citizens their choice of lower-cost curbside collection or higher-fee back yard collection service. Environmental Services is also responsible for animal control and maintenance of the City's vehicle fleet.

**Leisure Services** In addition to the many diverse cultural opportunities afforded by Auburn University, the City's Parks and Recreation Department and Library provide many leisure time choices to residents. The Library has 46 internet-connected public computer workstations available to the public; the Library had 103,867 patron sign-ins during fiscal 2010 and checked out 240,105 items. The Library offers wireless internet access so that patrons may use their laptop computers in the facility. The Library has a children's edition of the public access catalog to provide younger users with an easily understood and graphically appealing way to search the library catalog. In addition, the Library has added books written in Chinese, Hindi, Korean, Spanish, Arabic, German, and Russian to the circulating collection.

The Parks and Recreation Department maintains sixteen City parks, four cemeteries, numerous recreation facilities - including three recreation centers, two pools, forty-four tennis courts, four youth baseball complexes, a seven-field soccer complex, 30 miles of bike paths, an award-winning five-field competition class softball complex, a community arts center and more. Parks and Recreation provides programs ranging from organized team sports leagues for football, basketball, soccer, baseball, and softball to music and dancing lessons to summer day camps and swimming teams.

In 2010, the City of Auburn partnered with the Auburn Parks & Recreation Advisory Board, the Auburn Bicycle Committee, and the Auburn Off-Road Bike Association (AORBA) to construct the Lake Wilmore Mountain Bike Trail. The trail, located on the Lake Wilmore property owned by the City, is 3 miles in length and available for off-road biking, hiking, running, and walking.

**Education Services** Auburn City Schools provide services to more than 5,600 students. The Auburn City School system houses its students on nine separate campuses. These campuses include an early education center, six elementary schools, one middle school, one junior high school, and one high school. The overall pupil to teacher ratio in academic classes is 23:1. Of its teachers and administrators, approximately 68% hold advanced degrees and twelve have earned doctorates. The City School system spends an average of \$9,014 annually per pupil.

The City school system is accredited by the State Department of Education and the Southern Association of Colleges and Schools. It has been rated among the top 100 school systems in the nation by *Offspring Parenting* magazine (a subsidiary of *The Wall Street Journal*). The system consistently produces an average of six National Merit Scholars out of a graduating class of nearly 300. Auburn High School offers an International Baccalaureate

(IB) Program, a rigorous program based on the syllabi for 11<sup>th</sup> and 12<sup>th</sup> grades used by outstanding education systems throughout the world. Auburn is one of 11 high schools in Alabama to offer this curriculum. Excellent choral, drama, art, band, academic teams, sports, and other extra curricular programs are offered and encouraged. All schools (grades 1-12) have a media center, art teacher, music teacher, and one or more full-time counselors.

Enrichment classes and programs are provided for all students throughout the system. Auburn High School offers 13 Advanced Placement (AP) classes. Concurrent college enrollment, through Auburn University and Southern Union State Community College, is available for students who wish to take courses not taught at Auburn High School. The quality of the school system is a significant factor in the City's residential, commercial, and industrial growth.

There are numerous colleges and technical schools within a 50-mile radius of Auburn.

Auburn University, in Auburn	Columbus State University, Columbus, GA
Tuskegee University, Tuskegee	LaGrange College, LaGrange, GA
Huntingdon College, Montgomery	Southern Union State Community College, Opelika
Faulkner University, Montgomery	Chattahoochee Valley Community College, Phenix City
Auburn University, Montgomery	Central Alabama Community College, Alexander City
Troy University at Montgomery	Alabama State University, Montgomery

In 2010, Auburn University was rated 39<sup>th</sup> in the nation for providing a quality education at an exceptional value by *US News & World Report*. This is the 18<sup>th</sup> consecutive year that Auburn has been recognized in the top 50.

Auburn University's student body is taught by approximately 1,180 full-time faculty members, and the student to faculty ratio is 18 to 1. Approximately 96% of Auburn students receiving their degrees are employed full-time after graduation. The University is nationally known for the achievements of its veterinary medicine, engineering, and business graduates. Auburn offers degrees in 13 schools and colleges with over 140 majors at the undergraduate, graduate, and professional levels. Auburn has awarded more than 250,000 academic degrees since it opened in 1856.



***Auburn University's Historic Samford Hall***

As the City's largest employer, Auburn University is a major contributor to the local economy. The University has over 4,600 full-time employees. Enrollment, which has remained steady over the past ten years, was 25,078 for fall semester of the 2010/2011 academic year. Included in the total enrollment are 3,874 graduate students.

Southern Union State Community College is located in Auburn's sister city, Opelika, which is also the Lee County seat. Southern Union is located six miles from Auburn and offers courses in business, accounting, computer

science, industrial electricity and electronics technology, automotive mechanics technology, welding, and more. Fall 2010 enrollment at the Opelika campus was approximately 3,300.

**Utilities** The Water Works Board of the City of Auburn, drawing from Lake Ogletree as its main source, provides potable water services. The City's Water Resource Management (WRM) Department also manages two wastewater treatment plants with a total treatment capacity of 12 million gallons per day. The City's stormwater program is also managed by WRM. The Watershed Management Division coordinates and implements the Phase II Stormwater Regulations published by the federal government in 1999, while offering educational opportunities about stormwater issues and enforcing the City's erosion and sediment control ordinance.

**Healthcare** The Auburn area is served by the East Alabama Medical Center (EAMC). Among the many services that EAMC provides are open-heart surgery and cancer treatment, both of which are highly acclaimed specialties at the hospital. EAMC has been recognized three times for having a "Top 100 heart program." In addition, EAMC has been named twice as one of *Fortune's* "100 best companies to work for in America". The hospital has over 2,700 employees, making it the second largest employer in Lee County. Of these employees, more than 500 work at facilities in Auburn such as HealthPlus Fitness Center, Bethany House Hospice, and several assisted living communities. EAMC's main building is licensed for 352 beds, and the center provides emergency medical transport services to the City of Auburn. In addition, EAMC operates the Auburn University Medical Clinic on the Auburn University campus.

**Transportation** The Auburn area is highly accessible by various transportation modes. Situated at the intersections of Interstate 85 with US Highways 280 and 29, the cities of Atlanta, Montgomery and Birmingham are all within an easy two-hour drive. Auburn is served by four trucking terminals, all within 25 miles of the City, three overnight delivery services, and two commercial bus lines.

Auburn University operates the Auburn University Regional Airport with the financial support of the three local governments in Lee County. Federally funded improvements, including a 26,000 square foot terminal, were completed in 2010 and accommodate the airport's growth in corporate jet activity. Other conveniently accessible airports include Hartsfield-Jackson Atlanta International Airport (100 miles by Interstate 85), the Columbus (Georgia) regional airport (40 miles by US 280), and the Montgomery regional airport (60 miles by Interstate 85). CSX Transportation provides local mainline rail service through its Southern Railway and Western Railway of Alabama divisions.

## **Factors Affecting Financial Conditions**

### **Local Economy**

From the founding of Auburn University in 1856, the City's economy has been dominated by the University's presence. The University's students and faculty were attracted to the quality of life in Auburn and wanted to remain in the City on a long-term basis. Consequently, many were overqualified for the available jobs, but chose to accept under-employment in order to remain in Auburn.

In the mid-1980's, the City government began a conscious effort to strengthen the City's economic base through diversification. The City government established an Economic Development Department, whose mission is to recruit small- to medium-sized technology-based companies that offer a high level of employment to citizens, with the corresponding improvements in salaries and benefits.

The City's Economic Development Department, in partnership with the City's Industrial Development Board, has achieved an outstanding level of success in this effort, having assisted in the recruitment of more than forty companies, resulting in the creation of over 4,000 jobs in the last 25 years. The location of these companies in Auburn has meant that the City had to acquire and develop four industrial-technology parks. Construction of the first phase of the newest park, Auburn Technology Park West, was completed in 2008. Design for Phase II of this park is currently underway with plans for construction to begin in late 2011.

The industrial sector showed strong growth in 2010 with three companies selecting Auburn as the location for their new manufacturing operations: the German based company Tube Technology Systems, a supplier of brake

tubes for the Volkswagen plant in Chattanooga, began its Auburn operation in late 2010. Viper Motorcycles, relocating from the Midwest, will start its assembly operation in the Auburn Technology Park West in early 2011; and the decision by General Electric (GE) Aviation to establish its national environmental coating facility in Auburn boasts the potential to be the greatest economic impact to the area for all of 2010. The new GE plant will add a large aerospace company to Auburn's industrial portfolio, further diversifying the employment base in the City. Construction of the GE facility will begin in 2011. In total, the three companies alone announced over 400 new jobs for Auburn.

In addition to new industrial locations, several existing industries announced expansions in 2010. The most significant growth within the existing industries will come from the expansions of the Korean automotive suppliers located in Auburn, specifically CNJ, PSA, and SCA. PSA is now operating a second facility in Auburn and CNJ and SCA have started construction to expand their existing facilities, both scheduled for completion in 2011. These three expansions will add over 300 jobs in Auburn. The new industry announcements and expansions that occurred in 2010 will produce a combined total of over 700 new manufacturing jobs for Auburn.



***Governor Riley welcomes GE to Auburn***

The City's innovative economic development tools include a Revolving Loan program funded by a loan repayment stream that was the product of certain federal grant programs, facilitating public-private technology partnerships with Auburn University, a small-business incubator facility, a workforce development initiative, and property tax abatements. The focused and creative use of these tools resulted in the location of the following companies, among others, in the City's industrial parks and the Auburn Center for Developing Industries: Aluminum Technology Schmid North America, Inc.; Briggs & Stratton Corporation; CV Holdings, LLC; Donaldson Company; EPOS Corporation; Leggett & Platt, Inc.; MasterBrand Cabinets, Inc.; Nikki America Fuel Systems; Northrop Grumman Corporation; Seohan Auto USA Corporation; Straehle + Hess USA, Inc.; Touchstone Precision, Inc.; and Weidmann Plastics.

The Auburn Center for Developing Industries (ACDI), a small business incubator facility, opened in 1989 to enable new business ventures to become established in a cost-controlled environment while adding jobs to the community. This project has been highly successful, graduating several of its tenants to the City's industrial parks and expanding its facilities three times. Current tenants located in the incubator include a military systems engineering and technology development company, a robotics automation repair and design company, an automotive restraint systems company, an automotive conveyer systems company, a logistics company, a consulting and staffing company, and a full motion flight training simulator company.

Two new grocery stores entered the Auburn market in the spring of 2010. Publix opened its first store in Auburn at Hamilton Place Shopping Center at the intersection of Moore's Mill Road and Hamilton Road. Earth Fare, an organic supermarket, opened its second Alabama location at Flint's Crossing Shopping Center at the intersection of East University Drive and Opelika Road, across from the Village Mall. Publix plans to open a second Auburn store in late 2011 at The Shoppes at Cary Creek, located at the intersection of North College Street and East University Drive.



***Publix at Hamilton Place Shopping Center***

The newly completed Hamilton Place Shopping Center also includes 25,000 square feet of small shop space. There are a variety of tenants including: restaurants, a frozen custard shop, urgent care, nail salon, and clothing stores. The Auburn Exchange Shopping Center at Exit 57 now encompasses more than 220,000 square feet of shopping for residents, including a Sam's Club and an Academy Sports + Outdoors store. Additional tenants near the new shopping center include a bank, a family-style restaurant, a used car dealership, a car wash, and a fast food restaurant.

In addition, the City has partnered with Auburn University and the State of Alabama to construct a University-based research park. Construction of the first building in the Auburn Research Park was completed in 2008, with Northrop Grumman Corporation becoming the first official tenant. In the summer of 2009, Auburn University and Siemens Medical Solutions USA, Inc. announced the signing of a master research agreement for the establishment of the Auburn University Magnetic Resonance Imaging (MRI) Research Center, the second building to locate in Phase I of the Auburn Research Park. Construction of the new 45,000 square foot center began in January 2010. Clinical and research units are already open and operating in the building with full build-out expected by early 2011. Also in 2010, plans for the third building were cemented when the University received a competitive grant from the U.S. National Institute for Standards and Testing (NIST) to build a Center for Advanced Science, Innovation and Commerce. The 68,000 square foot Center will house 21 research laboratories and at least five multidisciplinary and interdisciplinary programs in the research areas of standards and measurements, and marine and forecast sciences. Construction of the new Center is scheduled to begin summer 2011. The City of Auburn and Auburn University continue to work together to recruit prospects for the Research Park. The new technology-focused research park has prompted partnerships with East Alabama Medical Center, the University Of Alabama at Birmingham School of Medicine, and China's Central South University. Recruitment efforts for Research Park projects are ongoing.



***Buildings I and II – Auburn Research Park***

In addition to its business recruitment programs and initiatives, the City's Economic Development Department has worked to improve housing opportunities within the Auburn city limits in several ways, including: an Affordable

Housing Program; collaboration with Habitat for Humanity and Auburn Housing Authority; and administering numerous housing rehabilitation and other public service programs funded by the federal Community Development Block Grant Program. The North Auburn Housing Development Corporation (NAHDC), a non-profit organization dedicated to affordable housing in Auburn, and the City of Auburn are currently collaborating in the development of Phase I of the Northwest Village Subdivision. As Auburn's newest affordable housing subdivision, the Northwest Village Subdivision was created to give Auburn residents the opportunity to purchase a home. Currently, fourteen families reside in the subdivision. Construction of five additional homes is now underway.



***Home in Auburn's Northwest Village***

In an effort to leverage funds to finance economic development activities to create and retain jobs, the City of Auburn has applied for a Section 108 Loan sponsored by the U.S. Department of Housing and Urban Development (HUD). The City proposes to use the funds to establish an Economic Development Fund to provide financing for commercial and industrial loans for undertaking special economic development activities. The City also intends to utilize the Section 108 Loan to create a Micro Loan Program to offer short-term loans for active small businesses and small business start-ups with the ultimate goal of entrepreneurs to become financially independent and eligible for loans from commercial lenders.

The physical boundaries of the City continue to expand with residential, commercial, and industrial growth. During fiscal 2010, the City's Planning Commission recommended annexing 40.1 acres into the City limits as part of the City's long-range plan for growth through annexation. All annexations are initiated by request of the property owners. The Planning Commission also approved 2 new subdivisions, incorporating 24 single-family lots.

In fiscal 2010, building permits were issued for 306 new single-family residences valued at \$76.1 million. The average valuation for single-family homes was \$248,692. Also permitted during fiscal 2010 were 20 multi-family buildings valued at \$19.1 million and 3 new commercial and industrial facilities valued at \$877,600.

### ***Risk Management***

The City of Auburn's risk management program includes identification and analysis of loss exposures and the selection of appropriate risk management techniques for specific loss exposures. The City uses a combination of risk reduction and risk financing techniques. The risk reduction techniques include loss prevention and loss reduction through periodic inspections and training. While insurance or self-insurance is used for risk financing, some loss exposures are retained by the City and paid for out of the operating budget.

### ***Long-term Financial Planning***

The City's capital improvements program contains over \$74.9 million in identified projects over the next five years (FY11 through FY15). Increasing the capacity and updating the technology of the sewer system will require approximately \$16.7 million. This outlay will be funded by bond proceeds and system access fees. Infrastructure improvements, including sidewalks, bikeways, streets, bridges, and intersections will require an estimated \$38.9

million. This outlay will be funded through identified sources including shared funding, state and federal grant funds, and debt.

Renovations and expansion of existing city buildings are planned with a projected cost of \$7.6 million. Funding sources for these city buildings include proceeds of bonds and the General Fund. Other projects, including culture and recreation, utility mapping, and public safety service improvements are included in the capital improvements program at an approximate cost of \$11.6 million. Various funding options, including debt and grants, will be identified at the appropriate time.

### **Financial Information**

Management of the government is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse and to ensure that adequate data are compiled to allow for the presentation of financial statements in conformance with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) that valuation of costs and benefits requires estimates and judgments by management.

**Single Audit** As a recipient of federal and state financial assistance, the government is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

As part of the City's audit in accordance with generally accepted government auditing standards, tests are made to determine the adequacy of the internal control structure, including that portion related to federal assistance programs, as well as to determine that the government has complied with applicable laws and regulations.

**Budgeting** Budgetary tracking is maintained at the line item level by the encumbrance of actual or estimated purchase amounts prior to the release of purchase orders to vendors. Accountability for budgetary compliance is held at the department level. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The City Manager has the authority to make adjustments between budget line items. Purchase orders resulting in an overrun of a departmental balance are released only after the approval of the City Manager.

Based on a recommendation from the City Manager, the City Council approved a change from an annual budget to a two-year (biennial budget). The City has been using biennial budgeting since fiscal 2001. The objectives of a biennial budget process are two-fold: to give the Council and City management a longer time horizon for budgeting and to reduce the amount of staff time required for developing and adjusting the budget. Under the annual budgeting process, Auburn conducted a Mid-Year Budget Review process each April that was nearly as rigorous as the budget development each summer. With a Biennial Budget, the Mid-Year Review is streamlined and there is an in-depth Mid-Biennium Review.

Budget amendments are effected by ordinance enacted by the governing body at mid-biennium and, if necessary, at fiscal year-end. Activities of the General Fund, the Debt Service funds, and most Special Revenue funds are included in the budget. Encumbrances lapse at year-end; however, encumbrances remaining against a positive department budget balance may be re-appropriated as "prior year carryover" during the Mid-Biennium Budget Review.

The City's budget is prepared in accordance with generally accepted accounting principles (GAAP), with the exception that capital outlays and debt service payments related to the operation of individual departments are budgeted within those departments. The financial statements presented in the *financial* section of this report are presented in accordance with GAAP; that is, all capital outlays have been aggregated in a single line captioned "capital outlay." Debt service expenditures are presented in a single line caption in the GAAP financial statements, as well.



**Cash Management and Investments** It is the policy of the City to invest public funds not required for immediate operations in a manner that will provide the highest investment return. The priorities for City investments shall be legal compliance, liquidity, and safety of the investment. All financial institutions holding City deposits are Qualified Public Depositories (QPD) authorized by the Security for Alabama Funds Enhancement (SAFE) program. The SAFE program provides a collateral pool administered by the Alabama State Treasurer.

During fiscal 2010, idle cash was invested in certificates of deposit with terms and rates ranging from 12 months at .48% to 24 months at 1.30%. The City's demand deposit operating account is currently earning 1.00%.

**General Fund Reserves** The City Council has adopted a policy of maintaining a net ending fund balance in the General Fund that is equal to or greater than 6% of total expenditures and other financing uses. Management has an informal goal of 20-25%. The ending fund balance as a percentage of expenditures and other financing uses for the fiscal 2009 period was 34.19%, exceeding management's informal goal. There is a planned reduction of this percentage in fiscal years 2011 and 2012.

### **Other Information**

**Independent Audit** The government is required by State law to undergo an annual audit by independent public accountants; to meet federal requirements of the Single Audit Act Amendments of 1996, and the resultant issuance of OMB Circular No. A-133 (*Audits of States, Local Governments, and Non-Profit Organizations*), the City's audit report must be signed by a certified public accountant. The accounting firm of Machen, McChesney and Chastain, LLP was selected through a competitive proposal process. The auditor's report on the basic financial statements and the combining and individual fund statements and schedules is included in the *financial* section of this report.

Information related to this Single Audit, including the schedule of federal financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, are generally meaningful only to oversight agencies and therefore have not been included in this report. This information is contained in a separate Single Audit report, which is available for review at the Office of the City Manager in City Hall at 144 Tichenor Avenue, Auburn, Alabama.

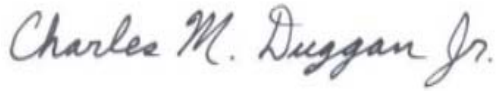
**Awards** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Auburn, Alabama, for its CAFR for the fiscal year ended September 30, 2009. This was the twenty-third consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The GFOA has given an Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to the City of Auburn for its PAFR for the fiscal year ended September 30, 2009. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a PAFR whose contents conform to program standards of creativity, presentation, understandability, and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

In addition, the City has also received a GFOA Award for Distinguished Budget Presentation for its biennium beginning October 1, 2009. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged proficient in several categories including policy documentation, financial planning, and organization.

**Acknowledgments** The preparation of the comprehensive annual financial report could not be accomplished without the dedicated services of an efficient Finance Department staff, including adjunct members in other City departments. We express appreciation to each member of the Department and to those members of other City departments for their contributions made in the preparation of this report.

In closing, the commitment to the achievement of mandated priorities speaks to the progressive leadership and dedication to public service of the Mayor and the City Council. Their support for a policy of financial integrity has been instrumental in the preparation of this report.



Charles M. Duggan, Jr.  
City Manager



Penny L. Smith, CPA, CGFM  
Finance Director

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

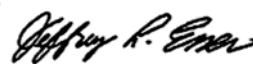
City of Auburn  
Alabama

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

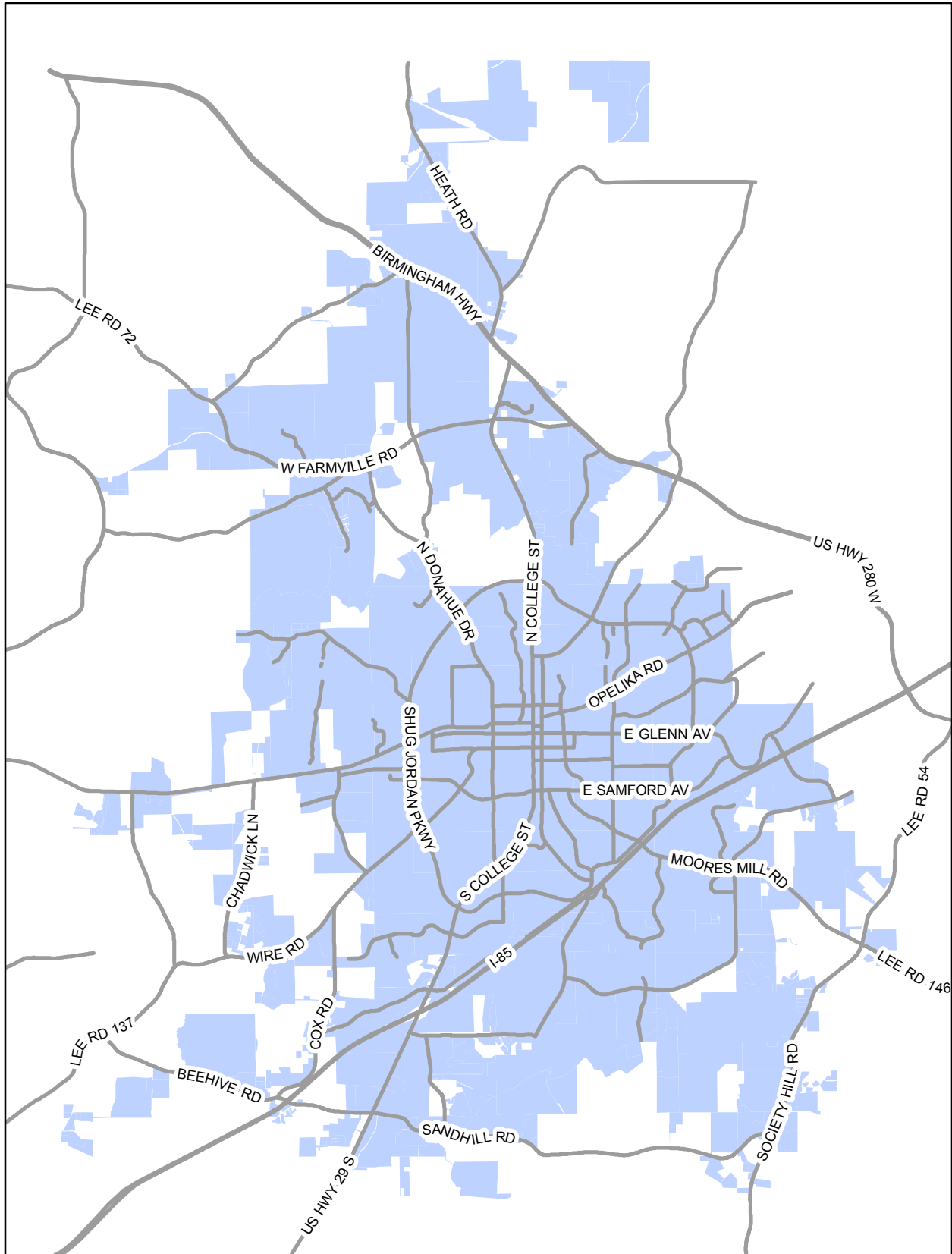


President

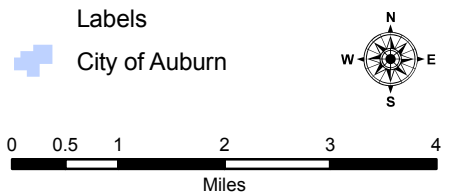


Executive Director

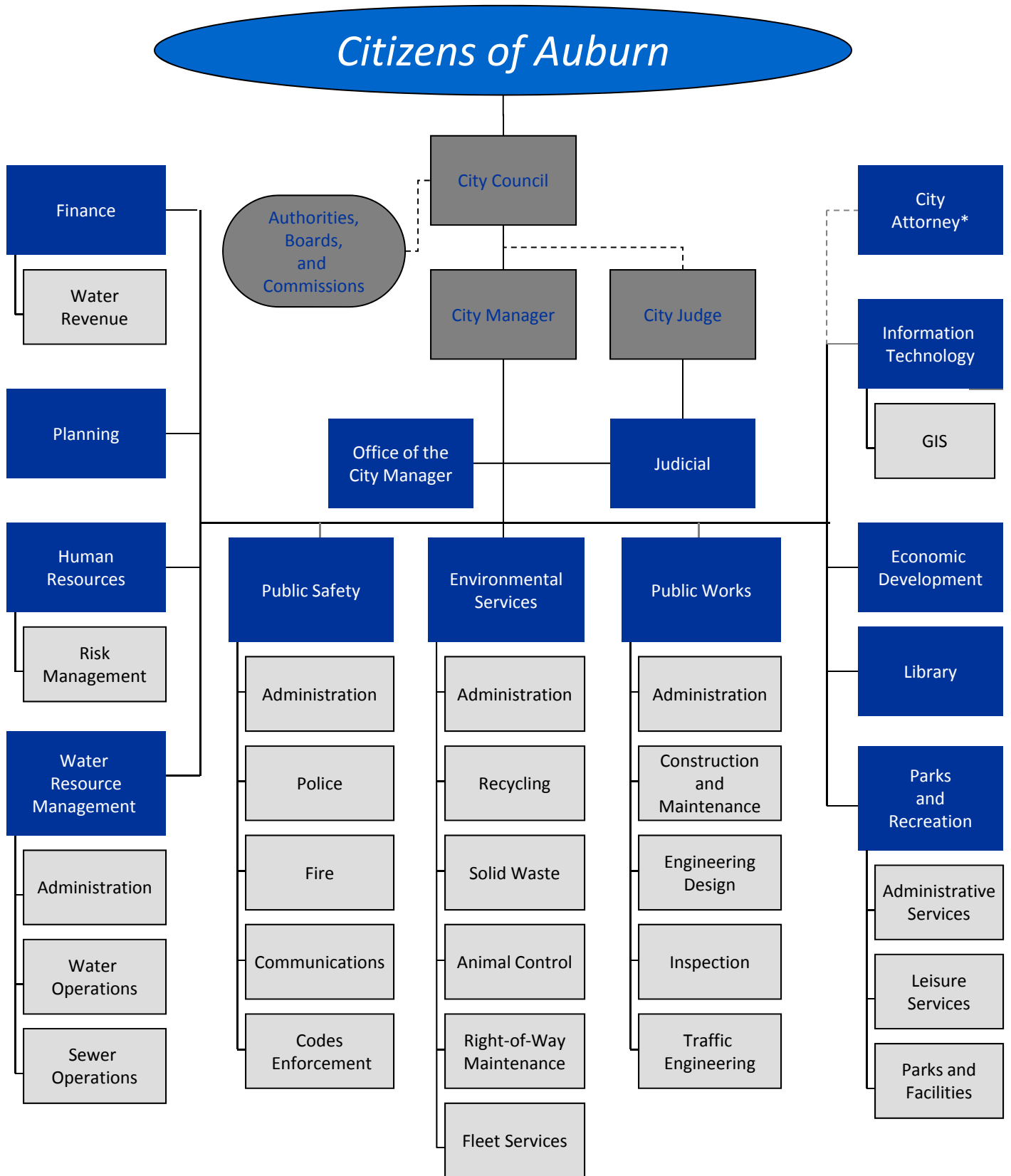
# City of Auburn as of September 30, 2010



The City of Auburn, Alabama does not guarantee this map to be free from error or inaccuracies. The City of Auburn, Alabama disclaims any responsibility or liability for the interpretations from this map or decisions based thereon. The information contained on this map is a general representation only and is not to be used without verification by an independent professional qualified to verify such information.



# Organization Chart



\* City Attorney services are contracted outside the organization

Legend:	<b>Policy or Judicial Authority</b>	<b>Department</b>	<b>Division or Sub-Departmental Unit</b>
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Donald G. Chastain, CPA  
Michael D. Machen, CPA, CVA  
Anne McChesney May, CPA  
Melissa W. Motley, CPA  
Aaron K. Waller, CPA  
Martin D. Williams, CPA  
Don L. Machen, CPA

Members  
American Institute of  
Certified Public Accountants  
  
Alabama Society of  
Certified Public Accountants  
  
An Independent Member of  
BDO Seidman Alliance

## INDEPENDENT AUDITOR'S REPORT

The Honorable Bill Ham, Jr., Mayor  
Members of the City Council and City Manager  
City of Auburn, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn, Alabama, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Auburn, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Water Works Board, the Industrial Development Board, the Public Park and Recreation Board, and the Commercial Development Authority (component units) were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn, Alabama, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Special School Tax Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2011, on our consideration of the City of Auburn, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 17 through 40 and 128 through 129 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn, Alabama's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, the budgetary comparison schedules, the capital assets schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements, the budgetary comparison schedules, and the capital assets schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 to 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 stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Machen, McChesney + Chastain, LLP*

Auburn, Alabama  
March 29, 2011



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the City of Auburn's Comprehensive Annual Financial Report (CAFR) presents City management's discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2010. Please read this in conjunction with the City's financial statements and the accompanying notes, which follow this section, and the additional information furnished in the letter of transmittal, which can be found in the introductory section of the CAFR.

### FINANCIAL HIGHLIGHTS

- ▶ The assets of the City of Auburn exceeded its liabilities at the close of the fiscal year by \$47.2 million (net assets). Of this amount, the City had a deficit unrestricted net assets of \$76.4 million offset by \$15.9 million in restricted net assets and \$107.7 million in capital assets net of related debt.
- ▶ The primary government experienced a 2.6% decrease in net assets from \$48.5 million at September 30, 2009 to \$47.2 million at September 30, 2010.
- ▶ At the close of the current fiscal year, the City's governmental funds reported a *combined* fund balance of \$41.1 million. This was a decrease of \$5.9 million (12.5%) from the prior year.
- ▶ At the end of the current fiscal year, total fund balance for the General Fund was \$27.1 million or 38.7% of total General Fund expenditures and other financing uses; total fund balance increased by \$1.1 million (3.6%) from fiscal year 2009. Total ending fund balance in the General Fund comprised 51.2% of total revenues in 2010 and 53.4% of revenues in 2009.
- ▶ The unreserved and undesignated fund balance for the General Fund was \$14.9 million, or 21.4% of total General Fund expenditures; this was a decrease of \$397,294 (2.6%) from fiscal 2009.
- ▶ Sales and use tax, the City's single largest revenue source, increased 4.7% (\$937,378) during the 2010 fiscal year, reflecting a slight upswing in the economy. The City's sales tax rate remained at 3% throughout fiscal year 2010. The last rate change was a ½ % increase in August 2003.
- ▶ Other significant changes in revenue during 2010: licenses and permits decreased by \$348,339 or 3.7%; occupation license fees rose by 4.2% (\$341,481); and contributions from the public declined by \$1.9 million (89.2%).
- ▶ In fiscal year 2010, despite budget constraints and a sluggish economy, the City continued its merit pay plan and there were no layoffs or furloughs.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three parts: management's discussion and analysis (this section), the basic financial statements, and the narrative notes to the financial statements. The basic financial statements include two kinds of statements that present different views of the City's finances.

- ▶ The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

- ▶ The remaining statements are fund financial statements that focus on individual elements of the City government, reporting the City's operations in more detail than the government-wide statements.
  - ⦿ The governmental funds statements tell how general government services like public safety were financed in the short term, as well as what remains for future spending.
  - ⦿ Proprietary funds statements offer short- and long-term financial information about the activities the government operates like businesses, such as the sewer system.
  - ⦿ Fiduciary funds statements convey information about financial relationships in which the City acts solely as a trustee for the benefit of others, like athletic organizations' resources held for spending on specific sports' activities.

The financial statements also include narrative notes that explain some of the information in the financial statements and provide more detailed data. Figure A shows how the required parts of this annual report are arranged and relate to one another.

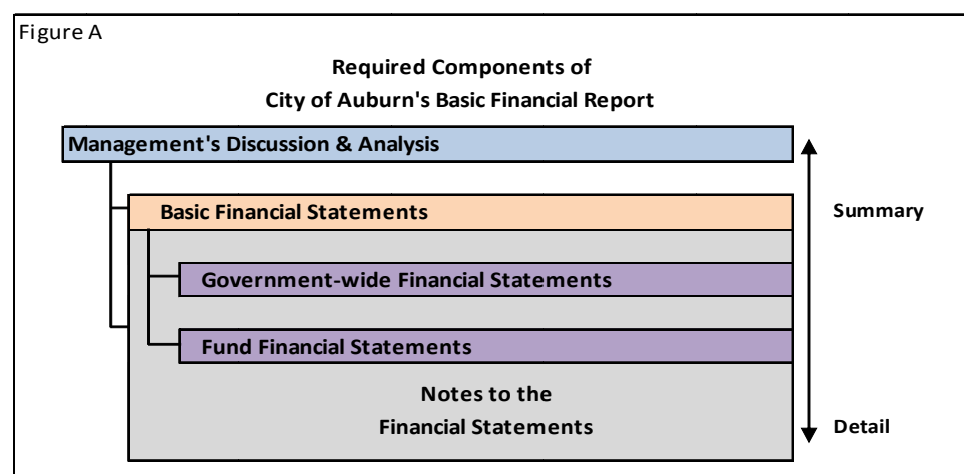


Figure B (on the following page) summarizes the major elements of the financial statements, explaining the portions of the City government included in each and the types of information contained therein. The remainder of this overview explains the structure and contents of each of the financial statements.

### 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 fiscal year's revenues and expenses are accounted for in the *statement of activities*, presenting the change in net assets for the most recently completed fiscal year. All changes in net assets (revenues and expenses) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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, planning and zoning actions, and the condition of the City’s roads, other infrastructure and public school system, should be considered.

Figure B Major Elements of Auburn’s Government-wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Scope</b>	Entire City government and the City’s component units	The activities of the City that are not proprietary, such as police, fire, and parks	Activities the City operates similar to private businesses: Sewer Revenue Fund, Waste Management Fund	Instances in which the City is the trustee or agent for someone else’s resources: Youth Athletic Funds
<b>Required financial statements</b>	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net assets Statement of revenues, exp. and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
<b>Accounting basis &amp; measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term
<b>Type of inflow/outflow</b>	All revenue and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year regardless of when it is received or paid.	All revenues and expenses during the year regardless of when it is received or paid.

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

- ▶ **Governmental activities.** Most of the City’s basic services are included in this category, such as the services provided by the Public Safety, Public Works, Parks and Recreation, Human Resources, and Finance departments. General revenues from sales and use taxes, occupational license fees, property taxes, charges for services, and state and federal grants finance most of these activities.
- ▶ **Business-type activities.** The City charges fees to customers to help it cover the costs of certain services it provides to the general public. The City’s Sewer Revenue Fund and Solid Waste Management Fund are included in this category as enterprise funds.
- ▶ **Discretely Presented Component Units.** The City includes five other entities in this report: the City of Auburn Board of Education, Water Works Board of the City of Auburn, City of Auburn Industrial Development Board, City of Auburn Public Park and Recreation Board, and the Commercial Development Authority of the City of Auburn. Although legally separate entities, these component units are important because the City is financially accountable for them. Please refer to Note 1.A. within the Notes to the Financial Statements regarding the availability of separately issued component unit financial statements.

### Fund Financial Statements

The fund financial statements provide more detailed information about the City’s most significant funds, not the City as a whole. Funds are groupings of related accounts that the City uses to keep track of specific revenues and spending for particular purposes.

- ▶ State law requires gasoline tax funds to be accounted for separately, because the expenditures are restricted for specific uses.
- ▶ The City Council establishes other funds to control the use of monies for particular purposes, such as property taxes that are legally dedicated for repayment of long-term debt for voted projects or for support of the City school system.
- ▶ The City also establishes funds to demonstrate compliance with certain legally restricted revenue sources, such as tracking debt-financed capital projects and the spending of grant revenues.

The City has three kinds of funds:

- ▶ *Governmental funds.* Most of the City's basic services are accounted for in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flows in and out, and (2) the balances left at year-end that are available for spending in subsequent years. Consequently, the governmental funds statements provide a detailed, short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs following the completion of a fiscal year.

Because governmental fund information does not encompass the additional long-term focus of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Doing so provides a better understanding of the long-term impact of the government's short-term funding decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for governmental funds provide a reconciliation to facilitate this comparison between governmental funds statements and government-wide statements on governmental activities.

- ▶ *Proprietary funds.* Services provided to the general public for which customers are charged a fee are generally reported in enterprise funds, which are a type of proprietary fund. Proprietary funds' financial statements, like the government-wide statements, provide both long- and short-term financial information. At the beginning of fiscal year 2009, the City decided to separate the services provided by the solid waste and recycling divisions of the Environmental Services department into an enterprise fund, the Solid Waste Management Fund. This action created another proprietary fund in addition to the Sewer Revenue Fund. Proprietary funds function like a business activity; therefore, the financial statements provide additional information, such as depreciation expense and cash flows, which are not presented for governmental funds.
- ▶ *Fiduciary funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City of Auburn's own programs. These private-purpose trust fund accounts provide for the revenues and expenditures of independent associations supporting youth athletic programs.

The City adopts a biennial budget for its General Fund and most other governmental funds. For legal compliance, comparison, and reporting purposes, this budget is divided into two separate fiscal years. A budgetary comparison statement for the General Fund has been provided immediately following the fund financial statements.

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

**Net assets** The City's *combined* net assets at September 30, 2010 totaled \$47.2 million (see Table 1). Governmental Activities' net assets decreased by \$3.6 million, while Business-type Activities' net assets increased \$2.3 million during fiscal 2010.

### FINANCIAL ANALYSIS OF THE CITY (PRIMARY GOVERNMENT)

Table 1

City of Auburn's Net Assets  
September 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 49,846,659	\$ 52,931,506	\$ 8,615,321	\$ 24,193,454	\$ 58,461,980	\$ 77,124,960
Capital assets	119,833,254	112,361,929	67,133,742	66,780,050	186,966,996	179,141,979
Total assets	169,679,913	165,293,435	75,749,063	90,973,504	245,428,976	256,266,939
Current liabilities	17,438,013	13,740,152	3,093,554	18,793,661	20,531,567	32,533,813
Long-term debt and other liabilities	132,695,660	128,436,018	44,974,383	46,812,797	177,670,043	175,248,815
Total liabilities	150,133,673	142,176,170	48,067,937	65,606,458	198,201,610	207,782,628
Net assets:						
Invested in capital asset, net of related debt	81,866,977	75,764,472	25,830,053	25,486,581	107,697,030	101,251,053
Restricted	12,021,563	10,992,367	3,876,709	20,739,857	15,898,272	31,732,224
Unrestricted	(74,342,301)	(63,639,574)	(2,025,635)	(20,859,392)	(76,367,936)	(84,498,966)
Total net assets	\$ 19,546,239	\$ 23,117,265	\$ 27,681,127	\$ 25,367,046	\$ 47,227,366	\$ 48,484,311

Most of the Governmental Activities' net assets are invested in capital assets (buildings, equipment, roads, etc.). The investment in capital assets at September 30, 2010 was \$81.9 million. Debt outstanding related to the capital assets was \$143.5 million. The large negative unrestricted net assets in FY 2009 (\$63.6 million) and FY 2010 (\$74.3 million) are the result of a common financing circumstance in Alabama: the City of Auburn issues debt in the City's name for the benefit of the Board of Education, a component unit under the City of Auburn's oversight. The City of Auburn therefore must report the debt on the City's books. However, the City does not have a legal right (title) to the assets associated with the debt (which are owned by the School Board); hence, the large negative unrestricted net assets balances.

An innovative partnership formed among the City of Auburn, Auburn University and the State of Alabama to build a research park on the University campus produced a similar result. The City of Auburn committed \$5 million for project infrastructure. Borrowing these funds in February of 2006 produced a similar effect on the balance sheet as do the City Board of Education borrowings. The research park infrastructure is owned by Auburn University (a component unit of the State of Alabama), but the related City debt principal is included in the City's liabilities.

Yet another transaction increased the City's debt for capital assets owned by Auburn University. In fiscal year 2006, the City entered into an agreement with Auburn University to facilitate the issuance of the City's general obligation debt to enable Auburn University to finance the construction of an expansion of the City's tennis complex, which is leased to the University. Payment of principal and interest on this debt is reimbursed via the Auburn University lease payments. The joint tennis facility is owned and operated by the City's Public Park and Recreation Board, a component unit of the City. With respect to the Tennis Center, the debt principal of \$3.2 million outstanding is included in the City's liabilities and

the offsetting capital asset is included as part of the Public Park and Recreation Board, increasing the deficit in the City's unrestricted net assets.

Table 2 displays the detail of debt issued by the City to acquire or construct capital assets owned by other entities and thus affecting the City's unrestricted net assets. Total City debt for the benefit of the City Schools and outstanding at September 30, 2010, was \$66 million, a decrease of \$2.6 million (3.7%) from the prior year. Debt outstanding in respect to agreements made with Auburn University was \$5.9 million, a decrease from the prior year of \$679,915. These decreases are due to the City's principal repayments on debt issued for the benefit of Auburn City Schools and Auburn University. Governmental Activities' other unrestricted net assets dropped to a deficit of \$2.5 million (eliminating the effect of other entities' debt) at the end of fiscal 2010. This decrease has a number of components including: 1) An increase in long-term debt of \$5.3 million, 2) An increase in capital assets of \$7.5 million (which coupled with debt increased the net asset component Invested in Capital Assets, net of accumulated debt by \$6.1 million), 3) Cash and cash equivalents decreased by \$4.3 million, and 4) A change in net assets resulting from expenses exceeding revenues of the governmental activities.

The City's governmental funds had overall positive net assets of \$19.5 million at the end of the 2010 fiscal year, a decrease of \$3.5 million (15%).

Table 2

**Governmental Activities**

<b>Net Assets</b>	<b>2010</b>	<b>2009</b>
Invested in capital assets, net	\$ 81,866,977	\$ 75,764,472
Restricted		
Capital Projects	1,922,087	1,238,259
Debt Service	3,831,044	3,898,630
Fed and State Grants	943,290	834,146
Special Rev, non-grant	5,325,142	5,021,332
Unrestricted (deficit)		
Governmental Activities	(2,452,341)	11,496,257
<i>City School Debt</i>	<i>(66,026,915)</i>	<i>(68,592,871)</i>
<i>AU Debt</i>	<i>(5,863,045)</i>	<i>(6,542,960)</i>
Total Net Assets-Governmental	<u>\$ 19,546,239</u>	<u>\$ 23,117,265</u>

The total net assets of the City's business-type activities increased by \$2.3 million to \$27.7 million in fiscal year 2010, from \$25.4 million in fiscal year 2009. This increase in net assets came predominately from Sewer operations revenue over expenses of \$2.1 million. The restricted net assets decreased by \$16.9 million; this decrease and the corresponding increase in unrestricted net assets reflect a partial refunding of the 2001 General Obligation Sewer Warrants and spend down of bond proceeds for planned capital projects. The refunding transaction crossed the fiscal year end, creating an accounting anomaly wherein the funds were received in the fiscal year 2009 and the debt repayment occurred in fiscal year 2010. Unrestricted net assets of business-type activities remains a deficit in 2010 due to the growth in liabilities in recent years and a decline in assets; the 2010 year end deficit was \$2 million.

Total assets for business-type activities decreased by \$15.2 million in 2010. This decrease was almost totally due to a decrease in cash resulting primarily from the short-term cash increase in September of the 2009 fiscal year of \$15.2 from the issuance of refunding bonds. This cash was used to pay-off the related warrants in October 2009, fiscal year 2010 (see preceding paragraph).

**Changes in net assets** The primary government's net assets decreased by \$1.3 million (2.6%) in fiscal year 2010. Total assets decreased by \$10.8 million (4.2%) in fiscal 2010. Total liabilities decreased by \$9.5 million. The decreases in assets and liabilities both primarily resulted from the issuance (in 2009) and subsequent refunding (in 2010) of sewer bonds and warrants.

The primary government's total net assets decreased by \$1.3 million (2.6%) in fiscal 2010. The major changes in the elements of net assets include 1) the decrease in the deficit in unrestricted net assets by \$8.1 million, 2) the decrease in restricted net assets of \$15.8 million and 3) the increase in investments in capital assets, net of related debt, of \$6.4 million.

The deficit in unrestricted net assets (Table 1) decreased, in large part due to the effect of a fiscal year 2009 borrowing made to fund infrastructure investment in Auburn's wastewater system. As discussed above in more detail, part of the debt increase included a refunding that reduced the principal amount owed on Sewer debt by \$15.3 million early in fiscal year 2010.

### Governmental Activities

Table 3 presents the cost of each of the City's functions/programs, as well as each program's net expenses (total expenses less fees generated by the program's activities and intergovernmental support). The Net (Expense) Revenue amounts in table 4 show the financial burden that was placed on the City's general revenues by each of these functions.

Table 3  
**Except of Governmental Activities**  
*from the*  
**City of Auburn Statement of Activities for the Fiscal Years ended September 30, 2009 and 2010**

Governmental Activities	<u>Expenses</u>		<u>Program Revenues*</u>		<u>Net (Expense) Revenue</u>	
	2010	2009	2010	2009	2010	2009
<b>Functions and programs</b>						
General government	\$ 6,270,653	\$ 6,155,735	\$ 11,547,442	\$ 12,414,946	\$ 5,276,789	\$ 6,259,211
Public works	6,844,357	7,574,881	3,877,802	1,810,441	(2,966,555)	(5,764,440)
Environmental services	1,670,173	1,770,911	-	-	(1,670,173)	(1,770,911)
Public safety	16,904,689	16,288,317	3,837,551	3,426,199	(13,067,138)	(12,862,118)
Library	1,613,894	1,678,410	57,437	55,508	(1,556,457)	(1,622,902)
Parks and recreation	5,377,218	6,207,871	1,070,708	1,101,740	(4,306,510)	(5,106,131)
Social and economic development	17,864,393	5,353,639	1,163,444	1,255,128	(16,700,949)	(4,098,511)
Other functions	2,660,188	2,609,380	779,452	746,143	(1,880,736)	(1,863,237)
Education (payments to Board of Ed)	13,530,795	21,544,112	-	-	(13,530,795)	(21,544,112)
Interest on long-term debt	5,346,829	5,860,550	-	-	(5,346,829)	(5,860,550)
<b>Total governmental activities</b>	<b>78,083,189</b>	<b>75,043,806</b>	<b>22,333,836</b>	<b>20,810,105</b>	<b>(55,749,353)</b>	<b>(54,233,701)</b>

\*Program revenue for governmental activities are analyzed in detail in the following section.

The cost of governmental activities this year was \$78 million. Program revenues provided \$22.3 million to finance the costs of the City's governmental activities. The amount that Auburn taxpayers paid to provide for governmental activities' expenses through general revenues (taxes, license fees, interest earnings, etc.) was \$55.7 million.

The net expense of the Social and Economic Development function rose by 12.6 million, or 307.5%. This increase is attributable to the refunding of the remaining balance of two Industrial Development Board's infrastructure improvement bonds at \$13,285,000. More discussion of this unique refunding transaction is disclosed in the debt management portion of this discussion.

Table 4  
**Except of Governmental Activities**  
*from the*  
**Statement of Activities**

Governmental Activities	<i>Net (Expense) Revenue</i>	
	<b>2010</b>	<b>2009</b>
<b>Net expense of the total governmental activities</b>	<b>(55,749,353)</b>	<b>(54,233,701)</b>
<i>General revenues:</i>		
Sales taxes	21,081,232	20,143,854
Property taxes	20,169,135	19,053,631
Occupation license fees	8,448,505	8,107,024
Rental and leasing taxes	420,201	451,563
Lodging taxes	1,253,511	1,184,540
Motor fuel taxes	278,467	260,447
Other taxes	199,133	198,071
Interest and investment earnings	512,963	827,049
Gain (loss) on asset disposals	-	(166,665)
Miscellaneous	38,073	10,277
Transfers	(232,893)	(631,870)
<b>Total general revenues</b>	<b>52,168,327</b>	<b>49,437,921</b>
<i>Change in net assets -</i>		
General revenues less net expenses	(3,581,026)	(4,795,780)
Beginning net assets (restated)	23,117,265	27,913,045
Prior period adjustment	10,000	-
<b>Ending net assets</b>	<b>\$ 19,546,239</b>	<b>\$ 23,117,265</b>

Total City program income exceeded expenses for only one function: general government produced an excess of \$5.3 million. General government revenue includes business licenses fees, construction permits and court fines, among other charges for services rendered administratively by the City of Auburn. In past years, the general government function has typically produced net revenue for this function.

As detailed below, Table 5 divides total governmental program revenue by source for 2010 and 2009 into three components: charges for services, operating grants and contributions, and capital grants and contributions. These totals and the narrative below provide insight into the changes in program revenue.

Table 5	<u>Governmental Activities</u>	
	<b>2010</b>	<b>2009</b>
<b>Program revenue by source:</b>		
Charges for services	\$ 15,716,930	\$ 15,936,278
Operating grants and contributions	2,378,429	2,975,232
Capital grants and contributions	4,238,477	1,898,595
<i>Total Prgm Rev - Governmental Activities</i>	<b>\$ 22,333,836</b>	<b>\$ 20,810,105</b>

Some of the program costs of governmental activities in 2010 were paid by revenues collected from those who directly benefited from the programs (\$15.7 million). These revenue sources include:

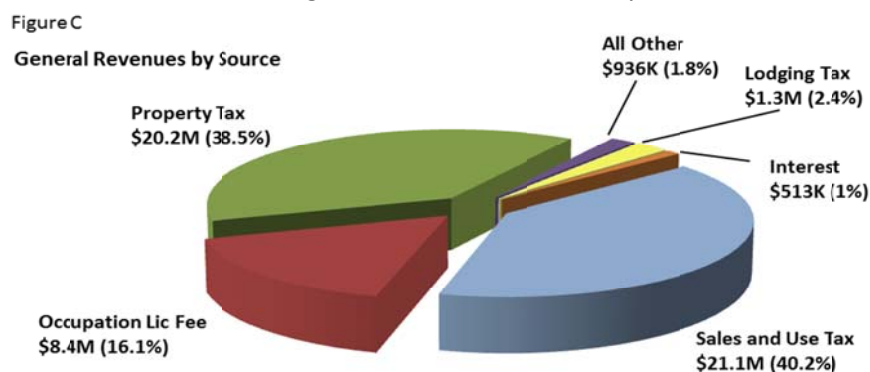
- General business license fees, which generated \$5.4 million to pay the costs of providing general government services.
- Collection of court fines and tickets in the amount of \$1 million supports essential public safety and judicial services within the City.
- Auburn University pays for fire and police services on campus. This revenue of \$2.4 million offsets public safety expenses for the year ending 2010.

Program costs were also defrayed by operating and capital grants and contributions of \$6.6 million. These revenues were up by \$1.7 million or 35.7% from fiscal year 2009.

- ▶ A portion of this funding comes from the Community Development Block Grant (CDBG) program of the federal Department of Housing and Urban Development. Fiscal 2010 CDBG revenues of \$792,510 were used to rehabilitate inadequate housing, improve public facilities and provide utility, temporary housing and food assistance programs to eligible citizens.
- ▶ Also included in grants and contributions are donated capital assets from other entities equaling \$1.6 million as a result of the State of Alabama and Lee County donating infrastructure consisting of roads and bridges.

The City financed the \$55.7 million net expenses for governmental activities from taxes, license fees and other general revenues, such as interest earnings.

Figure C shows the various sources of general revenues for fiscal year 2010:



- ⦿ General revenues are defined as all revenues that are not required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues. All other non-tax revenues (including license fees, interest, gains and losses, and contributions) that do not meet the criteria for program revenues are reported as general revenues.
- ⦿ The largest of the City's general revenues is sales and use tax, comprising 40.2% of total general revenues. During this reporting period, the City's sales tax rate was 3.0%.
- ⦿ The second largest source of general revenues is property taxes (38.5%). Of the total 26 mills the City receives in property taxes, 16 mills are legally dedicated for the City Board of Education.
- ⦿ The third largest general revenue source is occupation license fees (16.1%). This fee is levied at 1% of gross wages earned within the City limits.

The City of Auburn made payments of \$28.8 million to component units of the primary government during fiscal 2010. Of this amount, \$13.5 million (47%) was paid to the Board of Education, including \$6.4 million paid from education property taxes. The \$7.1 million appropriated to Schools from the City's General Fund represents the continued commitment by the City of Auburn in response to the Citizen Survey results, which show that educational funding is the citizens' highest priority, consistently year after year.

## Business-type Activities

The City has two business-type activities. The largest is its sewer system, which includes two wastewater treatment plants operated by Veolia Water North America Operating Services, LLC, a Chicago, Illinois based engineering and contract services firm. In late fiscal year 2008, the City engaged a utility rate consultant to review the sewer system rates for monthly service and access fees. Regarding the ability to meet the anticipated System expenditure and financial requirements, the study showed an inability to meet current operating and capital expenditure demands with the existing revenue stream. After reviewing the results of the rate study, the City Council adopted a two-year phased rate increase. The first phase was implemented on April 1, 2009, increasing sewer rates by 16%; an additional 16% increase took effect on April 1, 2010. Given the change in current economic condition, certain regulatory requirements, and the implementation of multiple planned capital projects, the City Council decided to have the rate study updated. This study, approved in September 2010, will further evaluate existing rate adequacy and provide recommendations regarding future rate increases. In addition, this study will include recommendations for miscellaneous sewer charges, such as fees for high strength sewage, and access fee adjustments necessary for growth-related capital costs.

The chart (Table 6) shows that program revenue of the Sewer Revenue Fund business-type activity, including charges for services (sewer treatment and disposal) and capital grants and contributions, increased from the prior year by \$960,961 or 11.6%. This increase in Sewer Fund program revenue reflects an increase in sewer service revenue of 16.8% (\$1,081,466) and a decrease in sewer access fee revenue of 14.9% (\$129,945). A large multi-family development added \$492,000 in access fee revenue in 2009, causing the revenue to be temporarily inflated. Although the same development added \$240,000 to access fee revenue in 2010, total access fee revenue decreased. Sewer Fund expenses (operating plus interest expense) decreased by .07% to \$7.71 million.

Table 6

**Business-Type Activities (Condensed)**  
Fiscal Years ended September 30, 2010 and 2009

	<i>Sewer Revenue Fund</i>		<i>Solid Waste Management Fund</i>		<i>Total Business-Type Activities</i>	
	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>
<b>Functions and programs</b>	\$	\$	\$	\$	\$	\$
<i>Operating expenses</i>	(5,983,680)	(5,934,315)	(3,385,837)	(3,178,575)	(9,369,517)	(9,112,890)
<i>Interest expense</i>	(1,788,254)	(1,890,914)	-	-	(1,788,254)	(1,890,914)
<b>Program revenues</b>						
<i>Charges for services</i>	8,722,591	7,758,337	3,133,116	3,119,925	11,855,707	10,878,262
<i>Operating contributions and grants</i>	-	-	39,331	-	-	-
<i>Capital contributions and grants</i>	504,467	507,760	101,000	670,424	605,467	1,178,184
<b>Net Revenue</b>	<b>1,455,124</b>	<b>440,868</b>	<b>(112,390)</b>	<b>611,774</b>	<b>1,342,734</b>	<b>-</b>
<b>Other non-operating rev (exp)</b>						
<i>Interest and investment earnings</i>	45,246	136,999	292	2,239	45,538	139,238
<i>Gain (loss) on asset disposals</i>	(32,269)	13,112	12,598	15,635	(19,671)	28,747
<i>Miscellaneous</i>	35,616	3,648	1,971	351	37,587	3,999
<i>Special item - concession</i>	675,000	-	-	-	675,000	-
<i>Transfers to/from General Fund</i>	(71,250)	(70,116)	304,143	31,563	232,893	(38,553)
<b>Change in net assets</b>	<b>2,107,467</b>	<b>524,511</b>	<b>206,614</b>	<b>661,562</b>	<b>2,314,081</b>	<b>1,186,073</b>
<i>Beginning net assets</i>	24,705,484	24,180,973	661,562	-	25,367,046	24,180,973
<b>Ending net assets</b>	<b>26,812,951</b>	<b>24,705,484</b>	<b>868,176</b>	<b>661,562</b>	<b>27,681,127</b>	<b>25,367,046</b>

During fiscal 2009, the City created a second business-type activity, the Solid Waste Management Fund. Prior to this, revenues and expenses associated with the collection and disposal of solid waste and recycling were accounted for in the General Fund. The Solid Waste Management Fund receives revenue from garbage charges to customers, special trash pick-up fees, sales of recyclables and white goods tags



(for pick-up of household appliances). Expenses include salaries and benefits of the Environmental Services employees whose duties include solid waste and recycling functions, landfill tipping fees, fuel and other supplies, and depreciation expense on the capital assets used in the solid waste and recycling functions. As Table 6 shows, the deficit of revenues under expenses for fiscal 2010 is \$112,390. It is clear that the costs of providing services such as garbage collection and recycling activities are not covered by the current charges for services. In October 2010, the City contracted with a utility rate consultant to evaluate the adequacy of the existing rates for funding current and future needs of the solid waste management system. Results from this study, expected in late March 2011, will provide management with the necessary information to make decisions on rate increases. At the end of 2010, the fund had an increase to net assets of \$206,614, resulting in ending net assets of \$868,176. Liabilities of this fund include an advance of \$216,892 from the General Fund. Repayment of this advance is being considered in the evaluation of rates. Operating revenues and expenses increased by approximately \$13,191 (.4%) and \$207,262 (6.5%), respectively. The increase in operating expenses is a result of rising fuel costs and the cost of repairs and maintenance to an aging vehicle fleet.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### ***Governmental Funds***

As the City completed the 2010 fiscal year, its governmental funds reported a *combined* fund balance of \$41.1 million. This reflects a decrease of \$5.9 million from the prior year. The total decrease in fund balance is comprised of a \$1.7 million decrease in General Fund balance; a \$186,683 decrease in special revenue funds' fund balances; the debt service fund's fund balance decreased by \$67,587 and capital projects funds' fund balances decreased by \$3.9 million. The following narrative discusses the financial activities that comprise the major changes in governmental fund balances.

### ***Governmental revenues ~***

- ▶ Total revenues of the governmental funds showed very slight growth of 0.2% or \$131,983 over the prior year.
- ▶ Sales and use tax revenue, the General Fund's single largest revenue source, increased 4.7% (\$937,378) during the 2010 fiscal year. This upward trend resulted from the improving economic climate. The sales tax rate remained at 3%, with the last rate increase occurring in 2003.
- ▶ General property tax revenues improved by 5.9%, contributing additional revenue of \$1.1 million to the governmental funds. For the first time in 6 years, property taxes did not show double digit growth. Property taxes are a lagging economic indicator and as such showed a slowed, yet stable growth in 2010, despite the decline in housing prices nationwide. Assessed values remain stable due to Auburn's ability to remain an attractive City and the overall health of the realty market in the Auburn area (low foreclosure rate and low turnover). Some growth in property taxes results from expansion of the city limits through voluntary annexations and business development.
- ▶ Licenses and permits revenues decreased by 3.7% (\$348,339) due predominately to a decrease in construction permit fees of 33.06% (\$555,764). Although valuation for construction permits of single family, detached new homes saw an increase of \$24.8 million or 46.3%, multifamily and commercial permits witnessed decreases of \$64.6 million or 77%. This continues to show that even with stable property values, Auburn has seen the ripple effect of the house market decline.

- ▶ Fiscal year 2010 saw a nice increase in occupation license fees of \$341,481 (4.2%). This increase is directly attributable to the new businesses in the Auburn area such as the Auburn University Magnetic Resonance Imaging (MRI) Research Center and Publix supermarket, which meant the introduction of many new jobs.
- ▶ State shared taxes decreased by 36.6%, or \$509,427. This decrease has two components: first, Auburn did not receive any Financial Institution Excise Tax, which is derived from the income of financial institutions; for the past four years this revenue has been in excess of \$250,000 per year. Second, contributions from the Alabama Trust Fund were down by \$238,000 (46%) from the prior year. This Fund captures future revenues from the sales of offshore drilling rights and royalties from the resulting gas production.
- ▶ Contributions from the public decreased \$1.4 million, mainly due to the call of two letters of credit in fiscal year 2009 totaling \$1.6 million; the letters secured the warrants issued to finance a road extension project. Due to an inability to make timely payments, the City called both developers' letters of credit, which increased this component dramatically in 2009. The corresponding warrants were paid in full on November 7, 2008.
- ▶ Continued deterioration in the interest rate environment during fiscal 2010 resulted in a reduced amount of interest income by \$338,892, a 39.8% decline from the prior year.

#### ***Governmental expenditures ~***

Total governmental expenditures increased by \$7.6 million (8.8%) in fiscal 2010 from fiscal 2009. The major components of this increase in governmental expenditures was an increase in capital outlay of \$4.8 million (84.5%) and an increase in payments to component units by \$3.9 million (15.6%). To summarize the changes in governmental funds' expenditures:

- ▶ In the governmental funds, departmental expenditures increased slightly by \$497,568 (1.4%). The most significant increases in spending were seen in General Government (\$290,245, 7.0%) and Public Safety (\$635,141, 4.1%). This increased spending in General Government resulted from many small varying factors including personal and contractual services. The increase in Public Safety expenditures is primarily due to a new policy of charging game day services, for Auburn University Football games, from the Public Safety budget to the other participants. Another cause of increased expenditures is an increase in both jail service charges from Lee County and general personnel costs in the police and fire departments.
- ▶ Departmental expenditures in the governmental funds also reflected a dramatic drop of \$813,065 in Public Works. The decrease was actually caused by a prior year increase in departmental expenditures for infrastructure improvements paid by the City and grant funded projects where the assets are owned by either the State or Lee County.
- ▶ Capital outlay expenditures of the governmental funds were up in 2010 by \$4.8 million (84.5%); the majority of the increase occurred in the 2009 Capital Projects Fund. In year 2010, major improvements were made towards the completion of projects such as the North Donahue Bridge replacement, Phase I of the Frank Brown Recreation Center renovation, the Wire Road Bridge replacement, and multiple street resurfacing and restriping projects.

- ▶ The City's payments to its component units in 2010 increased by \$3.9 million (15.6%) from fiscal year 2009, as shown in Table 7. This increase has two large components: first, in 2010 the City borrowed \$13.3 million to take advantage of the favorable interest rate environment and refinanced two variable-rate Industrial Development Board bonds with fixed-rate general obligation warrants; second, in 2009, the City borrowed \$8.5 million to fund school related capital projects, which proceeds were transferred to the School Board for proper expenditure in accordance with the bond indenture. Excluding this transfer of debt proceeds, revenues contributed to the Auburn City Schools increased from 2009 to 2010 by 3.7%, or \$486,683. The Public Park and Recreation Board continues to receive amounts from the General Fund for the operation of the Yarbrough Tennis Center; in 2010, the transfer included a small amount of funds for capital expenditures at the tennis facility.

Table 7 summarizes the payments to each component unit; more information follows the table.

Governmental Funds - Expenditures Comparison		Table 7		
Paid to component units:	FY 2010	FY 2009	FY 10 > FY 09	
Auburn City Schools				
General revenues	\$ 7,050,759	\$ 6,988,003	\$ 62,756	
Education property taxes	6,480,036	6,056,109	423,927	
Debt issuance - Schools	-	8,500,000	(8,500,000)	
Subtotal to Schools	13,530,795	21,544,112	(8,013,317)	
Industrial Development Board				
Operating Costs	461,200	473,749	(12,549)	
Debt Service	14,370,000	1,195,813	13,174,187	
West Tech Park Improvements	3,790	594,303	(590,513)	
Industrial Incentive Investment	285,000	-	285,000	
Subtotal to IDB	15,119,990	2,263,865	12,856,125	
Commercial Development Auth	375	3,450	(3,075)	
Public Park & Rec Board	167,381	1,108,048	(940,667)	
Total - Component Units	\$ 28,818,541	\$ 24,919,475	\$ 3,899,066	

- ▶ The City appropriated over \$7.0 million out of its general revenue to the Auburn City Schools for fiscal year 2010, an increase of \$62,756 from 2009.
- ▶ In addition to the City's General Fund providing support to the schools, the School Board elects to draw additional operating revenue from the dedicated education property taxes each year. These taxes pay for interest and principal on school debt issued by the City of Auburn for the Auburn Board of Education and provide additional funds for operating expenses of the school system. This year the Board drew \$6.5 million for operations, an increase of \$423,927 or 7.0% over the prior year, to address the decrease in State appropriations for education.
- ▶ As described in other sections, the City of Auburn entered into two borrowings to refund the remaining balance on two Industrial Development Board bonds: \$3 million paid principal and interest outstanding of tax-exempt Infrastructure Improvement bonds, originally issued in May of 2000, and \$10.3 million refunded the remaining balance of taxable Industrial Development Refunding and Infrastructure bonds, originally issued in October of 2004. In both of these refundings, the City took advantage of the favorable interest rate environment and replaced variable rates with private placement fixed-rate warrants, which increased the stability and predictability of debt service over the remaining payment periods. The addition of the transfers for the refundings of these old issues to the regular debt service payments of the fiscal year and comparing this total amount to the prior year's debt service payments, resulted in the debt service increase of \$13.2 million.

- ▶ Transfers for the operating costs of the Industrial Development Board decreased by \$12,549, or 2.6%, during fiscal 2010.
- ▶ The Revolving Loan Fund was established to assist with the recruitment of new industries to the area or the expansion of existing business facilities. In the 1980s, the federal government offered a competitive program for economic development known as the Urban Development Action Grant (UDAG). The City received funding for a number of projects through UDAG; with the repaid funds from the UDAGs, the City Council agreed to the creation of a revolving loan fund (RLF) to be used for future projects. Two industrial incentives were completed through the Revolving Loan Fund in fiscal year 2010: an equity injection of \$100,000 for the expansion of Hoerbiger Automotive Comfort Systems, LLC and an \$185,000 package of incentives necessary to secure a second Auburn location for Pyongsan America, Inc.
- ▶ The City continues to support investment in our technology parks to provide a desirable location for new industries that meet the criteria for recruitment in Auburn. This year only a small amount, \$3,790, was transferred for tech park management, down from \$594,303 in fiscal year 2009. The amount of this transfer rises and falls depending on the needs and build-out of each industrial park.
- ▶ The Public Park and Recreation Board (PPRB) was established in 1990, primarily to advise the Council concerning proposed recreation projects and to acquire such recreation facilities as deemed to be in the public interest. In 2006, the City, Auburn University, and the Public Park and Recreation Board partnered to construct and manage a state-of-the-art tennis facility for student and community use. This collaboration resulted in complex transactions concerning both the borrowing and subsequent transfers among the Public Park and Recreation Board, the City, and Auburn University to properly account for the development, supervision, and daily operation of the facility. The PPRB continues to receive amounts from the General Fund for the operation of the Yarbrough Tennis Center. In 2010, the transfer decreased by \$940,667 to \$167,381. Of this amount, \$17,435 represented a transfer from the City's capital projects funds for capital expenditures at the tennis facility. In fiscal year 2011, the remaining capital funds will be spent and transfers from the General Fund will consist of operating costs only.

### ***Proprietary Funds***

The City of Auburn has two proprietary funds, which account for its business-type activities. The Sewer Revenue Fund, an enterprise fund, accounts for sewer collection, treatment and disposal services provided to residents and businesses within the City limits. The Solid Waste Management Fund, also an enterprise fund, accounts for services to collect and dispose of solid waste and recycling materials provided to the same constituents. Net assets of these proprietary funds increased by \$2.3 million (9.1%) from fiscal 2009 to fiscal 2010. Combined operating income increased by \$754,406 (42.6%) from the prior year.

### ***Proprietary funds' revenues, other resources ~***

Sewer Revenue Fund operating revenues increased by 12.8% (\$996,223) in 2010 as compared to 2009. The majority of this increase can be attributed to the approved rate increase of 16% effective on April 1, 2010. In addition to operating revenue, the Sewer Fund's net assets were increased by \$504,467 from developers' contributions in fiscal 2010, which is a slight decrease from contributions in 2009.

Operating revenues in the Solid Waste Management Fund increased by .4% (\$14,811) in 2010. In addition to operating revenue, this fund's net assets were increased by \$101,000 from grant funding, awarded by the U.S. Department of Energy's Energy Efficiency and Conservation Block Grant. This grant, developed by The American Recovery and Reinvestment Act of 2009, was used to purchase a recycling truck to be used to enhance the City's recycling program.

### ***Proprietary funds' expenses ~***

In the Sewer Revenue Fund, operating expenses for fiscal 2010 increased by \$49,366 (0.83%). Increases in depreciation of \$143,726 (due to sewer system infrastructure improvements) and professional services (general engineering services) of \$164,045 were off-set by a decrease in management fees of \$205,878. Management fees are paid to Veolia Water North America Operating Services, LLC for operation of the City's two wastewater treatment plants. Details of the decrease in management fees can be found in the *Analysis of Changes in Major Funds* section of this Management's Discussion and Analysis.

In the Solid Waste Management Fund, operating expenses increased by 6.5% to \$3.4 million. Increases in fuel and maintenance costs of vehicles contributed to this change. Salaries and benefits of \$1.9 million remained level compared to 2009 and make up the majority of operating expenses. Other significant expenses include professional services of \$506,022 and depreciation of \$284,083 on capital assets used for solid waste and recycling pickup and disposal. Budgeted transfers from the General Fund totaled \$260,104.

For more information related to the above funds see the *Business-type Activities* section of this Management's Discussion and Analysis

### **Analysis of Changes in Major Funds**

Major funds are funds whose revenues, expenditures/expenses, assets or liabilities are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. The General Fund is always considered a major fund. The major funds presented are considered to be of particular importance to financial statement users. In addition to the General Fund, the Special School Tax Fund was determined by testing to be the only other major governmental fund in the 2010 fiscal year. The Sewer Revenue Fund has been a major fund since fiscal 2003.

### ***The General Fund (Governmental) ~***

At the end of fiscal 2010, the total fund balance of the City's General Fund decreased \$1.7 million (6.0%) from the prior year's ending balance. Fund Balance reflects the cumulative excess of revenues and other financing sources over expenditures and other financing uses. The 2010 total ending fund balance was \$27.10 million, compared to \$28.83 million at the end of 2009. Total reserved fund balances decreased by \$1.4 million (15.7%); the majority of this decline occurred due to an accounting transfer moving \$1.1 million from an Advance to Component Unit indicating long-term nature to Due From Component Unit (short term). The advance or loan to the Industrial Development Board provided construction funding in the Auburn University Research Park. This financing was paid in full early in the fiscal year 2011. Total unreserved fund balance in the General Fund decreased by \$334,470 (1.7%) in 2010.

The General Fund's total assets decreased by \$1.1 million (3.6%) during 2010. Although various asset accounts rose and fell during the fiscal year (such as Due from Component Units increasing by \$1.2 million and Advances to Component Units decreasing by \$1.2 million because of the reclassification of a

loan of \$1.2 million from advances (long-term) to due to (short-term)), the almost \$1 million increase in Cash and Cash Equivalents is the significant reason behind the growth in General Fund assets. The cash position is due in part to a temporary investment by the Water Board to take advantage of the positive interest rate offered by a particular investment. Cash is also very sensitive to timing anomalies; the timing of revenue recognition or cash disbursements can shift cash from one reporting period to the next.

Total liabilities in the General Fund increased by \$2.9 million (101%) in 2010. The two most significant component of this increase were an increase in deferred revenue of \$1 million (106.5%) and the 100% increase (\$1.7 million) in payables to other governments.

- The majority of the change in deferred revenue is a direct result of activity related to subdivision performance bonds. Due to the poor economy the City had a number of development projects which were not completed timely by the developers. When the infrastructure is not completed, the responsibility falls to the City of Auburn to complete the required streets and sidewalks. In 2010, fifteen performance bonds were called and the proceeds classified as deferred revenue. Upon completion of the related infrastructure, the funds will be classified as revenue.
- In fiscal year 2010 the City entered into an agreement with the Alabama Department of Transportation (ALDOT) to reroute a portion of State Highway 14 and realign the highway's intersection at Donahue and Bragg Avenue (Hwy 14) for enhanced traffic flow and safety. The City agreed to pay for all rights-of-way acquisition and any construction overage. ALDOT contracted the infrastructure improvements and managed the project to completion. A condemnation proceeding for rights-of-way was litigated and the ruling resulted in a valuation of \$1.6 million. The payment to the land owner was made through the State of Alabama and was properly recorded by the City in payables to governments at the fiscal year-end.

#### ***Special School Tax Fund (Governmental) ~***

For the fiscal year 2010, the Special School Tax Fund and the Special Additional School Tax Fund were combined for accounting and reporting purposes. This combined fund was classified as a major fund of the City this year; both funds were major funds in the 2009 report. As a special revenue fund, it accounts for all sixteen mills of education ad valorem tax revenue which is used to pay principal and interest on City bonds issued for Auburn City Schools. Merging these funds provides the reader with a clearer picture of the sources and uses of this unique special school revenue fund. This year the City decided to refund the 2002 General Obligation Refunding school warrants. Debt was issued to pay principal, accrued interest and bond issuance cost at \$29.3 million. The appropriate amount of \$29.1 million was disbursed to settle the outstanding warrants. These transactions caused significant increases in other financing sources and uses. Excluding the transfer of borrowing proceeds in fiscal year 2009, payments to the school board also increased by \$423,927 in the 2010 fiscal year. In order to take advantage of a favorable funding opportunity the City advanced the Board a short-term loan through this fund of \$700K. This is a zero interest loan to be reimbursed over five years. Revenues increase by 5.6% or \$658,653 from fiscal year 2009. This decrease in growth of ad valorem tax revenue from 13.9% in 2009 reflects a slowing of the economy.

#### ***Sewer Fund (Business-type activity) ~***

Generally, the Sewer Revenue Fund accounts for the provision of sewer services to the City's residents and businesses. In addition, the Sewer Fund accounts for the capital expansion and maintenance of the City's sewer collection, treatment and disposal facilities. Late in 2001, the City issued general obligation debt in the principal amount of \$30.0 million to de-privatize the two wastewater treatment facilities,

expand treatment capacity and upgrade wastewater treatment technologies. Construction activities funded by this debt began in 2002 and continued through 2005.

On September 2, 2009, the City borrowed \$15.3 million to partially refund the 2001 general obligation warrants. The proceeds of this refunding were received in September 2009, while the refunding payment transaction occurred in October 2009 (fiscal 2010). Table 8 displays the current and projected effect of borrowings and refunding on principal balances in the Sewer Fund. The total principal outstanding from 2009 to 2010 decreased due to the timing of the refunding transactions.

Table 8

<b>Sewer Debt Outstanding</b> <b>Business-type activities:</b>	Interest Rate	Principal Issued	Principal Outstanding			Yr of Final Maturity
			9/30/2009	9/30/2010	9/30/2011	
<i>General Obligation Warrants</i> dated 08/01/01 (sewer plant & expansion)	2.8%-5%	\$ 24,765,000	<i>Audited</i> \$ 21,625,000	<b><i>Audited</i></b> <b>\$ 5,805,000</b>	<i>Projected</i> \$ 5,265,000	2024
<i>General Obligation Warrants</i> Dated 12/1/08 (Refund Compass Bank Note; Sewer capital projects)	4%-5.625%	25,370,000	25,370,000	<b>24,830,000</b>	23,675,000	2033
<i>General Obligation Warrants</i> Dated 9/1/09 (Partial refund 2001 Warrants)	3.5%-5%	15,245,000	15,245,000	<b>15,245,000</b>	15,245,000	2024
			<u>\$ 62,240,000</u>	<b><u>\$ 45,880,000</u></b>	<u>\$ 44,185,000</u>	

The Sewer Fund's net assets increased by \$2.1 million (8.5%) in fiscal year 2010. There were some large changes in the components of net assets reported, due to the effect of the borrowings and subsequent refunding of the Sewer long-term debt. The unrestricted/unreserved component of net assets at year-end reported a deficit of \$2.1 million, which is an \$18.6 million increase from 2009. In 2009, restricted net assets included a restricted for debt service component of \$15.9 million. After the refunding was completed in early fiscal 2010, this restriction on the Statement of Net Assets was no longer required. The restricted for capital assets balance of \$3.9 million represents the remaining amount to be spent on capital projects outlined in the bond indenture of the \$25.4 general obligation warrants issued in December 2008.

Total assets of the Sewer Fund decreased by \$15.4 million; this decrease is largely attributed to the cash and cash equivalents, including certificates of deposit, decrease of \$16.5 million. Proceeds from the September 2009 debt refunding were included in the cash balance as of fiscal year-end 2009. After the refunding transaction in early fiscal 2010, cash was reduced by \$15.3 million. In addition, receivables increased by \$912,899 of which a large portion was the concession payment due from Veolia Water. More details about this concession payment are included later in this section. Capital assets were increased by the capitalization of assets donated by developers of \$504,467.

There was a decrease in Sewer Fund liabilities of \$17.5 million or 26.9%, consisting primarily of the decrease in the current portion of long-term debt of \$15.3 million (discussed in previous paragraphs). This is also a result of the September 2009 debt refunding that crossed the fiscal year-end. After the refunding, long-term debt (warrants payable) totaled \$45.8 million at the end of 2010. More details of this transaction are also provided in the *Capital Assets* and *Debt Management* sections.

The Sewer Fund generated operating income of \$2.8 million in 2010, an increase of \$946,857 from 2009. Operating revenues increased by \$996,223; this increase can be attributed to rate increases and added customers. Operating expenses increased minimally by \$49,366 (.83%); major factors were increased depreciation (\$143,726) and professional services (\$164,045). In addition, the management fees paid to Veolia Water North America Operating Services, LLC for operating the wastewater treatment facilities decreased by \$205,878. During fiscal 2010, the contract between the City and Veolia was renegotiated

resulting in a lower fee for 2010. The City also received \$675,000 as a concession for overpayments to Veolia in prior years. This one-time payment is reflected as a special item on the Statement of Revenues, Expenses, and Changes in Net Assets of the proprietary funds.

### General Fund Budgetary Highlights

The City of Auburn adopts a biennial budget, consisting of two annual budgets. State law requires adoption of annual budgets. Auburn's management actively uses the budget as a financial management tool, reporting on budget status to the City Council each month. The budget is integrated with the financial management system, enabling management at all levels to determine budgetary status on a line-item basis each day. Annual budgets are reviewed following the completion of the first half of each fiscal year. Revenue projections are updated and budgeted expenditures are adjusted via Council ordinance to reflect changing conditions.

The fiscal year 2010 *final* General Fund budget projected \$50.7 million in revenue and \$16.0 million in other financing sources; appropriations were approved for \$71.9 million in expenditures and \$820,104 in other financing uses, producing a planned reduction of \$6.0 million in the General Fund's balance. Actual amounts for revenues (\$52.9 million), other financing sources (\$15.4 million), expenditures (\$69.7 million), and other financing uses (\$304,143) netted to a smaller deficit than was planned for the fiscal year. As a result, the General Fund balance decreased by \$1.7 million in 2010.

The original revenue projections in the General Fund were \$324,723 under the *final* budget. Budget adjustments resulted from varied growth/decline in many revenue sources, the largest difference found in sales and use tax (up by 2.6%). Other increases/decreases from budget adjustments were seen in occupation license fees (down by 1.8%), property taxes (up by 9.6%), and licenses and permits (up by 5.9%). Grant revenue decreased by 100% (\$410,735); this budget item was moved to a special revenue fund at the beginning of fiscal year 2009, however since the City of Auburn budgets for a biennium, the original budget of grant revenue remained until adjustments in fiscal year 2010. These revenue trends reflect the changing economic environment which makes budgeting a more challenging task. Auburn is able to alter the course of spending as a result of management's assessment of revenue changes during the year, with tools such as monthly financial reports and real-time department budget to actual reports.

Total actual departmental expenditures in the General Fund were under budget by \$3.1 million in fiscal 2010. All individual departments kept expenditures under final budget. Non-departmental expenditures were under budget by \$184,247 and capital outlay expenditures exceeded budget by \$1.3 million. The capital outlay overage was the result of the purchase of property and a building on Alabama Street, which will be renovated to facilitate office and work space for general municipal purposes. Other financing sources and uses actual amounts compared unfavorably with the budget by \$70,184.

The total operating budget for all departments was increased by \$1.4 million in the *final* budget. Although almost all departments' budgets were increased in the *final* budget, the two largest increases (\$653,653 and \$339,345) were in the amount appropriated for the Public Safety and Public Works departments. The adjustment of the Public Safety budget reflected an increase in the minimum wage, which in the City student fire fighter programs raised spending by over \$200,000. Another large increase was caused by a change in the administration and subsequent billing of Auburn University game-day contract for police services. Beginning in 2010 all expenses and subsequent billing for support services on game-day will be accounted for through the City of Auburn as opposed to Auburn University. The Public Works budget was increased by \$325,000 to pay for the design work associated with the renovation of the Alabama Street building; however the project was postponed to fiscal 2011.



Debt issuance and related payments to component units increased in the *final* budget by \$15.2 million and \$13.0 million respectfully. The City decided, given the favorable interest rate environment, to refund two Industrial Development Board bonds issuing debt in the principal amount of \$13,285,000. This issuance and subsequent transfer to the Industrial Development Board included the majority of the changes to these two components. During 2010, the City also decided to purchase land and building for use by various City departments through issuance of a warrant in the amount of \$1.9 million. This borrowing comprised the remaining increase over the final budget in the debt proceeds line item for the General Fund.

## CAPITAL ASSET AND DEBT MANAGEMENT

### Capital Assets

As of September 30, 2010, the City owned \$187.0 million invested in a broad range of capital assets, including land, buildings, park facilities, roads and bridges, wastewater infrastructure, sidewalks, bikeways, vehicles, and other equipment. This amount represents an increase of \$7.8 million (4.4%) over last year. The majority of the increase is made up of new or updated sewer lines and facilities.

Table 9 lists the largest capital asset additions to the City for fiscal year 2010. Some of these additions were multi-year projects that were completed in 2010 and reclassified from construction in progress.

<b>Table 9</b>	<b>Largest Capital Asset Additions</b>	
	<b>Fiscal Year 2010</b>	
<i>Wastewater system expansion and improvements</i>		
Choctafaula pump station	\$	1,789,447
Northside pump station		993,656
Northside Water Pollution Control Facilities update		<u>3,582,334</u>
	<i>Subtotal - Sewer</i>	6,365,437
<i>Roadway Improvements</i>		
Street resurfacing		1,037,799
Bragg Avenue realignment		2,106,482
<i>Buildings</i> - Purchase of land and building for future city facility		1,505,112
<i>Recreation Facilities</i> - Frank Brown Renovations		<u>608,471</u>
	<b>Total</b>	<b><u>\$ 11,623,301</u></b>

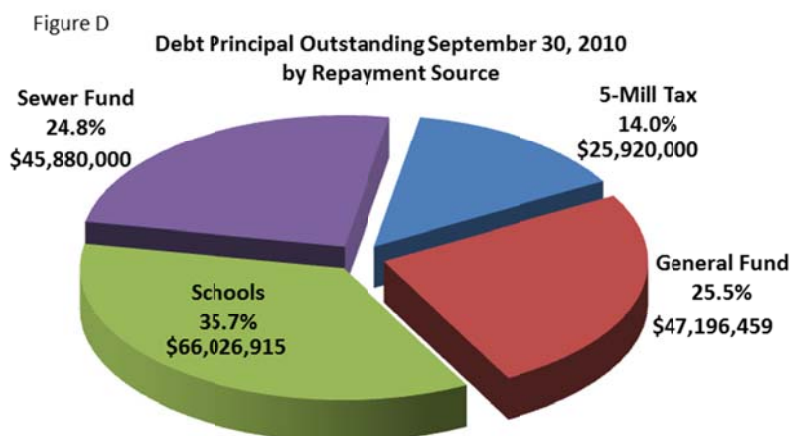
The City has committed, through borrowings and referendums, to continue or complete some major projects in fiscal year 2011. These major projects include: Frank Brown Recreation Center expansion and new Senior Center totaling ~\$3.3 million, pedestrian and bicycle infrastructure improvements totaling ~\$840,549, road resurfacing totaling ~\$1.7 million, and sewer system improvements and expansions totaling ~\$3.3 million. Note 10 of the narrative notes to the financial statements provide additional detail on capital assets.

### Long-term Debt

At 2010 fiscal year-end, the City owed \$189.4 million in long-term debt outstanding, of which \$11.9 million will mature during fiscal 2011. The fiscal 2010 net decrease in long-term debt from the previous year was \$11.7 million or 5.8%. The City's long-term debt is comprised of bonds and warrants.

General obligation debt is usually payable from the City’s general revenues (the General Fund). However some long-term debt is payable from legally restricted revenue sources, such as the City debt issued to provide financing for the City Schools, which is payable from property taxes dedicated for education purposes. In addition, the City levies a property tax, the Special Five-Mill Tax, which is legally restricted for repaying debt issued to finance projects that have been approved by the voters. The City issues general obligation debt for sewer purposes, which is intended to be repaid from the Sewer Fund.

Figure D illustrates the various funding sources for the repayment of the City’s long-term debt.



Long-term debt with \$25.9 million in principal outstanding at fiscal year-end will be paid from the Special Five-Mill Tax Fund. The most recent Special Five-Mill Tax Fund referendum was held in January of 2009 and related debt issued in July of 2009. The approval rate for the referendum projects, which included infrastructure, public works, and facility improvements throughout the City, was 91.8%. The City issues debt for the Auburn City Board of Education. The principal amount of currently outstanding school debt stands at \$66 million, which will be repaid from dedicated school ad valorem taxes. The Sewer Revenue Fund (a business-type activity of the City) pays for long-term debt issues with total principal outstanding of \$45.9 million. The remaining \$47.2 million in outstanding principal will be repaid solely from the General Fund. The reader may refer to Note 11 of the narrative notes to the financial statements for more detail concerning the debt issuances and debt outstanding of the City and its component units.

On October 22, 2009, to complete a transaction begun in the previous fiscal year, the City refunded \$15,300,000 of the \$21,625,000 outstanding 2001 General Obligation Sewer Warrants. The City completed the current refunding to reduce its total debt service payments over the next 15 years by \$1.3 to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$122,480. The debt of \$15.2 million, which had been issued in September of the preceding fiscal year bears interest at rates of 3.5%-5.0%, payable semiannually beginning January 2010 and continuing through January 2024.

New debt issued during fiscal 2010 consists of the following:

- ▶ On June 1, 2010, the City issued its \$27,020,000 General Obligation School Refunding Warrant to refund the 2002 General Obligation School Refunding Warrant. The Warrant bears interest at rates ranging from 2%-5%, payable semiannually beginning August 2010 and continuing through August 2026. The City completed the advance refunding to reduce its total debt service

payments over the next sixteen years by \$1,290,322 and to obtain an economic gain (difference between the present values of the old and new debt service payments) on the transaction of \$1,185,879.

- ▶ On July 27, 2010, the City issued its \$3,010,000 General Obligation Refunding Warrant to refund the Industrial Development Board's Series 2000-A Infrastructure Improvement Bonds. The Warrant bears interest at a rate of 2.9%, payable monthly beginning September 2010 and continuing through August 2020. The Industrial Development Board issued the Series 2000-A Bonds for the purpose of paying the cost of acquiring, constructing, installing and equipping certain streets, sidewalks, utilities and other public capital improvements within the City. The Series 2000-A Bonds were variable-rate obligations of the Industrial Development Board. Upon assessing certain aspects of the structure of the Bonds as uncertain and given the favorable interest rate environment, the Industrial Development Board recommended that the City issue the 2010 fixed-rate Warrants, the proceeds of which retire the Series 2000-A Bonds and converted the City's variable rate exposure to an established fixed-rate of interest.
- ▶ On July 27, 2010, the City issued its \$10,275,000 Taxable General Obligation Refunding Warrant to refund the Industrial Development Board's Series 2004-A Taxable Industrial Development Bonds. The Warrant bears interest at a rate of 4.84%, payable monthly beginning September 2010 and continuing through August 2024. The Industrial Development Board issued the Series 2004-A Bonds for the purpose of financing certain capital improvements within the City.
- ▶ On August 20, 2010, the City issued its \$1,870,000 General Obligation Capital Improvement Warrant for the purpose of acquiring certain land and an office building for general municipal purposes including, without limitation, relocating the Public Works Department and Environmental Services Department of the City. The Warrant bears interest at a rate of 3.03%, payable monthly beginning October 2010 and continuing through September 2022.

State law limits the amount of general obligation debt the City can issue to 20 percent of the assessed value of all taxable property within the City's corporate limits. Debt issued for schools, and water and sewer purposes are exempt from the legal debt limit. The City's outstanding debt applicable to this limit is \$73.1 million, resulting in a legal debt margin (additional legal debt capacity) of \$77.1 million.

An important financial analysis ratio in government is the percentage of total expenditures comprised of debt service (repayment of principal, interest and related fees). In the governmental funds, the ratio for 2010 is 16.6%; the ratio for 2009 was 18.6%. City management assesses this ratio during the budgeting process and has established a goal of reducing the ratio to 10-12%.

## **Bond Ratings**

In September 2009, Moody's Investors Service affirmed the City's rating at Aa3. In 2010, Moody's converted its ratings of municipal bonds to the same rating scale used for corporate securities. As a result of the scale conversion, Moody's changed the City of Auburn's rating to Aa2. (Aa2 is a higher rating than Aa3.) In June 2010, Standard & Poor's confirmed the City's AA+ credit rating.

The June 2010 Moody's rating report cited the City's "long history of solid financial management, conservative budgeting practices and high reserve levels" as among the factors considered in rating the City's credit, noting that "economic activity has helped increase the size of the tax base, which has grown an average 11.2% annually over the past five years." The S&P report rated "Auburn's financial management practices 'strong' under its Financial Management Assessment methodology,"

commenting that the City's revenue and expenditures budget is "based on a thorough trend analysis." Standard & Poor's commended the City for its financial policies, specifically those for debt management and investments.

## **ECONOMIC FACTORS, NEXT YEAR'S BUDGETS AND RATES**

The City's strategic goals, which guide management's decision-making processes, are concisely outlined in the City's mission statement:

### **City of Auburn Mission Statement**

*The mission of the City of Auburn is to provide economical delivery of quality services created and designed in response to the needs of its citizens rather than by habit or tradition. We will achieve this by:*

- Encouraging planned and managed growth as a means of developing an attractive built-environment and protecting and conserving our natural resources;
- Creating diverse employment opportunities leading to an increased tax base;
- Providing and maintaining reliable and appropriate infrastructure;
- Providing and promoting quality housing, educational, cultural and recreational opportunities;
- Providing quality public safety services;
- Operating an adequately funded city government in a financially responsible and fiscally sound manner;
- Recruiting and maintaining a highly motivated work force committed to excellence; and
- Facilitating citizen involvement.

The City's robust budgetary processes, proactive financial management efforts, aggressive (yet selective) industrial and commercial recruitment strategies, the presence of Auburn University, a diversified revenue base and the exceptional City public school system, all combine to position Auburn as a strong municipal economy. Even with a slowdown in the general economy experienced within the State of Alabama and the nation as a whole, Auburn has remained a relatively stable and growing economy, although the rate of growth has slowed. The City's unemployment rates typically compare favorably with the State's and national rates. The most recent data available show that for December 2010, the Auburn-Opelika area's unemployment rate was 7.5%, the second lowest rate in the State of Alabama. The State's unemployment rate in December 2010 was 9.4%; the national rate was 9.4% (source: US Bureau of Labor Statistics).

The Auburn City Council is committed to the development of a diversified economic base, with Auburn University as the cornerstone. The City's Industrial Development Board (IDB), Commercial Development Authority (CDA), and Economic Development Department have partnered to bring more than 4,000 new jobs to the City over the past two decades. The IDB targets small to mid-sized, higher technology and ecologically friendly companies in a variety of industries with the ability to provide jobs with good salaries and benefits. Many of the recruited industries are based on technology partnerships with the University. In addition, the City's advantageous location on Interstate 85 and its proximity to various automotive manufacturing facilities in Alabama and west central Georgia make Auburn a natural choice for second and third tier automotive suppliers. The additional payrolls brought to the City generate occupation license fees, business license fees, and sales tax revenues, which enable the City to provide

the high levels of services and facilities expected by its citizens. Auburn University, the State's largest land-grant university, is a stabilizing force in the local economy. The University has consciously controlled the growth of the student body at around 1% per year. The proximity of the University to the City's downtown area contributes significantly to a vibrant ambiance and vigorous business activity.

The City of Auburn, Auburn University and the State of Alabama have entered into a partnership to contribute a combined \$20 million to construct and build a state-of-the-art, 156-acre research park to advance the evolving technology corridor extending from Atlanta to Montgomery along Interstate Highway 85. The park's infrastructure and first two buildings are complete. The first tenant, Northrup Grumman, located in the research park. The second building was built for a Magnetic Resonance Imaging (MRI) research center. In this 45,000 square-foot facility, Auburn University is partnering with Siemens Medical Solutions USA to conduct research and house clinical studies.

The City's public schools have received consistently high ratings for the qualifications of its faculty and staff and the achievements of its students, as well as strong local funding levels. The excellence of the City School system has proved a major factor in the City's residential growth and contributes to the City's geographic growth through annexations. The number of building permits issued for single-family detached homes has dropped back to more typical levels for the area, fiscal 1999 (225 permits) to fiscal 2009 (243 permits), after a period of significant growth from 2004 – 2007, during which an average of 445 single family homes were permitted each year. Single family permits were up a little in fiscal 2010 to 308 (27%), although most other residential classifications declined in fiscal year 2010. Many families relocate to Auburn to take advantage of the excellent public schools, even though the breadwinners' jobs are in other nearby cities. Commercial/industrial/institutional building activity (including new construction and additions/renovations) declined significantly in fiscal year 2010 compared to the activity of 2009 in terms of valuation (81.5%). The City's size has grown from 45.33 square miles in 2000 to 58.63 square miles in 2010. Population growth has averaged about 3% per year; the growth rate for 2010 was 2.7%.

The City's staff considered all of the factors described above in preparing the biennial budget for fiscal years 2011 and 2012. For the new biennium, revenues were projected even more conservatively than is typical, borrowing plans were scaled back significantly, and some capital expenditures were shifted out of the General Fund to be financed by the Special Five Mill Tax Fund's resources. To facilitate future years' budgets, the City Council is conducting a comprehensive Revenue Review in the spring of 2011. The Revenue Review is conducted once every four years with the goal of evaluating the City's overall revenue structure within the context of the City's long-term financial projections, to facilitate the Council's consideration of tax or fee increases. However, tax and fee increases are studied also during the development of the biennial budget and during each mid-biennium budget review. As part of the City's budget processes, projected revenues and proposed expenditures are input into the long-term forecasting model to determine the effects on fund balances of various scenarios. Use of the long-term forecasting model is helpful for determining the effects of tax or fee increases that may be considered, as well as the need for borrowing, within the context of proposed expenditure scenarios.

The Council has established a goal for maintaining the fund balance in the General Fund at not less than 20% of expenditures plus other financing uses. The City has consistently exceeded this goal; the total fund balance in the General Fund at September 30, 2010 stood at 39% of expenditures compared to 51% in 2009. The total fund balance includes \$4.6 million designated by the Council for use only in the event of natural disaster or significant, unprojected economic downturn. Total fund balance less the designated \$4.6 million comprised 32% of expenditures. Another useful measure is the comparison of fund balance with total revenues, excluding other financing sources. The General Fund's total fund

balance as a percentage of revenues was 51.2% at the end of fiscal 2010 and 53.4% at the end of 2009, another indication of the stability of fund balance.

The only utility service provided by the primary government is wastewater treatment and disposal. The City privatized the construction and operation of two wastewater treatment plants in 1984; the two plants were reacquired in 2001. In 2008, the City engaged a rate consultant to study the Sewer Fund's rate and fee structure. Following the completion of the sewer rate study, the Council approved increases in both sewer service fees and sewer access fees, in a phased approach. Sewer rates increased by 16% on April 1, 2009 and 2010. Access fee increases were phased in across the same time period. These rate increases addressed many capital needs, regulatory requirements and maintenance to an aging infrastructure system. Given new sanitary sewer system regulatory policies and laws combined with the economic climate changes over the last two years, the Council decided during fiscal year 2010 that the rate study should be updated to reflect recent trends. This study will be completed and presented in fiscal year 2011.

Water services are provided by the City's component unit, the Water Works Board of the City of Auburn. During fiscal year 2010, the Board approved an advance refunding of the 2001 Revenue Bonds. This action took advantage of the low interest rate climate, saving future interest costs and enables the Board to comply a more advantageous coverage ratio.

An expanding populace translates into additional needs for public services and facilities. Auburn citizens have enjoyed and continue to expect a high quality of life from their City government. In the past, Auburn citizens have demonstrated their willingness to pay for these services and facilities by supporting the Council's decision to increase the sales tax rate. This public support is attributable, at least in part, to the open government policies of the City Council, as well as the public's confidence that the City's finances are carefully managed, and their knowledge that taxes and license fee increases are imposed infrequently and proposed only after deliberate study and debate. The slowing global economy and the unpredictability of the future impart an even higher importance to administering the City's revenue ordinances equitably, monitoring the City's financial status continuously, and budgeting for the prudent expenditures of public resources. City management is committed to all of these efforts.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide Auburn's citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the public assets under its management. Please contact the City of Auburn Finance Department, 144 Tichenor Avenue, Suite 5, Auburn, Alabama 36830, with any questions or to request additional information. Updated financial information about the City can also be obtained by accessing the City's web site at [www.auburnalabama.org](http://www.auburnalabama.org).

## **Basic Financial Statements**

These statements provide a summary overview of the financial position of all funds and of the operating results by fund types for the City and its component units. They also serve as an introduction to the more detailed statements and schedules that follow. Separate columns are used for each fund type and for each of the City's discretely presented component units.



City of Auburn



**CITY OF AUBURN, ALABAMA**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2010**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS	\$	\$	\$	\$
Current assets:				
Cash and cash equivalents	23,606,476	2,931,719	26,538,195	16,369,233
Certificates of deposit	7,471,824	2,750,000	10,221,824	58,593
Receivables, net	7,138,331	2,353,280	9,491,611	891,963
Due from component units	1,384,268	34,419	1,418,687	-
Inventories	15,919	26,420	42,339	358,785
Current portion of mortgages and notes receivable	24,360	-	24,360	208,368
Current portion of net investment in capital leases	-	-	-	93,079
Property tax receivable	-	-	-	4,939,864
Due from other governments	-	-	-	846,842
Due from primary government	-	-	-	9,342
Other current assets	80,437	5,984	86,421	82,521
Total current assets	<u>39,721,615</u>	<u>8,101,822</u>	<u>47,823,437</u>	<u>23,858,590</u>
Noncurrent assets:				
Restricted assets				
Cash and cash equivalents	28	-	28	8,922,388
Investments	-	-	-	1,594,287
Interest receivable	-	-	-	155
Mortgages and notes receivable, net of current portion	1,306,430	-	1,306,430	1,304,365
Net investment in capital leases, net of current portion	-	-	-	521,977
Advances to other funds	216,892	-	216,892	-
Advances to component units	3,237,853	-	3,237,853	-
Advances to other agencies	337,174	-	337,174	-
Property for resale	4,131,127	-	4,131,127	12,898,392
Bond issue costs, net	895,539	513,500	1,409,039	471,851
Deferred outflow of resources	-	-	-	1,527,770
Deferred water rights, net	-	-	-	451,880
Capital assets not being depreciated	17,316,716	3,802,827	21,119,543	22,416,381
Capital assets net of accumulated depreciation	102,516,538	63,330,915	165,847,453	166,987,888
Total noncurrent assets	<u>129,958,297</u>	<u>67,647,242</u>	<u>197,605,539</u>	<u>217,097,334</u>
Total assets	<u>169,679,912</u>	<u>75,749,064</u>	<u>245,428,976</u>	<u>240,955,924</u>
LIABILITIES				
Current liabilities:				
Liabilities payable from restricted assets:				
Accounts payable	-	-	-	17,793
Current portion of long-term debt	-	-	-	645,000
Accrued interest payable	-	-	-	186,215
Accounts payable and other accrued liabilities	2,055,867	684,770	2,740,637	3,316,448
Payable to other governments	1,730,469	-	1,730,469	-
Due to component units	96	9,247	9,343	-
Accrued interest payable	864,486	655,895	1,520,381	-
Salaries and benefits payable	414,487	-	414,487	4,668,557
Claims payable	117,016	-	117,016	-
Customer deposits	138,151	623,059	761,210	676,420
Unearned revenue	1,315,149	-	1,315,149	5,079,958
Current portion of long-term debt	10,802,292	1,120,583	11,922,875	5,460,000
Short term notes payable	-	-	-	3,315,545
Due to primary government	-	-	-	1,418,687
Obligations under capital leases	-	-	-	345,862
Current portion water supply agreement payable	-	-	-	166,317
Total current liabilities	<u>17,438,013</u>	<u>3,093,554</u>	<u>20,531,567</u>	<u>25,296,802</u>
Noncurrent liabilities:				
Advances from primary government	-	216,892	216,892	3,237,853
Derivative instrument liability	-	-	-	1,527,770
Long-term debt and other liabilities	132,695,660	44,757,491	177,453,151	41,778,705
Total noncurrent liabilities	<u>132,695,660</u>	<u>44,974,383</u>	<u>177,670,043</u>	<u>46,544,328</u>
Total liabilities	<u>150,133,673</u>	<u>48,067,937</u>	<u>198,201,610</u>	<u>71,841,130</u>
NET ASSETS				
Invested in capital assets, net of related debt	81,866,977	25,830,053	107,697,030	139,332,388
Restricted for :				
Capital projects	1,922,087	3,876,709	5,798,796	8,197,009
Debt service	3,831,044	-	3,831,044	1,835,756
Federal and state grants	943,290	-	943,290	-
Restricted for other projects	-	-	-	258,233
Special revenues (gas tax and road projects)	279,205	-	279,205	-
Special revenues (ad valorem tax for schools)	4,997,225	-	4,997,225	-
Special revenues (public safety)	48,712	-	48,712	-
Unrestricted (deficit)	(74,342,301)	(2,025,635)	(76,367,936)	19,639,729
Total net assets	<u>19,546,239</u>	<u>27,681,127</u>	<u>47,227,366</u>	<u>169,263,115</u>

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

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
<b>Primary government:</b>	\$	\$	\$	\$	\$	\$	\$	\$
Governmental activities:								
General government and administration	6,270,653	10,890,570	656,872	-	5,276,789	-	5,276,789	
Public works	6,844,357	-	557,854	3,319,948	(2,966,555)	-	(2,966,555)	
Environmental services	1,670,173	-	-	-	(1,670,173)	-	(1,670,173)	
Public safety	16,904,689	3,218,920	434,622	184,009	(13,067,138)	-	(13,067,138)	
Library	1,613,894	42,893	12,500	2,044	(1,556,457)	-	(1,556,457)	
Parks and recreation	5,377,218	785,095	10,000	275,613	(4,306,510)	-	(4,306,510)	
Planning	665,283	38,322	-	-	(626,961)	-	(626,961)	
Social and economic development	17,864,393	-	706,581	456,863	(16,700,949)	-	(16,700,949)	
Human resources	704,963	-	-	-	(704,963)	-	(704,963)	
Risk management	1,289,942	741,130	-	-	(548,812)	-	(548,812)	
Education (payments to Board of Education)	13,530,795	-	-	-	(13,530,795)	-	(13,530,795)	
Interest on long-term debt	5,346,829	-	-	-	(5,346,829)	-	(5,346,829)	
Total governmental activities	<u>78,083,189</u>	<u>15,716,930</u>	<u>2,378,429</u>	<u>4,238,477</u>	<u>(55,749,353)</u>	<u>-</u>	<u>(55,749,353)</u>	
Business-type Activities:								
Sewer Fund	7,804,203	8,722,591	-	504,467	-	1,422,855	1,422,855	
Solid Waste Management Fund	3,385,837	3,133,116	39,831	101,000	-	(111,890)	(111,890)	
Total business-type activities	<u>11,190,040</u>	<u>11,855,707</u>	<u>39,831</u>	<u>605,467</u>	<u>-</u>	<u>1,310,965</u>	<u>1,310,965</u>	
Total primary government	<u>89,273,229</u>	<u>27,572,637</u>	<u>2,418,260</u>	<u>4,843,944</u>	<u>(55,749,353)</u>	<u>1,310,965</u>	<u>(54,438,388)</u>	
<b>Component units:</b>								
Board of Education	61,993,800	4,583,069	30,265,546	2,282,876	-	-	-	(24,862,309)
Water Works Board	8,321,535	8,245,230	-	836,880	-	-	-	760,575
Industrial Development Board	4,556,760	3,221,595	-	1,129,575	-	-	-	(205,590)
Public Park & Recreation Board	603,604	73,741	-	17,435	-	-	-	(512,428)
Commercial Development Authority	1,040	-	-	-	-	-	-	(1,040)
Total Component Units	<u>75,476,739</u>	<u>16,123,635</u>	<u>30,265,546</u>	<u>4,266,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,820,792)</u>
General revenues								
Taxes:								
Sales taxes					21,081,232	-	21,081,232	4,011,558
Occupational license fees					8,448,505	-	8,448,505	-
Property taxes					20,169,135	-	20,169,135	11,190,180
Motor fuel taxes					278,467	-	278,467	-
Lodgings taxes					1,253,511	-	1,253,511	-
Rental and leasing taxes					420,201	-	420,201	-
Cigarette taxes					77,423	-	77,423	-
Alcoholic beverage taxes					121,710	-	121,710	485,060
Other taxes					-	-	-	34,930
Appropriations from the City of Auburn					-	-	-	22,321,070
Federal and state aid not restricted					-	-	-	1,494
Interest and investment earnings					512,963	45,538	558,501	521,597
Gain on disposal of assets					-	12,598	12,598	95,873
Miscellaneous					38,073	37,087	75,160	662,177
Special items - certain receivable transactions					-	675,000	675,000	-
Transfers					(232,893)	232,893	-	-
Total general revenues, special items, and transfers					<u>52,168,327</u>	<u>1,003,116</u>	<u>53,171,443</u>	<u>39,323,939</u>
Change in net assets					<u>(3,581,026)</u>	<u>2,314,081</u>	<u>(1,266,945)</u>	<u>14,503,147</u>
Net assets - beginning					23,117,265	25,367,046	48,484,311	154,759,968
Prior period adjustment					10,000	-	10,000	-
Net assets - beginning, as restated					<u>23,127,265</u>	<u>25,367,046</u>	<u>48,494,311</u>	<u>154,759,968</u>
Net assets - ending					<u>19,546,239</u>	<u>27,681,127</u>	<u>47,227,366</u>	<u>169,263,115</u>

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

**CITY OF AUBURN, ALABAMA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2010**

	General Fund	Special School Tax Fund	Other Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$
<b>ASSETS</b>				
Cash and cash equivalents	17,872,752	4,188,013	9,017,562	31,078,327
Receivables, net	6,305,375	109,212	723,743	7,138,330
Due from other funds	15,527	-	-	15,527
Due from component units	1,384,268	-	-	1,384,268
Inventories	15,919	-	-	15,919
Prepaid items	4,010	-	244	4,254
Mortgages receivable	-	-	1,330,790	1,330,790
Advances to other funds	216,892	-	-	216,892
Advances to component units	2,537,853	700,000	-	3,237,853
Advances to other agencies	337,174	-	-	337,174
Property for resale	4,131,127	-	-	4,131,127
Total assets	32,820,897	4,997,225	11,072,339	48,890,461
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	1,823,295	-	741,712	2,565,007
Payables to other governments	1,730,469	-	-	1,730,469
Due to component units	95	-	-	95
Customer deposits	129,004	-	-	129,004
Claims payable	117,016	-	-	117,016
Due to other funds	-	-	15,527	15,527
Deferred revenue	1,919,552	-	10,465	1,930,017
Deferred program revenue	-	-	1,330,839	1,330,839
Total liabilities	5,719,431	-	2,098,543	7,817,974
<b>Fund balances:</b>				
<b>Reserved:</b>				
Inventories	15,919	-	-	15,919
Prepaid items	4,010	-	244	4,254
Encumbrances	209,010	-	3,375,338	3,584,348
Advances	3,091,919	700,000	-	3,791,919
Property for resale	4,131,127	-	-	4,131,127
<b>Unreserved:</b>				
Designated for emergency purposes	4,682,899	-	-	4,682,899
Undesignated	14,966,582	4,297,225	-	19,263,807
<b>Unreserved, reported in nonmajor funds:</b>				
Special revenue funds	-	-	469,334	469,334
Debt service funds	-	-	3,831,043	3,831,043
Capital projects funds	-	-	1,297,837	1,297,837
Total fund balances	27,101,466	4,997,225	8,973,796	41,072,487
Total liabilities and fund balances	32,820,897	4,997,225	11,072,339	

Total 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.	119,833,254
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the current period.	(142,602,413)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,945,707
Prepaid items accounted for using the purchases method are not reported in the funds.	76,183
Accrued revenues and expenses that do not meet recognition criteria under the modified accrual basis of accounting are not recorded in the governmental funds.	(778,979)
Net assets of governmental activities	19,546,239

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

**CITY OF AUBURN, ALABAMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	Special School Tax Fund	Other Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$
<b>Revenues</b>				
Sales and use taxes	21,081,232	-	-	21,081,232
Occupational license fees	8,448,505	-	-	8,448,505
Motor fuel taxes	547,407	-	-	547,407
Lodging taxes	1,253,511	-	-	1,253,511
Rental and leasing taxes	420,201	-	-	420,201
Other taxes	199,133	-	-	199,133
Licenses and permits	9,002,598	-	-	9,002,598
General property taxes	4,092,017	12,419,405	3,657,712	20,169,134
Charges for services	5,286,945	-	-	5,286,945
Fines and forfeitures	1,323,548	-	-	1,323,548
State shared taxes	639,987	-	241,153	881,140
Contributions from the public	230,900	-	637,528	868,428
Grants	-	-	2,555,213	2,555,213
Program income	-	-	521,164	521,164
Interest	280,321	68,555	164,087	512,963
Miscellaneous	89,162	-	118	89,280
Total revenues	<u>52,895,467</u>	<u>12,487,960</u>	<u>7,776,975</u>	<u>73,160,402</u>
<b>Expenditures</b>				
General government and administration	4,369,835	-	47,761	4,417,596
Public works	3,309,122	-	220,950	3,530,072
Environmental services	1,609,168	-	-	1,609,168
Public safety	15,752,082	-	201,604	15,953,686
Library	1,412,899	-	12,500	1,425,399
Parks and recreation	4,580,462	-	-	4,580,462
Planning	664,088	-	-	664,088
Economic development	988,791	-	1,198,930	2,187,721
Employee services	656,148	-	-	656,148
Risk management	1,313,917	-	-	1,313,917
Total departmental	<u>34,656,512</u>	<u>-</u>	<u>1,681,745</u>	<u>36,338,257</u>
Non-Departmental	1,382,932	428,529	126,441	1,937,902
<b>Debt service:</b>				
Administrative charges	9,009	247,543	10,152	266,704
Interest	1,568,316	2,695,492	1,092,369	5,356,177
Principal retirement	4,848,073	2,595,956	2,545,000	9,989,029
Capital outlay	4,437,680	-	6,083,861	10,521,541
Intergovernmental	812,921	-	209,197	1,022,118
Payments to component units	22,032,280	6,480,036	306,225	28,818,541
Total expenditures	<u>69,747,723</u>	<u>12,447,556</u>	<u>12,054,990</u>	<u>94,250,269</u>
Excess (deficiency) of revenues over expenditures	<u>(16,852,256)</u>	<u>40,404</u>	<u>(4,278,015)</u>	<u>(21,089,867)</u>
<b>Other financing sources (uses)</b>				
Debt issuance	15,155,000	-	-	15,155,000
Debt refunding	-	27,020,000	-	27,020,000
Premium on debt issued	-	2,313,257	-	2,313,257
Sale of surplus assets	33,355	-	-	33,355
Payment to refunded bond escrow agent	-	(29,084,241)	-	(29,084,241)
Transfers in	241,250	-	484,021	725,271
Transfers out	(304,143)	-	(654,021)	(958,164)
Total other financing sources (uses)	<u>15,125,462</u>	<u>249,016</u>	<u>(170,000)</u>	<u>15,204,478</u>
Net changes in fund balances	(1,726,794)	289,420	(4,448,015)	(5,885,389)
Fund balances, beginning of year	<u>28,828,260</u>	<u>4,707,805</u>	<u>13,421,811</u>	<u>46,957,876</u>
Fund balances, end of year	<u><u>27,101,466</u></u>	<u><u>4,997,225</u></u>	<u><u>8,973,796</u></u>	<u><u>41,072,487</u></u>

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

**CITY OF AUBURN, ALABAMA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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

Net change in fund balances - total governmental funds	\$ (5,885,389)
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 amount by which capital outlays exceeded depreciation expense in the current period.	5,851,533
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to (increase) decrease net assets.	1,609,793
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes 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, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(5,171,244)
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.	(56,833)
Revenues previously recorded as deferred revenue in governmental funds that were recognized in prior years in the statement of activities, but in the current year in governmental funds.	<u>71,114</u>
Change in net assets - statement of activities	<u>\$ (3,581,026)</u>

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

**CITY OF AUBURN, ALABAMA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	Final Budget - Favorable (Unfavorable)
	\$	\$	\$	\$
<b>Revenues</b>				
Sales and use taxes	19,521,527	20,036,527	21,081,232	1,044,705
Occupational license fees	8,215,000	8,065,000	8,448,505	383,505
Motor fuel taxes	440,000	440,000	547,407	107,407
Lodging taxes	1,100,000	1,100,000	1,253,511	153,511
Rental and leasing taxes	455,000	455,000	420,201	(34,799)
Other taxes	200,000	200,000	199,133	(867)
Licenses and permits	8,568,800	9,072,300	9,002,598	(69,702)
General property taxes	3,695,000	4,050,000	4,092,017	42,017
Charges for services	5,095,340	4,924,499	5,286,945	362,446
Fines and forfeitures	1,085,000	1,085,000	1,323,548	238,548
State shared taxes	692,000	656,799	639,987	(16,812)
Contributions from the public	283,614	283,614	230,900	(52,714)
Grants	410,735	-	-	-
Interest	538,353	256,353	280,321	23,968
Miscellaneous	43,500	43,500	89,162	45,662
<b>Total revenues</b>	<u>50,343,869</u>	<u>50,668,592</u>	<u>52,895,467</u>	<u>2,226,875</u>
<b>Expenditures</b>				
General government and administration	4,488,652	4,746,107	4,369,835	376,272
Public works	3,399,312	3,738,657	3,309,122	429,535
Environmental services	1,786,105	1,792,518	1,609,168	183,350
Public safety	15,888,323	16,541,976	15,752,082	789,894
Library	1,534,898	1,544,043	1,412,899	131,144
Parks and recreation	4,806,382	4,913,912	4,580,462	333,450
Planning	687,657	722,638	664,088	58,550
Economic development	1,013,341	1,024,931	988,791	36,140
Employee services	708,609	733,990	656,148	77,842
Risk management	1,973,910	1,973,910	1,313,917	659,993
<b>Total departmental</b>	<u>36,287,189</u>	<u>37,732,682</u>	<u>34,656,512</u>	<u>3,076,170</u>
Non-departmental	1,631,179	1,567,179	1,382,932	184,247
Debt service:				
Administrative charges	10,000	18,750	9,009	9,741
Interest	1,511,925	1,568,316	1,568,316	-
Principal retirement	4,791,275	4,848,073	4,848,073	-
Capital outlay	542,296	3,163,728	4,437,680	(1,273,952)
Intergovernmental	865,339	865,339	812,921	52,418
Payments to component units	9,079,254	22,114,629	22,032,280	82,349
<b>Total expenditures</b>	<u>54,718,457</u>	<u>71,878,696</u>	<u>69,747,723</u>	<u>2,130,973</u>
Excess (deficiency) of revenues over expenditures	<u>(4,374,588)</u>	<u>(21,210,104)</u>	<u>(16,852,256)</u>	<u>4,357,848</u>
<b>Other financing sources (uses)</b>				
Debt issuance	-	15,155,000	15,155,000	-
Sale of surplus assets	15,000	15,000	33,355	18,355
Transfers in	845,750	845,750	241,250	(604,500)
Transfers out	(590,000)	(820,104)	(304,143)	515,961
<b>Total other financing sources (uses)</b>	<u>270,750</u>	<u>15,195,646</u>	<u>15,125,462</u>	<u>(70,184)</u>
<b>Net change in fund balances</b>	<u>(4,103,838)</u>	<u>(6,014,458)</u>	<u>(1,726,794)</u>	<u>4,287,664</u>
Fund balances, beginning of year	<u>28,828,260</u>	<u>28,828,260</u>	<u>28,828,260</u>	<u>-</u>
Fund balances, end of year	<u><u>24,724,422</u></u>	<u><u>22,813,802</u></u>	<u><u>27,101,466</u></u>	<u><u>4,287,664</u></u>

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

**CITY OF AUBURN, ALABAMA**  
**SPECIAL SCHOOL TAX SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
	\$	\$	\$	<u>Favorable</u>
				<u>(Unfavorable)</u>
	\$	\$	\$	\$
Revenues				
General property taxes	11,140,000	12,345,000	12,419,405	74,405
Interest	130,000	65,000	68,555	3,555
Total revenues	<u>11,270,000</u>	<u>12,410,000</u>	<u>12,487,960</u>	<u>77,960</u>
Expenditures				
Non-Departmental	375,000	430,000	428,529	1,471
Debt service:				
Administrative charges	-	247,543	247,543	-
Interest	3,197,174	2,769,990	2,695,492	74,498
Principal retirement	2,203,170	2,595,956	2,595,956	-
Payments to component units	6,480,037	6,480,037	6,480,036	1
Total expenditures	<u>12,255,381</u>	<u>12,523,526</u>	<u>12,447,556</u>	<u>75,970</u>
Excess (deficiency) of revenues over expenditures	<u>(985,381)</u>	<u>(113,526)</u>	<u>40,404</u>	<u>153,930</u>
Other financing sources (uses)				
Debt refunding	-	27,020,000	27,020,000	-
Premium on debt issued	-	2,313,257	2,313,257	-
Payment to refunded bond escrow agent	-	(29,322,719)	(29,084,241)	238,478
Total other financing sources (uses)	<u>-</u>	<u>10,538</u>	<u>249,016</u>	<u>238,478</u>
Net changes in fund balances	(985,381)	(102,988)	289,420	392,408
Fund balances, beginning of year	<u>4,707,805</u>	<u>4,707,805</u>	<u>4,707,805</u>	<u>-</u>
Fund balances, end of year	<u><u>3,722,424</u></u>	<u><u>4,604,817</u></u>	<u><u>4,997,225</u></u>	<u><u>392,408</u></u>

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

**CITY OF AUBURN, ALABAMA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2010**

	Major Fund		Total
	Sewer Revenue Fund	Solid Waste Management Fund	
	\$	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	2,902,546	29,173	2,931,719
Certificates of deposit	2,750,000	-	2,750,000
Receivables, net	1,869,600	483,680	2,353,280
Due from component units	34,419	-	34,419
Inventories	26,420	-	26,420
Other current assets	5,984	-	5,984
<b>Total current assets</b>	<b>7,588,969</b>	<b>512,853</b>	<b>8,101,822</b>
<b>Noncurrent assets</b>			
Bond issue costs, net	513,500	-	513,500
Capital assets not being depreciated	3,802,827	-	3,802,827
Capital assets net of accumulated depreciation	62,520,401	810,514	63,330,915
<b>Total noncurrent assets</b>	<b>66,836,728</b>	<b>810,514</b>	<b>67,647,242</b>
<b>Total assets</b>	<b>74,425,697</b>	<b>1,323,367</b>	<b>75,749,064</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	567,479	117,291	684,770
Due to component units	9,247	-	9,247
Accrued interest payable	655,895	-	655,895
Customer deposits	623,059	-	623,059
Current portion of long-term debt	1,110,333	10,250	1,120,583
<b>Total current liabilities</b>	<b>2,966,013</b>	<b>127,541</b>	<b>3,093,554</b>
<b>Noncurrent liabilities:</b>			
Advances from primary government	-	216,892	216,892
Long-term debt and other liabilities	44,646,733	110,758	44,757,491
<b>Total liabilities</b>	<b>47,612,746</b>	<b>455,191</b>	<b>48,067,937</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	25,019,539	810,514	25,830,053
Restricted for capital projects	3,876,709	-	3,876,709
Unrestricted (deficit)	(2,083,297)	57,662	(2,025,635)
<b>Total net assets</b>	<b>26,812,951</b>	<b>868,176</b>	<b>27,681,127</b>

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



**CITY OF AUBURN, ALABAMA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Major Fund		
	Sewer Revenue Fund	Solid Waste Management Fund	Total
	\$	\$	\$
Operating revenues			
Charges for services	8,722,101	3,133,116	11,855,217
Sewer tapping fees	490	-	490
Miscellaneous	35,616	1,971	37,587
Total operating revenues	<u>8,758,207</u>	<u>3,135,087</u>	<u>11,893,294</u>
Operating expenses			
Salaries and wages	1,020,002	1,501,181	2,521,183
Employee benefits	227,636	444,416	672,052
Repairs and maintenance	33,700	52,552	86,252
Utilities	626,088	-	626,088
Professional services	467,769	506,022	973,791
Rentals and leasing	70,353	-	70,353
Insurance	8,119	29,700	37,819
Office supplies	11,407	-	11,407
Fuels and lubricants	28,549	183,753	212,302
Agricultural and chemical supplies	73,184	1,468	74,652
Minor equipment and tools	32,730	22,503	55,233
Repair parts and materials	69,123	180,295	249,418
Clothing and linens	8,140	-	8,140
Sewer service fees	126,000	-	126,000
Management fees	1,642,990	135,000	1,777,990
Depreciation/amortization	1,506,342	284,083	1,790,425
Travel and training	16,526	6,938	23,464
Miscellaneous	15,022	37,926	52,948
Total operating expenses	<u>5,983,680</u>	<u>3,385,837</u>	<u>9,369,517</u>
Operating Income (Loss)	<u>2,774,527</u>	<u>(250,750)</u>	<u>2,523,777</u>
Nonoperating revenues (expenses)			
Interest earned	45,246	292	45,538
Interest and fiscal charges	(1,788,254)	-	(1,788,254)
Grants - operating	-	39,331	39,331
Gain (loss) on disposal of capital assets	(32,269)	12,598	(19,671)
Total nonoperating revenues (expenses)	<u>(1,775,277)</u>	<u>52,221</u>	<u>(1,723,056)</u>
Income (loss) before capital grants, transfers, capital contributions and special items	999,250	(198,529)	800,721
Transfers	(71,250)	304,143	232,893
Special item - concession payment	675,000	-	675,000
Capital contributions - grants	-	101,000	101,000
Capital contributions - developers	504,467	-	504,467
Change in net assets	2,107,467	206,614	2,314,081
Net assets, beginning of year	<u>24,705,484</u>	<u>661,562</u>	<u>25,367,046</u>
Net assets, end of year	<u>26,812,951</u>	<u>868,176</u>	<u>27,681,127</u>

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

**CITY OF AUBURN, ALABAMA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Major Fund		Total
	Sewer Revenue Fund	Solid Waste Management Fund	
	\$	\$	\$
<b>Cash flows from operating activities</b>			
Cash collected from customers	8,213,311	2,909,674	11,122,985
Other cash collected	35,616	28,576	64,192
Customer deposits collected	56,473	-	56,473
Payments to suppliers for goods and services	(3,433,794)	(1,146,811)	(4,580,605)
Payments to employees for services	(1,262,059)	(1,942,859)	(3,204,918)
Net cash provided (consumed) by operating activities (A)	<u>3,609,547</u>	<u>(151,420)</u>	<u>3,458,127</u>
<b>Cash flows from noncapital financing activities</b>			
Transfers in	-	304,143	304,143
Transfers out	(71,250)	-	(71,250)
Net cash provided (consumed) by noncapital financing activities	<u>(71,250)</u>	<u>304,143</u>	<u>232,893</u>
<b>Cash flows from capital and related financing activities</b>			
Principal repayments on borrowing	(16,360,000)	-	(16,360,000)
Deferred amount on refunding	(845,016)	-	(845,016)
Proceeds from sale of assets	3,010	14,478	17,488
Proceeds from capital grant	-	101,000	101,000
Acquisition and construction of capital assets	(1,097,962)	(282,942)	(1,380,904)
Cash contributions from developers	1,387	-	1,387
Interest and fiscal fees paid	(1,809,150)	-	(1,809,150)
Net cash provided (consumed) by capital and related financing activities	<u>(20,107,731)</u>	<u>(167,464)</u>	<u>(20,275,195)</u>
<b>Cash flows from investing activities</b>			
Interest on investments	42,208	292	42,500
Purchases of investments	(1,750,000)	-	(1,750,000)
Net cash provided (consumed) by investing activities	<u>(1,707,792)</u>	<u>292</u>	<u>(1,707,500)</u>
Net increase (decrease) in cash	(18,277,226)	(14,449)	(18,291,675)
Cash and cash equivalents, beginning of year	21,179,772	43,622	21,223,394
Cash and cash equivalents, end of year	<u>2,902,546</u>	<u>29,173</u>	<u>2,931,719</u>
<b>Reconciliation of operating income to net cash provided by operating activities (A):</b>			
Operating income	2,774,527	(250,750)	2,523,777
Add: Depreciation	1,506,342	284,083	1,790,425
Increase in accounts payable	-	9,221	9,221
Increase in customer deposits	56,473	-	56,473
Increase in accrued leave	-	2,737	2,737
Increase in OPEB liability	1,087	-	1,087
Deduct: Increase in customer receivables	(269,280)	(223,441)	(492,721)
Increase in other current assets	-	(12,601)	(12,601)
Increase in prepaid items	(8,945)	-	(8,945)
Decrease in deferred revenue - access fees	(240,000)	-	(240,000)
Decrease in accrued leave	(15,508)	-	(15,508)
Decrease in accounts payable	(195,151)	-	(195,151)
Net cash provided by operating activities	<u>3,609,545</u>	<u>(190,751)</u>	<u>3,418,794</u>
<b>Noncash transactions:</b>			
Estimated cost of sewer lines installed by and contributed to the City by developers	548,080	-	548,080
Concession special item - Veolia Water	675,000	-	675,000
	<u>1,223,080</u>	<u>-</u>	<u>1,223,080</u>

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

**CITY OF AUBURN, ALABAMA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2010**

	Youth Athletic Associations' Private-purpose Trust Fund
ASSETS	\$
Current assets:	
Cash and cash equivalents	342,703
Total assets	342,703
 NET ASSETS	
Held in trust for:	
Auburn Dixie Baseball/Softball Association	127,757
Auburn Soccer Organization	179,330
Auburn Youth Football	6,966
Auburn Community Tennis Association	28,650
Total net assets	342,703

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

**CITY OF AUBURN, ALABAMA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Youth Athletic Associations' Private-purpose Trust Fund
	\$
<b>ADDITIONS</b>	
Program revenues:	
Baseball/Softball	195,159
Soccer	236,789
Football	30,801
Tennis	11,075
Total program revenues	473,824
Investment earnings:	
Baseball/Softball interest	358
Soccer interest	82
Total investment earnings	440
Total additions	474,264
<b>DEDUCTIONS</b>	
Program expenses:	
Baseball/Softball	188,619
Soccer	226,112
Football	43,542
Tennis	9,523
Total deductions	467,796
Change in net assets	6,468
Net assets-- beginning of the year	313,845
Prior period adjustment	22,390
Net assets - beginning, as restated	336,235
Net assets -- end of the year	342,703

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

**CITY OF AUBURN, ALABAMA**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2010**

	Major Component Units				Total
	Board of Education	Water Works Board	Industrial Development Board	Nonmajor Component Units	
	\$	\$	\$	\$	\$
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	11,607,301	3,716,652	1,193,451	150	16,517,554
Certificates of deposit	-	-	58,593	-	58,593
Receivables, net	26,804	812,415	40,684	12,060	891,963
Inventories	108,097	250,688	-	-	358,785
Current portion of mortgages and notes receivable	-	-	208,368	-	208,368
Current portion of net investment in capital leases	-	-	93,079	-	93,079
Property tax receivable	4,939,864	-	-	-	4,939,864
Due from other governments	846,842	-	-	-	846,842
Due from primary government	-	9,342	-	-	9,342
Other current assets	-	53,571	28,950	-	82,521
<b>Total current assets</b>	<b>17,528,908</b>	<b>4,842,668</b>	<b>1,623,125</b>	<b>12,210</b>	<b>24,006,911</b>
<b>Noncurrent assets</b>					
<b>Restricted assets</b>					
Cash and cash equivalents	1,657,368	7,092,871	172,149	-	8,922,388
Investments	-	1,594,287	-	-	1,594,287
Interest receivable	-	155	-	-	155
Mortgages and notes receivable, net of current portion	-	-	1,304,365	-	1,304,365
Net investment in capital leases, net of current portion	-	-	521,977	-	521,977
Property for resale	-	-	12,898,392	-	12,898,392
Bond issue costs, net	-	213,681	258,170	-	471,851
Deferred outflow of resources	-	-	1,527,770	-	1,527,770
Deferred water rights, net	-	451,880	-	-	451,880
Capital assets not being depreciated	3,183,582	2,484,794	16,748,005	-	22,416,381
Capital assets, net of accumulated depreciation	79,300,856	46,488,332	34,849,521	6,349,179	166,987,888
<b>Total noncurrent assets</b>	<b>84,141,806</b>	<b>58,326,000</b>	<b>68,280,349</b>	<b>6,349,179</b>	<b>217,097,334</b>
<b>Total assets</b>	<b>101,670,714</b>	<b>63,168,668</b>	<b>69,903,474</b>	<b>6,361,389</b>	<b>241,104,245</b>
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
<b>Liabilities payable from restricted assets:</b>					
Accounts payable	-	17,793	-	-	17,793
Current portion of long-term debt	-	645,000	-	-	645,000
Accrued interest payable	-	75,354	110,861	-	186,215
Accounts payable and other accrued liabilities	668,650	2,300,529	296,593	50,676	3,316,448
Salaries and benefits payable	4,668,557	-	-	-	4,668,557
Customer deposits	-	676,420	-	-	676,420
Deferred revenue	5,078,558	-	1,400	-	5,079,958
Current maturities of bonds payable	-	-	5,460,000	-	5,460,000
Current maturities of notes payable	-	-	3,315,545	-	3,315,545
Due to primary government	-	269,890	1,148,797	-	1,418,687
Obligations under capital leases	345,862	-	-	-	345,862
Current portion of water supply agreement payable	-	166,317	-	-	166,317
<b>Total current liabilities</b>	<b>10,761,627</b>	<b>4,151,303</b>	<b>10,333,196</b>	<b>50,676</b>	<b>25,296,802</b>
<b>Noncurrent liabilities:</b>					
Advances from primary government	700,000	-	2,537,853	-	3,237,853
Derivative instrument liability	-	-	1,527,770	-	1,527,770
Long-term debt and other liabilities	873,526	20,259,402	20,645,777	-	41,778,705
<b>Total noncurrent liabilities</b>	<b>1,573,526</b>	<b>20,259,402</b>	<b>24,711,400</b>	<b>-</b>	<b>46,544,328</b>
<b>Total liabilities</b>	<b>12,335,153</b>	<b>24,410,705</b>	<b>35,044,596</b>	<b>50,676</b>	<b>71,841,130</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	80,565,050	28,385,144	24,033,015	6,349,179	139,332,388
<b>Restricted for:</b>					
Capital projects	1,233,286	6,963,723	-	-	8,197,009
Debt service	-	1,723,435	112,321	-	1,835,756
Other projects	258,233	-	-	-	258,233
Unrestricted (deficit)	7,278,992	1,685,661	10,713,542	(38,466)	19,639,729
<b>Total net assets</b>	<b>89,335,561</b>	<b>38,757,963</b>	<b>34,858,878</b>	<b>6,310,713</b>	<b>169,263,115</b>

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

**CITY OF AUBURN, ALABAMA  
DISCRETELY PRESENTED COMPONENT UNITS  
COMBINING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER, 30 2010**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Total Component Units		
					Governmental Activities	Business-Type Activities	Total
	\$	\$	\$	\$	\$	\$	
Governmental activities:							
Auburn Board of Education							
Functions/Programs							
Instruction	36,709,694	926,956	21,381,764	1,163,217	(13,237,757)	-	(13,237,757)
Instructional support	11,522,784	284,884	5,598,395	284,156	(5,355,349)	-	(5,355,349)
Operation and maintenance	5,235,240	144,061	585,471	492,898	(4,012,810)	-	(4,012,810)
Auxiliary services							
Student transportation services	2,363,473	76,422	2,079,471	342,605	135,025	-	135,025
Food services	3,072,031	2,413,979	142,612	-	(515,440)	-	(515,440)
General administrative services	2,134,164	1,659	192,248	-	(1,940,257)	-	(1,940,257)
Other	926,790	735,108	285,585	-	93,903	-	93,903
Interest and fiscal charges	29,624	-	-	-	(29,624)	-	(29,624)
Total governmental activities	61,993,800	4,583,069	30,265,546	2,282,876	(24,862,309)	-	(24,862,309)
Business-type activities:							
Business-type component units	13,482,939	11,540,566	-	1,983,890	-	41,517	41,517
Total component units	75,476,739	16,123,635	30,265,546	4,266,766	(24,862,309)	41,517	(24,820,792)
General revenues:							
Taxes:							
Sales taxes					4,011,558	-	4,011,558
Property taxes					11,190,180	-	11,190,180
Alcoholic beverage taxes					485,060	-	485,060
Other taxes					34,930	-	34,930
Unrestricted appropriations from the City of Auburn					7,050,759	15,270,311	22,321,070
Federal/state aid not restricted					1,494	-	1,494
Interest and investment earnings					335,074	186,523	521,597
Gain (loss) on disposal of assets					18,464	77,409	95,873
Miscellaneous					289,491	372,686	662,177
Total general revenues, special items, and transfers					23,417,010	15,906,929	39,323,939
Change in net assets					(1,445,299)	15,948,446	14,503,147
Net assets--beginning of year					90,780,860	63,979,108	154,759,968
Net assets--end of year					89,335,561	79,927,554	169,263,115

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

**CITY OF AUBURN, ALABAMA**  
**DISCRETELY PRESENTED BUSINESS-TYPE COMPONENT UNITS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER, 30 2010**

	Major Business-type Component Units			Total
	Water Works Board	Industrial Development Board	Nonmajor Business-type Component Units	
	\$	\$	\$	
Operating revenues				
Lease income	-	3,221,595	-	3,221,595
Water sales and service	8,245,230	-	-	8,245,230
Tennis center revenue	-	-	73,741	73,741
Miscellaneous	225,976	83,230	63,479	372,685
Total operating revenues	<u>8,471,206</u>	<u>3,304,825</u>	<u>137,220</u>	<u>11,913,251</u>
Operating expenses				
Water treatment and pumping expense	1,990,226	-	-	1,990,226
Water distribution expense	860,563	-	-	860,563
Meter reading expense	452,753	-	-	452,753
Operations administration expense	247,489	-	-	247,489
Water revenue office expense	695,468	-	-	695,468
General operations expense	1,558,154	-	-	1,558,154
Salaries and wages	-	-	144,886	144,886
Employee benefits	-	-	29,561	29,561
Repairs and maintenance	-	139,547	18,282	157,829
Advertising	-	18,964	-	18,964
Utilities	-	109,702	97,226	206,928
Rentals and leasing	-	-	2,137	2,137
Insurance	-	-	3,375	3,375
Administrative costs and fees	-	-	3	3
Professional services	-	138,729	478	139,207
Office supplies	-	14,220	-	14,220
Bad debt expense	-	54,500	-	54,500
Agricultural and chemical supplies	-	-	140	140
Recreational supplies	-	-	7,368	7,368
Depreciation/amortization	1,925,676	916,209	299,964	3,141,849
Industrial recruitment	-	162,138	-	162,138
Industrial incentives granted	-	139,167	-	139,167
Travel and training	-	11,128	282	11,410
Special events	-	25,478	-	25,478
Workforce development	-	10,951	-	10,951
Miscellaneous	-	5,841	-	5,841
Total operating expenses	<u>7,730,329</u>	<u>1,746,574</u>	<u>603,702</u>	<u>10,080,605</u>
Operating income (loss)	<u>740,877</u>	<u>1,558,251</u>	<u>(466,482)</u>	<u>1,832,646</u>
Non-operating revenues (expenses)				
Interest and investment earnings	153,752	32,771	5	186,528
Appropriations from the City of Auburn	-	15,119,990	150,321	15,270,311
Interest and fiscal charges	(591,206)	(2,478,948)	(946)	(3,071,100)
Gain/loss on disposal of assets	2,964	74,445	-	77,409
Total non-operating revenues (expenses)	<u>(434,490)</u>	<u>12,748,258</u>	<u>149,380</u>	<u>12,463,148</u>
Income (loss) before other revenues, expenses, gains, losses, and transfers	<u>306,387</u>	<u>14,306,509</u>	<u>(317,102)</u>	<u>14,295,794</u>
Capital contributions				
From the City of Auburn	-	-	17,435	17,435
From other agencies	-	214,415	-	214,415
From developers	421,680	915,160	-	1,336,840
From access fees	415,200	-	-	415,200
Total capital contributions	<u>836,880</u>	<u>1,129,575</u>	<u>17,435</u>	<u>1,983,890</u>
Extraordinary items				
Loss from extinguishment of debt	-	(331,238)	-	(331,238)
Change in net assets	1,143,267	15,104,846	(299,667)	15,948,446
Net assets--beginning of year	<u>37,614,696</u>	<u>19,754,032</u>	<u>6,610,380</u>	<u>63,979,108</u>
Net assets--end of year	<u>38,757,963</u>	<u>34,858,878</u>	<u>6,310,713</u>	<u>79,927,554</u>

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



City of Auburn



City of Auburn, Alabama

Guide to Notes to the Financial Statements

September 30, 2010

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City of Auburn, Alabama

Guide to Notes to the Financial Statements

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CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2010

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

The City of Auburn was incorporated February 2, 1839. The City operates under the Council-Manager form of government and provides the following services: public safety (police, fire, emergency communications and codes enforcement), solid waste collection and recycling, recreation, library, planning and zoning, public improvements, sanitary sewer, economic development, and general administrative services.

The accounting policies of the City of Auburn conform to generally accepted accounting principles in the United States of America (GAAP) applicable to municipal governments as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative literature. The following is a summary of the most significant policies:

- A. Reporting Entity** - As required by generally accepted accounting principles, the financial statements present the City of Auburn (the primary government) and its component units. The component units include organizations that are financially accountable to the City's executive or legislative branches (the Mayor or the Council, respectively) and other organizations for which the nature and significance of their relationships with the primary government are such that their exclusion could cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The City has no blended component units.

**DISCRETELY PRESENTED COMPONENT UNITS**

The component unit columns in the government-wide financial statements include the financial data of the City's five discretely presented component units. These organizations are legally separate from the City and are included in the reporting entity because the primary government is financially accountable for the component unit. The component unit major fund statements reflect these discretely presented component units.

**City of Auburn Board of Education**

The City Council appoints all members of the Board of Education. The City has assumed an obligation to provide financial support to the Board by consistently appropriating large amounts in excess of property taxes legally restricted for school purposes. Furthermore, the City has authority to levy taxes and issue debt on behalf of the Board of Education, which cannot perform these functions on its own. The Board of Education is presented as a governmental fund type or governmental-type activity.

**City of Auburn Water Works Board**

The City Council appoints all members of the Water Works Board. A financial benefit relationship exists between the City and the Water Works Board by virtue of the fact that the City is legally entitled to the Water Board's resources after the Board's indebtedness is retired. In addition, the City and the Water Works Board are parties to an exchange of services agreement which provides that the City will supply management services to the Water Works Board. In exchange, the Water Works Board bills and collects service charges for the City's sewer and solid waste services. The Water Works Board is presented as a proprietary fund type or business-type activity.

**City of Auburn Industrial Development Board**

The City Council appoints all members of the Industrial Development Board and has charged the Board with conducting the City's industrial development efforts on behalf of the City Council. The Board acts as an extension of the City Council for achieving the Council's goals to enhance the City's tax base and to provide opportunities for full employment to its citizens. The City's day-to-day industrial development activities are conducted by its Economic Development Department, which is staffed by City employees. The Economic Development Department functions as liaison between the Council and the Board.

Conveyances of any City-owned real properties to the Industrial Development Board include legally binding restrictive covenants that prohibit the Board from conveying any land held in the Board's name without first obtaining the Council's consent in the form of a duly passed City Council Resolution. These restrictive covenants are designed to give the City Council ultimate control over the types of businesses that locate in the City's industrial parks.

The Council exercises a very active role in the industrial development process and has made it its priority to direct this process that has such a significant impact on the community's quality of life. The Council exercises significant influence over the Board's budgetary adoption requests and revisions. The City is the Board's primary source of operating funds, including funds for

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

SEPTEMBER 30, 2010

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

acquisition of real property. The City has responsibility for funding deficits and operating deficiencies of the Board. The Industrial Development Board is presented as a proprietary fund type or business-type activity.

**City of Auburn Public Park and Recreation Board**

In October of 1990, the Auburn City Council authorized the establishment of a Park and Recreation Board, primarily for the purpose of advising the Council concerning proposed recreation projects and to acquire such recreation facilities as may be deemed to be in the public interest.

All three Board members are appointed by the City Council, which maintains a significant degree of control over the Board's officials. The City exercises total control over budgetary adoption requests and revisions and has responsibility for funding deficits and operating deficiencies of the Board. The Public Park and Recreation Board is a proprietary fund type or business-type activity.

**Commercial Development Authority of the City of Auburn**

On August 12, 2004, the Commercial Development Authority of the City of Auburn was incorporated. The City Council appoints all members of the Authority and has charged the Authority with conducting the City's commercial development efforts on behalf of the City Council. The Authority acts as a financing conduit to facilitate the recruitment of commercial projects to the City. Daily commercial development activities are conducted by the City's Economic Development Department, and the Department acts as a liaison between the Commercial Development Authority and the City Council.

The City is the Authority's primary source of operating funds. The City has responsibility for funding deficits and operating deficiencies of the Authority and City Council exercises significant influence over the Authority's actions. The Commercial Development Authority of the City of Auburn is presented as a proprietary fund type or business-type activity.

Complete financial statements of the individual component units can be obtained from the following locations or can be requested from the City's Finance Director. The City of Auburn Public Park and Recreation Board and the Commercial Development Authority do not prepare separately issued financial statements.

Auburn Board of Education  
855 East Samford Avenue  
Auburn, Alabama 36830

City of Auburn Water Works Board  
1501 West Samford Avenue  
Auburn, Alabama 36832

City of Auburn Industrial Development Board  
144 Tichenor Avenue  
Auburn, Alabama 36830

**RELATED ORGANIZATIONS**

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The following organization is a related organization that is excluded from the reporting entity:

**City of Auburn Housing Authority**

The governing officials are appointed by the Mayor of the City; however, the City does not maintain a significant degree of oversight with respect to the performance of the Authority's officials. The City does not have any influence over the Authority's annual budget. The City does not have any responsibility to fund deficits or to secure any outstanding debt of the Housing Authority.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****JOINT VENTURE**

The City is a participant in one joint venture in which it retains an ongoing financial interest and an ongoing financial responsibility.

**Indian Pines Golf Course Venture**

The City is a party to a joint venture agreement with the City of Opelika, Alabama, to own and operate the Indian Pines Golf Course. The joint venture agreement, dated October 1, 1976, required equal capital contributions from both cities and gave each city a 50% share in the venture's net profits and losses. The agreement also provides that each City has a responsibility for 50% of golf course debts. The City of Auburn's initial capital contribution of \$589,200 was used to purchase the land and buildings, which are titled to the two cities as tenants in common. In July, 2005, the clubhouse was destroyed by fire. Insurance proceeds were received, and in fiscal year 2006, the two cities appropriated the insurance proceeds to the Indian Pines Recreation Authority to assist in the construction of a new clubhouse. As of September 30, 2010, the City's remaining net investment in the Indian Pines Golf Course is \$503,300.

The joint venture agreement provided that management decisions shall be made by mutual agreement of the two cities. The cities have leased the Indian Pines Golf Course to the Indian Pines Recreation Authority, a jointly governed organization (see discussion below). The lease expired September 30, 1979, but, by a provision in the lease, the Authority continues to operate the golf course on a month-to-month basis with the lease terms continuing in force.

Complete financial statements of the Indian Pines Recreation Authority, Inc. can be obtained from:

Indian Pines Golf Course  
900 Country Club Lane  
Auburn, Alabama 36830

**JOINTLY GOVERNED ORGANIZATIONS**

The City, in conjunction with other governments, has created the following organizations that are excluded from the City's reporting entity. These organizations are not joint ventures because the City does not retain an ongoing financial interest or an ongoing financial responsibility.

**Indian Pines Recreation Authority**

The Authority is a corporation created to operate the Indian Pines Golf Course which is owned under a joint venture agreement between the City of Auburn and the City of Opelika (see above). The Authority has a five member board of directors; two each are selected by the City of Auburn and the City of Opelika and the fifth member is selected by the four members appointed by the cities. A lease agreement between the Authority and the two cities authorizes the Authority to operate and maintain the golf course. The City does not provide any funding to the Indian Pines Recreation Authority.

Summary financial information for the Indian Pines Recreation Authority as of and for the year ended September 30, 2010, is as follows:

Total assets (net of accumulated depreciation on Capital assets)	\$ 1,625,233
Total liabilities	<u>444,276</u>
Total net assets	<u>\$ 1,180,957</u>
Total revenues	\$ 934,038
Total expenses	(1,069,120)
Other revenues	2,700
Other expenses	<u>(18,354)</u>
Net decrease in net assets	<u>\$ (150,736)</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

The Authority had a note payable to the City with a balance of \$337,174 as of September 30, 2010. All other liabilities were current liabilities consisting of accounts payable, accrued payroll and payroll taxes, and deferred revenue and other accrued liabilities totaling \$107,102. The note has been included in the City's financial statements as an advance to other agency.

**Lee-Russell Council of Governments**

Two of the ten members of the Board of Directors of the Council represent the City of Auburn. Generally, the Mayor and a City Council member appointed by the City Council are Auburn's representatives on the Council of Governments. Other member governing bodies, each having two representatives on the board, are the City of Opelika, Lee County, the City of Phenix City, and Russell County.

The Council of Governments provides transportation services, governmental planning services and services to the aging in Lee and Russell counties, which area includes the City of Auburn.

The Council's activities are funded in part by appropriations from its member governmental units. The Auburn City Council controls the amount of Auburn's appropriation to the Council of Governments, but cannot exert significant influence over the Council of Government's financial activities, including approval of the Council of Government's budget, due to a lack of majority representation on the Board of Directors.

While the City of Auburn does not have explicit responsibility for any of the Council of Government's debts, there could be a perception that the City would be morally responsible for 20% of any such debts. There are no special financing arrangements between the City and the Council of Governments.

**East Alabama Regional Solid Waste Disposal Authority**

Voting members of the Authority are appointed by the member governing bodies with the number of members appointed by each governing body based on its population. Member governing bodies include, in addition to the City of Auburn, the following cities: Opelika, Dadeville, Phenix City, Tuskegee, Lanett, Lafayette, and Valley; and counties: Lee, Russell, Chambers, and Tallapoosa. Of the total of 28, the City of Auburn appoints four (14%); consequently, Auburn does not exercise a significant degree of oversight over the Authority.

The purpose of the Authority is to provide solid waste disposal services for member governments either by contract with a commercial provider or by obtaining and operating its own landfill. The Authority is funded by requesting an annual allocation from each member government, the amount of which is based on each member's pro rata (based on population) share of a proposed budget. Member governments have the right to adjust the amount of their allocations either upward or downward. The annual allocation is paid from the City of Auburn's General Fund.

At present, the member governments have no legal responsibility for Authority debt. The Authority has not yet issued any bonded debt; however, it is possible that if bonds are issued, the bond indenture would require the member governments to be legally responsible for at least their pro rata share of the debt principal and interest.

**East Alabama Mental Health - Mental Retardation Board**

The Board consists of 33 members, of which three are appointed by the City. The City provides an annual appropriation to the Board; however, the East Alabama Mental Health - Mental Retardation Board is not dependent on the City's funding.

**Lee County Youth Development Center**

The City appoints four of the twelve board members of the Center. The City provides an annual appropriation to the Center; however, the Lee County Youth Development Center is not dependent on the City's funding.

**East Alabama Medical Center**

The Hospital Board consists of nine members, all appointed by the Lee County Commission. Three of these appointments are made based on the recommendation of the City Council. The City provides an annual appropriation to the Center for ambulance service; however, the East Alabama Medical Center is not dependent on the City's funding.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

**Auburn-Opelika Tourism Bureau**

The Mayor appoints one of the five board members of the Bureau. The City appropriates 1/7<sup>th</sup> of lodging tax collections to the Bureau on a monthly basis; however, the Auburn-Opelika Tourism Bureau is not dependent on the City's funding.

- B. **Basis of Presentation** - The financial transactions of the City are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into fund types and broad fund categories as follows:

**GOVERNMENTAL FUNDS**

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund also accounts for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Projects Funds - The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

**PROPRIETARY FUNDS**

The Proprietary Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 activity. The principal operating revenues for the sewer revenue fund, the solid waste management fund, and discretely presented component units are charges to customers for sales and services. Operating expenses include cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**FIDUCIARY FUNDS**

Fiduciary funds are used to report assets held in a trust capacity for others and therefore, cannot be used to support the City's programs.

The Youth Athletic Associations' Private-Purpose Trust Fund accounts for the revenues and costs of independent associations supporting youth athletic programs. These assets are held in a trust capacity for the various associations and cannot be used to support the City's programs.

**MAJOR FUNDS**

The new model, as defined in Statement No. 34, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. The nonmajor funds are combined in a single column in the fund financial statements.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

SEPTEMBER 30, 2010

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

The City reports the following major governmental funds:

The General Fund (See note above).

The Special School Tax Fund, a special revenue fund, accounts for sixteen mills ad valorem tax revenues used to pay principal and interest on bonds issued for school purposes and used in furtherance of education. The Special School Tax Fund as presented in this report includes the Special Additional School Tax Fund, which was reported as a separate fund in previous years.

The City reports the following major proprietary fund:

The Sewer Revenue Fund, a proprietary fund, accounts for revenues and costs related to the provision of sewer services.

**C. Basis of Accounting** - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements, and the Proprietary, Fiduciary and Component Unit Fund Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis. Fiduciary activities of the City are not included in these statements.

Accrual Basis- Revenues are recognized when earned and expenses are recognized when incurred. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Program revenues include revenues from fines and forfeitures, licenses and permit fees, special assessment taxes, and charges for services. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. As a rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Modified Accrual Basis- All of the governmental funds of the primary government are accounted for using the modified accrual basis of accounting. Their revenues are recorded when they are susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City does not accrue property taxes because those revenues are budgeted to finance the fiscal year in which they are scheduled to be received. Each fiscal year's budget and actual financial statements include twelve months' property tax revenue.

The City defines the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be 60 days. The specific types of major revenue sources that are susceptible to accrual include sales and use taxes, occupational license fees, lodging taxes, rental and leasing taxes, gasoline taxes, and fines.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, with the following exceptions that are in conformity with generally accepted accounting principles: general long-term obligations' principal and interest are reported only when due; inventory costs are reported in the period consumed, rather than in the period purchased; and costs of accumulated unpaid vacation and sick leave are reported in the period due and payable rather than in the period earned by employees.



## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED****D. Reconciliation of Government-Wide and Fund Financial Statements****1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental 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, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$142,602,413 difference are as follows:

Bonds and warrants payable	\$ 139,143,374
Less: Deferred amount on refunding	(2,127,806)
Less: Deferred charge for issuance costs	(895,542)
Add: Issuance premium	3,266,261
Compensated absences	2,599,496
Claims and judgments	341,469
Landfill closure and post-closure care	175,000
Other postemployment benefits	<u>100,161</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 142,602,413</u>

**2. 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 estimated useful lives and reported as depreciation expense." The details of this \$5,851,533 difference are as follows:

Capital outlay	\$ 10,721,542
Depreciation expense	<u>(4,870,009)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 5,851,533</u>

Another element of that reconciliation states that "The net effect of various transactions involving capital assets (i.e. sales, trade-ins, and donations) is to (increase) decrease net assets." The details of this \$1,609,793 difference are as follows:

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources:

Donations from outside parties	\$ 1,771,927
--------------------------------	--------------

In the statement of activities, only the gain or loss on the disposal of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold or disposed of:

Net loss on disposed assets	<u>(162,134)</u>
-----------------------------	------------------

Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*

\$ 1,609,793

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

Another element of that reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes 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, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$5,171,243 difference are as follows:

Debt issued or incurred:	
General obligation warrants	\$ (42,175,000)
Add: issue premium	(2,313,256)
Less: issue costs	243,742
Principal repayments	9,989,029
Payment to escrow agent for refunding	<u>29,084,242</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>\$ (5,171,243)</u>

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 \$56,834 difference are as follows:

Compensated absences	\$ (4,913)
Accrued interest	(38,667)
Other long-term liabilities	45,360
Other post employment benefits	(30,632)
Amortization of prepaid expenses	(27,345)
Amortization of deferred amount on refunding	(59,059)
Amortization of issuance costs	(48,911)
Amortization of bond premiums	<u>107,333</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>\$ (56,834)</u>

**E. Budgets and Budgetary Accounting** - The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed budget (operating and capital) prior to the beginning of each biennial period. The proposed budget is for two one-year periods, each beginning on October 1 and ending on the following September 30.
2. Prior to September 30, the budget is legally enacted through passage of an ordinance. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
3. Annual budgets were legally adopted for the 2010 fiscal year for the General Fund, Seven-Cent State Gasoline Tax Fund, Four-Cent State Gasoline Tax Fund, Special School Tax Fund, Public Safety Substance Abuse Fund, and the Debt Service Fund.
4. Budgets for the General, Special Revenue, and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Each department head is responsible to the City Manager for his department's overall budgetary performance. Budgeted amounts may be transferred among line items within the department; however, any increase in total departmental appropriations must be justified to the City Manager and approved by the City Council. The legal level of budgetary control is the individual department.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

6. Budgeted amounts are as originally adopted, or as amended by the City Council. Individual amendments were material in relation to the original appropriations. All budget amounts presented in the accompanying supplemental information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year).
7. All budgetary appropriations expire at fiscal year-end. Encumbrances of departments that did not exceed their departmental budgets may be added to the subsequent year's appropriations at the time of the mid-biennium budget review, if the City Manager so recommends and if the Council approves.
8. Excess of expenditures over appropriations: In the General Fund, capital outlay of \$4,437,680 exceeded appropriations of \$3,163,728.

- F. Cash and Cash Equivalents** - Cash and cash equivalents of the City of Auburn primary government include demand deposits as well as all highly liquid investments with a maturity of three months or less when purchased.

Cash and cash equivalents of the Board of Education include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents of the Water Works Board include demand deposits as well as all highly liquid investments with a maturity of three months or less when purchased.

Cash and cash equivalents of the Industrial Development Board include cash on hand, demand deposits and highly liquid investments with a maturity of three months or less when purchased. Also included is restricted cash.

Cash and cash equivalents of the Public Park and Recreation Board include demand deposits as well as all highly liquid investments with a maturity of three months or less when purchased.

Cash and cash equivalents of the Commercial Development Authority include demand deposits as well as all highly liquid investments with a maturity of three months or less when purchased.

- G. Investments** - Investments of the City of Auburn and its component units are stated at fair value, except for nonnegotiable certificates of deposit with redemption terms that do not consider market rates and money market investments which include short-term, highly liquid debt instruments, which are reported at cost or amortized cost (See Note 4).

State statutes authorize the City and its component units to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; U.S. dollar denominated deposit accounts and certificates of deposit; pre-funded public obligations as defined by state law; and interests in any common trust fund or other collective investment bank, trust company or savings and loan association. The City of Auburn has invested in interest-bearing demand deposits and certificates of deposit. The Board of Education usually only invests in certificates of deposit. The Water Works Board is invested in interest-bearing demand deposits, certificates of deposit and mutual funds comprised of 100% U.S. Treasury securities. The Industrial Development Board has invested in certificates of deposit and interest-bearing demand deposits (see Note 4).

- H. Restricted Assets** - Certain debt proceeds of the City's enterprise funds and component units, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants and they are maintained in separate bank accounts.

- I. Accounts Receivable** – Revenues receivable are reflected net of an allowance for doubtful accounts. For the General Fund, the Sewer Fund, Solid Waste Management Fund and the Water Works Board component unit, the amount of the allowance is equal to accounts receivable in excess of 60 days past due.

- J. Inventories** - Inventories of the City of Auburn primary government are valued at first-in, first-out cost and consist of gasoline, parts, and supplies held for consumption. The amount of such inventories is recorded as an asset in the General Fund, and the cost of inventories is recorded as an expenditure at the time used. In the Governmental Fund Financial Statements, the General Fund fund balance is reserved to indicate that assets equal to inventories are not available for future appropriation.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

Inventories of the Board of Education are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Fund balances are reserved to indicate that assets equal to inventories are not available for future appropriation.

Inventories of the Water Works Board are stated at the lower of cost or market value. Market is determined on the basis of replacement cost. Inventories consist of expendable supplies held for future consumption or capitalization.

- K. **Capital Assets** - Capital assets, which include property, plant and 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. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at actual cost (or estimated historical cost if actual cost is not available) 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the City, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	10-50
Communication equipment	5-10
Heavy equipment	3-10
Office equipment	5-10
Small tools and equipment	3-10
Vehicles	3-10
Infrastructure	25-50

Beginning with the fiscal year ending September 30, 2003, the City has capitalized its public domain (“infrastructure”) assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems that have been placed in service since October 1, 2002. Where actual historical costs and construction dates were identified through a review of City records, those dates and costs were utilized.

Where construction dates were unknown, estimated effective dates were assigned to assets based on discussions with City personnel; streets, sidewalks, and drainage assets without known construction dates were assumed to have an effective age of 30 years. Where actual historical costs of assets were unavailable, historical costs were assigned thereto based on a trending analysis using current replacement costs.

Replacement costs were calculated using standard construction costs as reported in the Marshall & Swift Valuation Service, a construction pricing service updated monthly. These replacement costs were reverse-trended to estimated acquisition dates using trend factors published by Marshall & Swift Valuation Service. All depreciation calculations are based on the straight-line method, with a mid-month convention in the year of acquisition and the final year. No salvage values were considered.

Beginning with the fiscal year ending September 30, 2010, the City has capitalized its intangible assets consisting of easements and computer software, as required by GASB Statement 51 – Accounting and Financial Reporting for Intangible Assets. The City has valued its easements at fifty percent of the square footage of the easement multiplied by the average value for commercial and residential property within the City of Auburn as provided by the Lee County Appraisers office. The City recorded \$120,000 of easements during fiscal year 2010, all of which is included in the total land value as listed in Note 10. The City has valued its website, considered internally generated software, at three hundred percent of the salary and benefits of the City employee responsible for developing the website. The website was valued at \$200,000, all of which is included in the total office equipment value as listed in Note 10 and is being amortized over three years.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED****L. Risk Financing****CITY OF AUBURN PRIMARY GOVERNMENT**

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions, natural disasters, and torts related to law enforcement. These risks are covered by commercial insurance purchased from independent third parties. There have been no significant reductions in insurance coverage from coverage in the prior year. Also, no settlements have exceeded insurance coverage in the past three fiscal years.

The City has chosen to retain the risk of loss for risks associated with its employees' health insurance plan. Premiums are charged to other funds and component units that account for employees eligible for coverage by the plan. Total premiums allocated to the participating entities are calculated using trends in actual claims experience. Employees may also be charged for extended benefits at their option. Medical claims exceeding \$65,000 per covered individual, per year, are covered through a private insurance carrier after satisfaction of a \$25,000 aggregating specific deductible. Liabilities associated with the plan are recorded in the General Fund when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

The City is a self-insurer under the Alabama Workmen's Compensation Law for its workmen's compensation exposure. Workmen's compensation claims exceeding \$300,000 (\$400,000 for police and fire employees) in an accident period are covered through a private insurance carrier. Risk management activities relating to workmen's compensation are accounted for by the City in the General Fund. Liabilities include an amount for claims that have been incurred but not reported and are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The City purchases commercial insurance from independent third parties to cover claims arising from general liability torts. These risks are accounted for in the City's General Fund. The total liability for unpaid claims consists of claims reported at the balance sheet date, plus estimated claims incurred but not reported for both insured and uninsured risks. These estimates are based primarily upon historical trends.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Settled claims in the period since the purchase of insurance have not exceeded the commercial insurance coverage, and there have been no significant reductions in insurance coverage from coverage in the prior year.

**COMPONENT UNITS**

**Board of Education** - The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance is purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds and its transportation fleet. Settled claims in the past three years have not exceeded the commercial insurance coverage. Also, there have been no significant reductions in insurance coverage from the prior year.

Employee health insurance is provided through the Alabama Retired Education Employees' Health Care Trust, administered by the Public Education Employees' Health Insurance Board (PEEHIB). The fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining balance.

The Auburn Board of Education does not have insurance coverage for job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the *Code of Alabama* 1975, Section 16-1-1831(d). Any unreimbursed medical expenses and costs that the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustments. The State Board of Adjustments is a state agency with which employees can

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board of Adjustments determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

**Water Works Board** - For risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and general liability torts; the Board has purchased commercial insurance from independent third parties. There have been no significant reductions in insurance coverage from coverage in the prior year, and no settlements have exceeded insurance coverage in the past three fiscal years.

The Water Works Board employees are covered under the City's health insurance plan. Premiums are charged to the Board and are calculated using trends in actual claims experience, along with overall program costs, including third-party administration and reinsurance. Employees may also be charged for additional benefits through supplemental insurance programs. Medical claims exceeding \$65,000 per covered individual, per year, are covered through a private insurance carrier after satisfaction of a \$25,000 aggregating specific deductible.

To insure against risk of loss relating to workmen's compensation claims, the Board has purchased workmen's compensation insurance from independent third parties.

**Industrial Development Board** - The Board is exposed to various risks of loss related to damage to and destruction of assets, and errors and omissions. The Board is a component unit of the City of Auburn and is covered by commercial insurance purchased by the City from independent third parties to cover those types of risks.

There has been no significant reduction in insurance coverage from coverage in the prior year. Also, for the past three fiscal years, no settlements have exceeded insurance coverage.

The City purchases commercial insurance from independent third parties to cover claims arising from general liability torts. The Industrial Development Board is covered by this insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Board had no liability for unpaid claims at September 30, 2010.

**Public Park and Recreation Board** - The Board is exposed to various risks of loss related to errors and omissions. The Board is a component unit of the City of Auburn and is covered by commercial insurance purchased by the City from independent third parties to cover those types of risks.

For risk of loss from claims arising from torts (general liability), the Board is covered by the City's commercial insurance purchased from third parties. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Board had no liability for unpaid claims at September 30, 2010. Settled claims in the period since the purchase of insurance have not exceeded the insurance coverage, and there have been no significant reductions in insurance coverage from coverage in the prior year.

**Commercial Development Authority** - The Authority is exposed to various risks of loss related to errors and omissions. The Authority is a component unit of the City of Auburn and is covered by commercial insurance purchased by the City from independent third parties to cover those types of risks.

For risk of loss from claims arising from torts (general liability), the Authority is covered by the City's commercial insurance purchased from third parties. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Authority had no liability for unpaid claims at September 30, 2010. Settled claims in the period since the purchase of insurance have not exceeded the insurance coverage, and there have been no significant reductions in insurance coverage from coverage in the prior year.

**M. 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.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

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. Premiums received on debt issuances are 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.

**N. Compensated Absences****CITY OF AUBURN PRIMARY GOVERNMENT**

Effective September 23, 2003, City employees may accumulate up to twenty days of annual leave. Annual leave is earned at the rate of one day per month and is paid upon separation from City service. Employees with ten years service receive an additional three days annual leave on their anniversary date and employees with fifteen years service receive an additional five days annual leave on their anniversary date. The liability for compensated absences attributable to the City's governmental funds is recorded in the government-wide statements. The amount attributable to the business-type activities is charged to expense with a corresponding liability established in the government-wide statements as well as the applicable business-type funds.

City employees can accumulate an unlimited number of sick leave days. Effective April 5, 1994, all new employees may, upon retirement, apply their entire accrued sick leave balance to retirement service credit with the Retirement Systems of Alabama. Except for firefighters, employees hired prior to that date may, upon retirement, elect to apply their entire balance to retirement service credit or to be paid for one-half of their accumulated sick leave. Firefighters hired prior to February 3, 1989, may, upon retirement, elect to apply their entire balance to retirement service credit or to be paid for one-half of their sick leave earned during the first fifteen years of service plus all of their sick leave earned after fifteen years. The City estimates its accrued sick leave liability using the vesting method, whereby the estimated liability is based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

**COMPONENT UNITS**

**Board of Education** – Non-tenured certified and support personnel are provided two state days and one local personal leave day per year and tenured personnel are provided two state days and three local personal leave days per year. All personnel may choose to convert personal leave days to sick leave days at the end of the school year. Only certified employees may choose to be paid, at the Board's substitute rate, for up to two state days of unused personal leave. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Professional, clerical and office personnel with twelve (12) month positions earn ten (10) days of vacation per year. Because no extra compensation in lieu of vacation is allowed and terminal leave cannot exceed the employee's contract, no liability is recorded on the financial statements.

Certified and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may convert their accrued sick leave as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

**Water Works Board** - The Board allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods. Upon termination of employment, an employee receives payment of accumulated vacation hours at current wage rates. Upon retirement with at least ten years of service, an employee can receive payment of one-half of accumulated sick-leave hours if hired before April 5, 1994. All employees may elect to apply unused accumulated sick-leave hours toward their retirement.

- O. Postretirement Benefits** - Upon retirement, retired employees of the City of Auburn may elect to continue their group health care benefits. The entire cost of the group health insurance premiums must be borne by the retiree. No life insurance benefits are provided to retirees. Specific information related to the City's postemployment benefits plan is included in Note 15.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

**P. Fund Balance** - In the fund financial statements, portions of governmental funds' fund balances are separately identified as reserves; such reservations indicate the amount of the fund's net assets which are not appropriable for expenditure or which are legally segregated for a specific future use.

1. Reserve for encumbrances indicates that a portion of fund balance has been segregated for expenditure upon vendor performance. Amounts reserved for encumbrances represent material commitments for goods and services which were ordered at September 30, 2010, but which had not been received or completed at that date. Encumbrances are not included as expenditures in the governmental funds' operating statements.
2. Reserve for inventories indicates that the portion of fund balance represented by inventories is not available for appropriation.
3. Reserve for advances to other funds recognizes that advances to other funds constitute loans to other funds which are not expected to be repaid within one year of the balance sheet date and separately identifies that amount as a portion of fund balance which is not appropriable.
4. Reserve for debt service indicates the amount of fund balance which is legally segregated for payment of debt service expenditures.
5. Reserve for property for resale indicates the portion of fund balances that are not available for appropriation until the property is sold.
6. Reserve for prepaid items indicates the portion of fund balance not available for appropriation because prepaid items do not represent available expendable financial resources.

Designations of unreserved fund balance represent amounts that have been designated by City officials to indicate plans or commitments for those resources in a future period. Designations of fund balances are made at the discretion of the City, reflecting management's intent to expend the resources in the designated manner. Designations of fund balance represent management plans that are subject to change. In contrast, reserves, as discussed in the preceding section, are statutory requirements or reflect commitments already made.

**Q. Net Assets** - The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is the outstanding capital debt less any unspent debt proceeds (held as liquid assets) and any associated unamortized cost.

Restricted Net Assets - represent liquid assets which have third party (statutory, bond covenant or granting agency) limitations on their use. Certain enterprise funds and component units have assets that are restricted for construction that is being funded with long-term debt and therefore, there are no net restricted assets for these amounts. The City would typically use restricted net assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

Unrestricted Net Assets - represent unrestricted liquid assets. While City management may have categorized and segmented portions for various purposes, the City Council has the unrestricted authority to revisit or alter these managerial decisions.

**R. Interfund Transactions** - Interfund transactions are either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services, deemed to be reasonably equivalent in value, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are presented as transfers. Transfers within governmental activities or within business-type activities are eliminated upon consolidation in the government-wide statements.

Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.



**NOTES TO THE BASIC FINANCIAL STATEMENTS**

SEPTEMBER 30, 2010

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

Three types of interfund transactions may be accounted for in the affected fund's operating statements.

1. Interfund receivables and payables - consist of temporary loans between funds which are expected to be repaid within one year. These short-term interfund loans are captioned "Due from other funds" and "Due to other funds" in the various funds' balance sheets. See Note 20.
2. Interfund advances - consist of longer term loans between funds, which are not expected to be repaid within one year. These longer term interfund loans are captioned "Advances to other funds" and "Advances from other funds" in the various funds' balance sheets. Within the governmental fund financial statements, such amounts are equally offset by a fund balance reserve that indicates they do not constitute available spendable resources. See Note 20.
3. Interfund transfers - consist of routine, recurring transfers between funds, other than interfund loans or advances, fund reimbursements or payments between the City and component units. Interfund transfers are accounted for separately from fund revenues and expenses. See Note 21.

Resource flows (except those that affect the statement of net assets/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions - that is, as revenues and expenses. Resource flows between the primary government and blended component units are classified as internal activity in the financial statements. Payments to component units are primarily subsidized funding for debt service payments and other recurring operating expenses incurred by the component units.

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

**NOTE 2. DEPOSITS IN FINANCIAL INSTITUTIONS**

As of September 30, 2010, all deposits of the City of Auburn primary government (except for its fiduciary funds), the Auburn Board of Education, the Water Works Board, the Industrial Development Board, the Public Park and Recreation Board, and the Commercial Development Authority are held in certified qualified public depositories, and as such, are deemed fully insured.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 3. CASH AND CASH EQUIVALENTS**

Total cash and cash equivalents of the City contain restricted and unrestricted cash (nonpooled) as well as a cash pool that is available for use by all funds of the primary government and the Industrial Development Board component unit. Interest earned from deposits made with pooled cash is allocated to each of the funds based on the fund's equity balance. The composition of cash and cash equivalents at September 30, 2010, is as follows:

	Equity in Pooled Funds	Nonpooled Funds		Total Cash and Cash Equivalents
		Unrestricted	Restricted	
Primary Government:				
Governmental activities:				
General Fund	\$ 10,857,515	\$ 1,717,895	\$ 170,519	\$ 12,745,929
Special School Tax Fund	4,092,985	-	28	4,093,013
Other Governmental Funds	6,767,563	-	-	6,767,563
Total governmental activities	<u>21,718,063</u>	<u>1,717,895</u>	<u>170,547</u>	<u>23,606,505</u>
Business-type activities:				
Sewer Revenue Fund	2,902,545	-	-	2,902,545
Waste Management Fund	29,173	-	-	29,173
Total business-type activities	<u>2,931,718</u>	<u>-</u>	<u>-</u>	<u>2,931,718</u>
Total primary government	<u>24,649,781</u>	<u>1,717,895</u>	<u>170,547</u>	<u>26,538,223</u>
Component Units:				
Board of Education	-	11,607,301	1,657,368	13,264,669
Water Works Board	-	3,716,652	7,092,871	10,809,523
Industrial Development Board	148,321	1,045,130	172,149	1,365,600
Public Park and Recreation Board	-	150	-	150
Total component units	<u>148,321</u>	<u>16,369,233</u>	<u>8,922,388</u>	<u>25,439,942</u>
Total reporting entity	<u>\$ 24,798,102</u>	<u>\$ 18,087,128</u>	<u>\$ 9,092,935</u>	<u>\$ 51,978,165</u>

**NOTE 4. INVESTMENTS****CITY OF AUBURN PRIMARY GOVERNMENT**

The cash and cash equivalents consist solely of cash, not securities or other investments; therefore, the City has no "credit risk" or "concentration risk" associated with these deposits as described in *GASB Statement No. 40 – Deposit and Investment Risk Disclosures*. Also, since the City's deposits are held by a certified qualified public depository under the SAFE program, its deposits are not subject to "custodial credit risk".

**COMPONENT UNITS****Board of Education**

Investments of the Board consist of nonnegotiable, interest bearing demand deposits. They are carried at cost, which equals market value.

At September 30, 2010, the Board of Education's restricted cash and investments were composed of cash restricted for the acquisition of capital assets, all of which is insured by the SAFE Program:

	Carrying Value	Fair Value	Maturities
Cash - Capital Projects Fund	<u>\$ 1,657,368</u>	<u>\$ 1,657,368</u>	n/a

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 4. INVESTMENTS – CONTINUED**

*Interest Rate Risk* – The Board 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.

**Water Works Board**

At September 30, 2010, the Water Works Board's restricted cash and investments were comprised of the following:

	<u>Carrying Value</u>	<u>Fair Value</u>
Cash (Access Fee Account) The Bank of New York Mellon	\$ 2,218,745	\$ 2,218,745
Money Market Fund	<u>4,874,126</u>	<u>4,874,126</u>
Total restricted cash	7,092,871	7,092,871
U.S. Treasury Bonds	<u>1,594,287</u>	<u>1,594,287</u>
Total restricted cash and investments	<u>\$ 8,687,158</u>	<u>\$ 8,687,158</u>

The Bank of New York Mellon Money Market Fund listed above is an open-end mutual fund comprised of 100% U.S. Treasury securities. The fair value of the units in the fund equals the carrying value. The cost of the U.S. Treasury Bonds listed above is \$1,551,818.

Restricted investments are held by a trustee and are restricted by the terms of a bond indenture to retirement of the bonds or payment of construction costs.

*Interest Rate Risk* – The Board 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.

**Industrial Development Board**

At September 30, 2010, the Industrial Development Board's investments were comprised of the following:

<u>Restricted cash and investments</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Cash (SAFE deposit)		
Restricted for debt service	\$ 112,321	\$ 112,321
Restricted for capital projects	<u>59,827</u>	<u>59,827</u>
Total restricted cash	<u>\$ 172,148</u>	<u>\$ 172,148</u>

The restricted cash is held by a certified qualified public depository under the SAFE program. Cash restricted for debt service is restricted to payment of debt service by the terms of a bond indenture; cash restricted for capital projects was drawn from a construction loan, and is restricted to expenditures related to building expansion costs.

<u>Unrestricted investments</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Maturities</u>
Certificate of deposit	<u>\$ 58,593</u>	<u>\$ 58,593</u>	2011

The above certificate of deposit is held in a certified qualified public depository and is entirely insured.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 5. DERIVATIVE INSTRUMENTS****COMPONENT UNIT****Industrial Development Board**

The fair value balance and notional amount of the Board's derivative instrument outstanding at September 30, 2010, and the change in its fair value for the year then ended as reported in the 2010 financial statements are as follows:

	<u>Changes in Fair Value</u>		<u>Fair Value at 9/30/10</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Cash flow hedge:					
Pay fixed interest rate swap	Deferred outflow	\$ (356,729)	Long term liability	\$ (1,527,770)	\$ 5,460,000

The fair value of the swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Objective and Terms of Hedging Derivative Instrument* – The following summarizes the objective and terms of the Board's hedging derivative instrument outstanding at September 30, 2010, along with the credit rating of the associated counterparty:

Type of Derivative:	Pay-fixed, receive-variable interest rate swap.
Objective:	Hedge of changes in cash flows on the Series 2006-A Taxable Industrial Development Refunding and Improvement Bonds.
Notional Amount:	The swap's notional amount matches the principal amount of the Series 2006-A Bonds. As the principal amount of the bonds declines, the notional amount of the swap also declines. The notional amount as of September 30, 2010 was \$5,460,000.
Effective Date of Derivative:	8/1/2006
Maturity Date of Derivative:	7/1/2022
Terms:	The Board pays the counterparty a fixed payment of 5.87% on the notional amount, and receives a variable payment in return based on the one-month U.S. dollar London Interbank Rate (LIBOR). The variable rate on the bonds is reset weekly by auction.
Counterparty Credit Rating:	A-/Baa1

*Credit Risk* – As of September 30, 2010, the Board is not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Board would be exposed to credit risk in the amount of the swap's fair value. To mitigate the potential for credit risk, if the counterparty's credit rating falls below BBB or the equivalent by two of the major rating agencies, the Board will have the option of terminating the agreement, requesting assignment of the agreement to another counterparty, or requiring that the counterparty provide collateral payable to the Board in the event the counterparty defaults under its obligations.

*Termination Risk* – The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event," under which the swap may be terminated by the Board if the counterparty's credit rating falls below BBB or the equivalent by two of the major rating agencies. The Board or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination, the swap has a negative fair value, the Board would be liable to the counterparty for a payment equal to the swap's fair value or liability amount.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

SEPTEMBER 30, 2010

**NOTE 5. DERIVATIVE INSTRUMENTS – CONTINUED**

*Interest rate Risk* – The Board is exposed to interest rate risk on the interest rate swap. As LIBOR decreases, the Board's net payment on the swap increases.

*Basis Risk* – The swap exposes the Board to basis risk because the variable rate payments received by the Board on the interest rate swap are based on a rate other than interest rates the Board pays on its hedged variable-rate debt, which is remarketed weekly. As of September 30, 2010, the interest rate on the Board's hedged variable-rate debt was 2.00% and LIBOR was .025625%.

*Rollover Risk* – The Board is exposed to rollover risk since the swap matures prior to the maturity of the associated debt. When the swap terminates, the Board will be re-exposed to the risks being hedged by the hedging derivative instrument.

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 6. ACCOUNTS RECEIVABLE**

Receivables as of year end for the government's individual major funds and aggregate nonmajor funds and component units, including applicable allowances for uncollectible accounts are as follows:

	General Fund	Special School Tax Fund	Nonmajor Governmental Funds	Sewer Revenue Fund	Nonmajor Proprietary Fund	Component Units	Total
Receivables:							
Revenues receivable	\$ 7,134,946	\$ 108,940	\$ 51,770	\$ 1,101,995	\$ 470,855	\$ 1,030,340	\$ 9,898,846
Grants receivable	-	-	139,469	-	12,726	-	152,195
Receivable from other governmental units	735,363	-	500,277	-	-	-	1,235,640
Special assessments receivable	25,107	-	-	-	-	-	25,107
Other receivables	477,515	273	32,227	767,605	100	29,537	1,307,257
Gross receivables	8,372,931	109,213	723,743	1,869,600	483,681	1,059,877	12,619,045
Less: allowance for uncollectibles	(2,067,556)	-	-	-	-	(167,914)	(2,235,470)
Net receivables	\$ 6,305,375	\$ 109,213	\$ 723,743	\$ 1,869,600	\$ 483,681	\$ 891,963	\$ 10,383,575

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 7. MORTGAGES AND NOTES RECEIVABLE**

**CITY OF AUBURN PRIMARY GOVERNMENT**

On September 5, 2006, the City entered into a loan agreement with The Indian Pines Recreation Authority, a jointly governed organization with the City of Opelika. The clubhouse at Indian Pines was destroyed by fire in July 2005. Insurance coverage provided \$510,000 for the loss and the City of Auburn provided an additional \$400,000 to finance a portion of the construction costs of the new clubhouse. The terms of the note include monthly payments payable for a period of fourteen years at a fixed interest rate of 5.25%. The balance of the note receivable at September 30, 2010 was \$337,174 and is presented in the financial statements as advances to other agencies. Future payments due under the loan are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 8,500	\$ -	\$ 8,500
2012	12,000	-	12,000
2013	14,343	1,680	16,023
2014	18,027	3,629	21,656
2015	18,575	3,081	21,656
2016	19,133	2,523	21,656
2017	19,722	1,934	21,656
2018	20,322	1,334	21,656
2019	20,940	716	21,656
2020	12,506	126	12,632
	<u>\$ 164,068</u>	<u>\$ 15,023</u>	<u>\$ 179,091</u>

**COMPONENT UNITS**

**Industrial Development Board**

Mortgages and notes receivable consist of the following as of September 30, 2010:

	Balance 10/01/2009	Additions	Reductions	Balance 09/30/2010	Due Within One Year
Mortgages receivable	\$ 166,657	\$ 711	\$ (3,300)	\$ 164,068	\$ 8,500
Notes receivable - ARTF	<u>1,016,089</u>	<u>915,160</u>	<u>(582,584)</u>	<u>1,348,665</u>	<u>199,868</u>
Total	<u>\$ 1,182,746</u>	<u>\$ 915,871</u>	<u>\$ (585,884)</u>	<u>\$ 1,512,733</u>	<u>\$ 208,368</u>

**Mortgages Receivable**

In June, 2006, the Industrial Development Board made a loan to a new company purchasing an existing industry located in one of its industrial parks. The principal amount of the loan was \$200,000 and the loan was secured by a second mortgage on the real property and by a personal guaranty from the owner of the company. During fiscal year 2010, the repayment terms for the mortgage were amended as follows: no interest is charged until May 1, 2013, at which time the interest rate adjusts to three percent per annum; and the maturity date was extended to April 1, 2020. Future payments due under the loan are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 23,981	\$ 17,130	\$ 41,111
2012	25,271	15,840	41,111
2013	26,630	14,481	41,111
2014	28,062	13,049	41,111
2015	29,571	11,540	41,111
2016	31,161	9,950	41,111
2017	32,837	8,274	41,111
2018	34,603	6,508	41,111
2019	36,464	4,647	41,111
2020	38,425	2,686	41,111
2021	30,169	661	30,830
	<u>\$ 337,174</u>	<u>\$ 104,766</u>	<u>\$ 441,940</u>

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 7. MORTGAGES AND NOTES RECEIVABLE – CONTINUED****Notes Receivable – ARTF**

In fiscal year 2007, the Board signed various agreements with the Auburn Research and Technology Foundation (ARTF) to provide financing necessary for ARTF to construct a research park in the City of Auburn. The ARTF signed a project agreement with the State of Alabama whereby the State would provide reimbursement of funds not to exceed \$10 million for the construction of the park. The Board agreed to advance funds to the ARTF to provide financing for construction costs submitted to the State for reimbursement under the project agreement (“current receivable”) and for costs associated with construction of the facility that will not be reimbursed by the State (“non-current receivable”).

The facility site was leased to the Board by Auburn University, the owner of the real property, under the terms of a ground lease (the “ground lease”). During the lease term, the Board owns the facility and all other improvements located on the facility site. When construction of the facility is complete, the Board will sublease the facility and the site to ARTF pursuant to the terms of a sublease agreement (the “sublease”). The sublease provides ARTF with the option to purchase the facility at a purchase price equal to the total obligations owed by ARTF to the Board under the terms of the Construction and Loan Agreement (the “loan agreement”) between the two parties.

Under the terms of the loan agreement, the Board agreed to loan ARTF up to \$10 million. Each advance by the Board to ARTF constitutes an interest bearing loan, with interest calculated on a per annum basis. Interest on the current portion of the receivable is calculated at the rate of interest being earned by the City of Auburn on the funds advanced to the Board and loaned to ARTF. Interest on the noncurrent portion of the receivable is calculated using the one-month London Interbank Offered Rate (LIBOR) plus 0.50%; the rate in effect at September 30, 2010 was .75625%. All amounts received by ARTF under its project agreement with the State are assigned and pledged to the Board as security for the obligations of ARTF under the loan agreement, and are remitted to the Board as soon as practical upon receipt by ARTF. All reimbursements to the Board utilizing funds received under the project agreement are applied entirely to principal advanced under the loan agreement. The total obligations of the ARTF under the loan agreement consist of total amounts advanced by the Board, net of any reimbursements from the ARTF, plus the interest calculated on each advance.

Upon the earlier of (i) the date on which 90% of the rentable space in the facility becomes occupied by tenants or (ii) two years from the date on which a certificate of occupancy is issued for the facility, the entire obligation becomes due and payable, and no further advances will be made by the Board.

The funds needed to enable the Board to make advances under the loan agreement are obtained from the City of Auburn and are recorded by the Board as long-term advances payable to the City. Advances from the City to the Board bear interest at the City’s current rate earned on invested funds. As repayments are received by the Board from the ARTF, they are remitted to the City to reduce the outstanding advances. The balance owed to the City at September 30, 2010 was \$1,148,797 consisting of \$1,097,139 principal and \$51,658 interest.

During the construction period, and until the purchase option is exercised by the ARTF under the sublease, the improvements made on the facility site are titled to the Industrial Development Board. Total construction costs are recorded as Construction In Progress by the Board, and interest is capitalized on the construction costs. As costs are incurred, they are recorded as Notes Receivable from ARTF. The current portion of Notes Receivable from ARTF consists of amounts that will be repaid by ARTF utilizing funds received under the State project agreement. As of September 30, 2010, construction costs totaling \$11,048,922 had been incurred by the Board and interest of \$51,658 had been capitalized in connection with construction. Capital contributions from the ARTF equal to the total costs incurred that will be repaid under the loan agreement were recorded in the amounts of \$679,613 for fiscal year 2007, \$8,456,103 for fiscal year 2008, \$1,049,704 for fiscal year 2009, and \$915,160 for fiscal year 2010. The total obligations of the ARTF outstanding at year end were \$1,348,665, and \$199,868 of that amount represents the current portion that is expected to be repaid in fiscal year 2011 from funds received under the State project agreement. Total interest charged to ARTF in fiscal year 2010 was \$8,181.

Subsequent to September 30, 2010, all obligations due from the ARTF were repaid, and the property was transferred by the Board to the Foundation. A capital contribution of approximately \$11,150,000 was recorded by the Board to remove the total construction costs incurred through the payoff date.



CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 8. PROPERTY FOR RESALE**

**CITY OF AUBURN PRIMARY GOVERNMENT**

During fiscal year 2003, the City purchased seven outparcels of land for future mall expansion totaling \$4,131,127.

**COMPONENT UNITS**

**Industrial Development Board**

The following is a schedule of changes in property for resale for the year ended September 30, 2010:

	Balance <u>10/1/2009</u>	Additions	Reclass- ifications	Disposals	Balance <u>9/30/2010</u>
Land	\$ 6,277,045	\$ -	\$ (168,840)	\$ -	\$ 6,108,205
Buildings	2,443,727	-	-	-	2,443,727
Improvements in progress	<u>4,342,670</u>	<u>3,790</u>	-	-	<u>4,346,460</u>
Total property for resale	<u>\$ 13,063,442</u>	<u>\$ 3,790</u>	<u>\$ (168,840)</u>	<u>\$ -</u>	<u>\$ 12,898,392</u>

The net reclassification consists of \$168,840 representing land previously held by the Board for resale that was reclassified to land held for leasing during fiscal year 2010.

**NOTE 9. PROPERTY TAXES – RATES, LEVY AND DUE DATES**

Property taxes attach as an enforceable lien as of January 1. Taxes are levied on October 1 and are due and payable between October 1 and December 31. The County bills and collects the taxes and remits them semimonthly to the City of Auburn. The City currently levies taxes of \$2.60 per \$100 assessed valuation for governmental purposes - \$.50 for general governmental services, \$.50 for payment of principal and interest on outstanding bonds of the municipality, and \$1.60 for the support and furtherance of education. The tax rates are applied to 10% of the appraised value of residential property, also called assessed value. The tax rates are also applied to commercial property at 20%, utility property at 30% and vehicles at 15%.

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 10. CAPITAL ASSETS**

**CITY OF AUBURN PRIMARY GOVERNMENT**

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance 10/1/2009	Prior Period Adjustment	Transfers/ Additions	Transfers/ Deductions	Balance 9/30/2010
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 12,790,957	\$ 10,000	\$ 477,319	\$ (3,754)	\$ 13,274,522
Construction in progress	5,784,993	-	7,589,118	(9,331,918)	4,042,193
Total capital assets, not being depreciated	<u>18,575,950</u>	<u>10,000</u>	<u>8,066,437</u>	<u>(9,335,672)</u>	<u>17,316,715</u>
Capital assets, being depreciated:					
Buildings and improvements	36,446,311	-	2,203,092	(90,173)	38,559,230
Communication equipment	384,552	-	12,684	-	397,236
Heavy equipment	2,259,022	-	63,545	(12,013)	2,310,554
Office equipment	2,431,806	-	739,487	(7,495)	3,163,798
Small tools and equipment	917,500	-	142,050	(7,450)	1,052,100
Vehicles	6,789,035	-	580,632	(488,496)	6,881,171
Infrastructure	<u>109,269,091</u>	<u>-</u>	<u>9,943,015</u>	<u>-</u>	<u>119,212,106</u>
Total capital assets, being depreciated	<u>158,497,317</u>	<u>-</u>	<u>13,684,505</u>	<u>(605,627)</u>	<u>171,576,195</u>
Less accumulated depreciation for:					
Buildings and improvements	(8,735,862)	-	(948,118)	25,440	(9,658,540)
Communication equipment	(159,325)	-	(77,558)	-	(236,883)
Heavy equipment	(1,444,320)	-	(176,326)	12,012	(1,608,634)
Office equipment	(1,780,532)	-	(291,151)	7,495	(2,064,188)
Small tools and equipment	(647,371)	-	(108,479)	7,450	(748,400)
Vehicles	(5,148,622)	-	(688,831)	469,295	(5,368,158)
Infrastructure	<u>(46,795,307)</u>	<u>-</u>	<u>(2,579,546)</u>	<u>-</u>	<u>(49,374,853)</u>
Total accumulated depreciation	<u>(64,711,339)</u>	<u>-</u>	<u>(4,870,009)</u>	<u>521,692</u>	<u>(69,059,656)</u>
Total capital assets, being depreciated, net	<u>93,785,978</u>	<u>-</u>	<u>8,814,496</u>	<u>(83,935)</u>	<u>102,516,539</u>
Governmental activities capital assets, net	<u>\$ 112,361,928</u>	<u>\$ 10,000</u>	<u>\$ 16,880,933</u>	<u>\$ (9,419,607)</u>	<u>\$ 119,833,254</u>

The City has adopted the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, for the City's website and certain easements. The City's website, valued at \$200,000, was based upon a multiple of the salary and benefits of the Web Developer in the City's Information Technology department. The City valued its easements at \$191,653 based upon the square footage of each easement and the average value for commercial and residential property within the City. As permitted by GASB Statement No. 51, the financial statements have not been restated for prior year costs associated with easements that have indefinite useful lives; only the value of easements acquired in fiscal year 2010 and forward will be valued and capitalized.

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 10. CAPITAL ASSETS - CONTINUED**

Capital asset activity for the City's business-type activities for the year ended September 30, 2010, was as follows:

	Balance 10/1/2009	Transfers/ Additions	Transfers/ Deductions	Balance 9/30/2010
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 164,626	\$ -	\$ -	\$ 164,626
Construction in progress	9,018,177	1,270,915	(6,650,891)	3,638,201
Total capital assets, not being depreciated	<u>9,182,803</u>	<u>1,270,915</u>	<u>(6,650,891)</u>	<u>3,802,827</u>
Capital assets, being depreciated:				
Buildings and improvements	10,618,161	-	(58,845)	10,559,316
Sewage plants and lines	56,379,079	7,198,970	-	63,578,049
Machinery and equipment	1,238,331	55,923	(35,326)	1,258,928
Small tools and equipment	7,200	-	-	7,200
Vehicles	2,674,193	306,359	(232,617)	2,747,935
Total capital assets, being depreciated	<u>70,916,964</u>	<u>7,561,252</u>	<u>(326,788)</u>	<u>78,151,428</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,768,011)	(214,199)	40,351	(1,941,859)
Sewage plants and lines	(8,993,490)	(1,104,628)	-	(10,098,118)
Machinery and equipment	(599,806)	(180,320)	18,541	(761,585)
Small tools and equipment	(7,200)	-	-	(7,200)
Vehicles	(1,951,209)	(291,278)	230,736	(2,011,751)
Total accumulated depreciation	<u>(13,319,716)</u>	<u>(1,790,425)</u>	<u>289,628</u>	<u>(14,820,513)</u>
Total capital assets, being depreciated, net	<u>57,597,248</u>	<u>5,770,827</u>	<u>(37,160)</u>	<u>63,330,915</u>
Business-type activities capital assets, net	<u>\$ 66,780,051</u>	<u>\$ 7,041,742</u>	<u>\$ (6,688,051)</u>	<u>\$ 67,133,742</u>

It is the City's policy to capitalize net interest costs on funds borrowed to finance the construction of business-type capital assets. For the year ended September 30, 2010, the City incurred interest costs of \$2,048,094; total interest expense was \$1,750,802, and interest cost of \$297,292 was capitalized in connection with the cost of construction in progress.

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

Governmental activities:	
General government and administration	\$ 343,235
Public works	2,817,610
Environmental services	83,612
Public safety	793,472
Library	182,383
Parks and recreation	600,807
Planning	2,822
Economic development	9,595
Employee services	36,473
Total depreciation expense - governmental activities	<u>\$ 4,870,009</u>
Business-type activities:	
Sewer revenue fund	\$ 1,506,342
Solid waste management fund	284,083
Total depreciation expense - business-type activities	<u>\$ 1,790,425</u>

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 10. CAPITAL ASSETS - CONTINUED**

## COMPONENT UNITS

**Board of Education**

Capital asset activity for the year ended September 30, 2010, was as follows:

	<u>Balance 10/1/2009</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deductions</u>	<u>Balance 9/30/2010</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,181,082	\$ 500	\$ -	\$ 3,181,582
Construction in progress	<u>6,312,639</u>	<u>6,947,963</u>	<u>(13,258,602)</u>	<u>2,000</u>
Total capital assets, not being depreciated	<u>9,493,721</u>	<u>6,948,463</u>	<u>(13,258,602)</u>	<u>3,183,582</u>
Capital assets, being depreciated:				
Land improvements	3,244,867	275,503	-	3,520,370
Buildings and improvements	79,586,921	12,144,438	-	91,731,359
Furniture, equipment and vehicles	6,222,440	615,453	(156,246)	6,681,647
Equipment under capital lease	<u>1,477,527</u>	<u>-</u>	<u>-</u>	<u>1,477,527</u>
Total capital assets, being depreciated	<u>90,531,755</u>	<u>13,035,394</u>	<u>(156,246)</u>	<u>103,410,903</u>
Less accumulated depreciation for:				
Land improvements	(2,115,754)	(119,102)	-	(2,234,856)
Buildings and improvements	(16,170,772)	(2,020,814)	-	(18,191,586)
Furniture, equipment and vehicles	<u>(3,040,308)</u>	<u>(797,567)</u>	<u>154,270</u>	<u>(3,683,605)</u>
Total accumulated depreciation	<u>(21,326,834)</u>	<u>(2,937,483)</u>	<u>154,270</u>	<u>(24,110,047)</u>
Total capital assets, being depreciated, net	<u>69,204,921</u>	<u>10,097,911</u>	<u>(1,976)</u>	<u>79,300,856</u>
Total governmental activities capital assets, net	<u>\$ 78,698,642</u>	<u>\$ 17,046,374</u>	<u>\$ (13,260,578)</u>	<u>\$ 82,484,438</u>

Depreciation expense was charged to governmental functions/programs in the government-wide statements as follows:

Governmental activities:	
Instruction	\$ 2,547,222
Operation and maintenance	16,556
Auxiliary services	
Student transportation services	148,219
Food services	<u>225,486</u>
Total depreciation expense - Governmental activities	<u>\$ 2,937,483</u>

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 10. CAPITAL ASSETS - CONTINUED****Water Works Board**

Capital asset activity for the year ended September 30, 2010, was as follows:

	<u>Balance</u> <u>10/1/2009</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Deductions</u>	<u>Balance</u> <u>9/30/2010</u>
Business-type activity:				
Capital assets, not being depreciated:				
Land and land clearing	\$ 1,401,875	\$ -	\$ -	\$ 1,401,875
Construction in progress	652,384	803,969	(373,434)	1,082,919
Intangible asset in development	<u>223,754</u>	<u>11,928</u>	<u>(235,682)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,278,013</u>	<u>815,897</u>	<u>(609,116)</u>	<u>2,484,794</u>
Capital assets, being depreciated:				
Utility system and plant	58,572,590	794,907	(130,750)	59,236,747
Buildings and improvements	5,564,894	-	-	5,564,894
Office equipment	549,784	242,605	-	792,389
Mobile equipment	752,123	29,999	(10,300)	771,822
Tools	<u>286,617</u>	<u>30,634</u>	<u>(9,970)</u>	<u>307,281</u>
Total capital assets, being depreciated	<u>65,726,008</u>	<u>1,098,145</u>	<u>(151,020)</u>	<u>66,673,133</u>
Less accumulated depreciation for:				
Utility system and plant	(16,849,447)	(1,269,693)	140,720	(17,978,420)
Buildings and improvements	(885,102)	(222,847)	-	(1,107,949)
Office equipment	(218,929)	(88,175)	-	(307,104)
Mobile equipment	(523,603)	(62,810)	10,300	(576,113)
Tools	<u>(185,746)</u>	<u>(29,469)</u>	<u>-</u>	<u>(215,215)</u>
Total accumulated depreciation	<u>(18,662,827)</u>	<u>(1,672,994)</u>	<u>151,020</u>	<u>(20,184,801)</u>
Total capital assets, being depreciated, net	<u>47,063,181</u>	<u>(574,849)</u>	<u>-</u>	<u>46,488,332</u>
Business-type activity capital assets, net	<u>\$ 49,341,194</u>	<u>\$ 241,048</u>	<u>\$ (609,116)</u>	<u>\$ 48,973,126</u>

It is the Board's policy to capitalize net interest costs on funds borrowed to finance the construction of fixed assets. For the year ended September 30, 2010, the Board incurred interest costs of \$632,475; total interest expense was \$582,699, and interest cost of \$49,776 was capitalized in connection with the cost of construction in progress.

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 10. CAPITAL ASSETS - CONTINUED**

**Industrial Development Board**

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance 10/1/2009	Transfers/ Additions	Transfers/ Deductions	Balance 9/30/2010
Capital assets, not being depreciated:				
Land	\$ 5,138,917	\$ -	\$ (116,826)	\$ 5,022,091
Construction in progress	10,185,420	1,540,494	-	11,725,914
Total capital assets, not being depreciated	<u>15,324,337</u>	<u>1,540,494</u>	<u>(116,826)</u>	<u>16,748,005</u>
Capital assets, being depreciated:				
Buildings	37,284,326	-	(1,713,600)	35,570,726
Building improvements	2,471,558	96,918	-	2,568,476
Land improvements	1,580,874	-	-	1,580,874
Equipment	499,967	14,662	-	514,629
Vehicles	116,223	-	-	116,223
Total capital assets, being depreciated	<u>41,952,948</u>	<u>111,580</u>	<u>(1,713,600)</u>	<u>40,350,928</u>
Accumulated depreciation				
Buildings	(3,755,173)	(742,443)	208,488	(4,289,128)
Building improvements	(267,593)	(56,383)	-	(323,976)
Land improvements	(325,567)	(53,202)	-	(378,769)
Equipment	(370,933)	(28,705)	-	(399,638)
Vehicles	(97,238)	(12,658)	-	(109,896)
Total accumulated depreciation	<u>(4,816,504)</u>	<u>(893,391)</u>	<u>208,488</u>	<u>(5,501,407)</u>
Total capital assets, being depreciated, net	<u>37,136,444</u>	<u>(781,811)</u>	<u>(1,505,112)</u>	<u>34,849,521</u>
Total capital assets, net	<u>\$ 52,460,781</u>	<u>\$ 758,683</u>	<u>\$ (1,621,938)</u>	<u>\$ 51,597,526</u>

**Public Park and Recreation Board**

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance 10/1/2009	Transfers/ Additions	Transfers/ Deductions	Balance 9/30/2010
Business-type activity:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 1,535	\$ -	\$ 1,535
Capital assets, being depreciated:				
Buildings and improvements	7,170,966	1,941	-	7,172,907
Machinery and equipment	16,217	39,237	-	55,454
Vehicles	46,103	-	-	46,103
Total capital assets, being depreciated	<u>7,233,286</u>	<u>41,178</u>	<u>-</u>	<u>7,274,464</u>
Less accumulated depreciation for:				
Buildings and improvements	(613,738)	(286,839)	-	(900,577)
Machinery and equipment	(4,558)	(3,243)	-	(7,801)
Vehicles	(9,221)	(9,221)	-	(18,442)
Total accumulated depreciation	<u>(627,517)</u>	<u>(299,303)</u>	<u>-</u>	<u>(926,820)</u>
Total capital assets, being depreciated, net	<u>6,605,769</u>	<u>(258,125)</u>	<u>-</u>	<u>6,347,644</u>
Business-type activity capital assets, net	<u>\$ 6,605,769</u>	<u>\$ (256,590)</u>	<u>\$ -</u>	<u>\$ 6,349,179</u>

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES**

**CITY OF AUBURN PRIMARY GOVERNMENT**

**Changes in long-term liabilities**

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Balance 10/1/2009	Additions	Reductions	Balance 9/30/2010	Due Within One Year
Governmental activities:					
Bonds and warrants payable:					
General obligation bonds	\$ 28,465,000	\$ -	\$ (2,545,000)	\$ 25,920,000	\$ 2,720,000
General obligation warrants	105,482,403	42,175,000	(34,434,029)	113,223,374	7,755,654
Add: deferred amounts for issuance premiums	1,060,338	2,313,256	(107,333)	3,266,261	-
Less: deferred amounts on refunding	(92,624)	(2,094,241)	59,059	(2,127,806)	-
Total bonds and warrants payable	134,915,117	42,394,015	(37,027,303)	140,281,829	10,475,654
Accumulated annual leave	2,594,584	162,193	(157,281)	2,599,496	234,131
Claims payable	386,789	308,357	(353,677)	341,469	85,509
Landfill closure and postclosure care liability	182,000	-	(7,000)	175,000	7,000
Other postemployment benefits liability	69,529	30,632	-	100,161	-
Governmental activity long-term liabilities	<u>138,148,019</u>	<u>42,895,197</u>	<u>(37,545,261)</u>	<u>143,497,955</u>	<u>10,802,294</u>
Business-type activities:					
General obligation warrants payable	62,240,000	-	(16,360,000)	45,880,000	1,105,000
Add: deferred amounts for issuance premiums	769,762	-	(51,604)	718,158	-
Less: deferred amounts on refunding	-	(845,016)	54,678	(790,338)	-
Less: deferred amounts for issuance discounts	(234,175)	-	120,254	(113,921)	-
Total warrants payable	62,775,587	(845,016)	(16,236,672)	45,693,899	1,105,000
Accumulated annual leave	188,221	321	(15,522)	173,020	15,583
Other postemployment benefits liability	7,637	3,518	-	11,155	-
Business-type activity long-term liabilities	<u>62,971,445</u>	<u>(841,177)</u>	<u>(16,252,194)</u>	<u>45,878,074</u>	<u>1,120,583</u>
Total primary government long-term liabilities	<u>\$ 201,119,464</u>	<u>\$ 42,054,020</u>	<u>\$ (53,797,455)</u>	<u>\$ 189,376,029</u>	<u>\$ 11,922,877</u>

For the governmental activities, accumulated annual leave, claims payable, and landfill closure and post closure care liabilities are generally liquidated by the General Fund.

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

Bonds, notes, warrants, and capital leases payable of the City of Auburn at September 30, 2010, are comprised of the following individual issues:

	Interest Rate	Interest Dates	Source of Payment	Principal Issued	Principal Outstanding September 30, 2010	Year of Final Principal Maturity
Governmental activities:						
Bonds payable:						
Capital improvement bonds, Dated 06/01/98 (S. College Imp.)	3.95%-5.1%	2/1-8/1	Special 5-Mill Tax Fund ad valorem taxes	\$ 2,000,000	\$ 755,000	2015
General obligation bonds, Dated 08/1/99 (Library, Watson Complex)	5%-5.4%	2/1-8/1	Special 5-Mill Tax Fund ad valorem taxes	3,700,000	1,555,000	2014
Capital improvement bonds, Dated 05/01/02 (Soccer, Town Creek)	1.6%-4.75%	2/1-8/1	Special 5-Mill Tax Fund ad valorem taxes	7,250,000	3,790,000	2016
General obligation bonds, Dated 03/01/05 (Refund 97 bonds, and fund '05 projects)	2.2%-5%	2/1-8/1	Special 5-Mill Tax Fund ad valorem taxes	9,905,000	7,220,000	2021
General obligation bonds, Dated 1/1/07 (Library, Tennis Center)	3.5%-5%	2/1-8/1	Special 5-Mill Tax Fund ad valorem taxes	5,200,000	4,220,000	2021
General obligation bonds, Dated 7/1/09 ('09 Capital Projects)	2%-4%	5/1-11/1	Special 5-Mill Tax Fund ad valorem taxes	9,000,000	8,380,000	2021
Total bonds payable				<u>37,055,000</u>	<u>25,920,000</u>	



CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

Warrants payable:	Interest Rate	Interest Dates	Source of Payment	Principal Issued	Principal Outstanding September 30, 2010	Year of Final Principal Maturity
General obligation refunding school warrants, Dated 09/01/98 (87,90 & 92 G.O. School)	3.75%-4.55%	6/1-12/1	Special School Tax Fund ad valorem taxes	8,170,000	360,000	2011
General obligation warrants Dated 8/1/99 (City Hall, streets, etc.)	5%-5.6%	2/1-8/1	Full faith credit and taxing power of the City of Auburn	4,110,000	2,355,000	2019
General obligation warrants Dated 09/28/01 (Drainage projects)	4.85%	Monthly	Full faith credit and taxing power of the City of Auburn	1,035,400	137,905	2011
General obligation warrants Dated 12/23/03 (Infrastructure improve.)	3.93%	Monthly	Full faith credit and taxing power of the City of Auburn	6,300,000	2,328,032	2013
General obligation warrants Dated 08/01/05 (School expansion)	3.125%-5%	2/1-8/1	Special School Tax Fund ad valorem taxes	33,010,000	31,690,000	2035
General obligation warrants Dated 11/28/05 (West Tech Park)	3.66%	Monthly	Full faith credit and taxing power of the City of Auburn	6,000,000	3,078,395	2014
General obligation warrants Dated 02/09/06 (AU Research Park)	4.08%	Monthly	Full faith credit and taxing power of the City of Auburn	5,000,000	2,682,355	2015
General obligation warrants Dated 09/22/06 (Tennis Center - AU Portion)	4.23%	3/1 - 9/1	Full faith credit and taxing power of the City of Auburn	3,700,000	3,180,690	2026
General obligation warrants Dated 5/27/08 (Refund 2000 Wts, 2002 Wts & LOC; Land)	3.53%	Monthly	Full faith credit and taxing power of the City of Auburn	4,211,050	2,634,071	2015
General obligation warrants Dated 5/29/08 (Refund 2005 Mall Warrants)	4.62%	Monthly	Full faith credit and taxing power of the City of Auburn	8,657,050	7,041,553	2018

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

	Interest Rate	Interest Dates	Source of Payment	Principal Issued	Principal Outstanding September 30, 2010	Year of Final Principal Maturity
General obligation warrants						
Dated 5/29/08 (Refund Aub. Bank LOC)	4.62%	Monthly	Full faith credit and taxing power of the City of Auburn	8,800,000	7,157,827	2018
General obligation warrants						
Dated 10/10/08 (Samford Avenue extension)	4.10%	Monthly	Full faith credit and taxing power of the City of Auburn	2,031,270	1,501,344	2015
General obligation warrants						
Dated 12/19/08 (Auburn HS renovations)	4.76%	Monthly	Special School Tax Fund ad valorem taxes	8,500,000	8,016,915	2028
General obligation refunding school warrants, Dated 6/1/10 (Refund 2002 School Warrants)	2% - 5%	2/1-8/1	Special School Tax Fund ad valorem taxes	27,020,000	25,960,000	2026
General obligation warrants						
Dated 7/27/10 (Refund IDB 2000-A Bonds)	2.90%	Monthly	Full faith credit and taxing power of the City of Auburn	3,010,000	2,989,310	2020
General obligation warrants						
Dated 7/27/10 (Refund IDB 2004-A Bonds)	4.84%	Monthly	Full faith credit and taxing power of the City of Auburn	10,275,000	10,239,977	2024
General obligation warrants						
Dated 8/20/10 (Purch Bldg - 155 AL St.)	3.03%	Monthly	Full faith credit and taxing power of the City of Auburn	1,870,000	1,870,000	2022
Total warrants payable				<u>141,699,770</u>	<u>113,223,374</u>	
Total governmental activity bonds and warrants payable				<u>178,754,770</u>	<u>139,143,374</u>	
Business-type activities:						
Warrants payable:						
General obligation warrants						
Dated 08/01/01 (sewer plant & expansion)	2.8%-5%	1/1-7/1	Sewer Fund	24,765,000	5,805,000	2024
General obligation warrants						
Dated 12/1/08 (Refund Compass Bank Note; Sewer capital projects)	4%-5.625%	6/1-12/1	Sewer Fund	25,370,000	24,830,000	2033
General obligation warrants						
Dated 9/1/09 (Partial refund 2001 Warrants)	3.5%-5%	1/1-7/1	Sewer Fund	15,245,000	15,245,000	2024
Total business-type activity warrants payable				<u>65,380,000</u>	<u>45,880,000</u>	
Total bonds, notes, and warrants payable				<u>\$ 244,134,770</u>	<u>\$ 185,023,374</u>	

CITY OF AUBURN, ALABAMA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

On June 1, 2010, the City issued its \$27,020,000 General Obligation School Refunding Warrant with an average interest rate of 4.55% to advance refund \$26,990,000 of outstanding 2002 General Obligation School Refunding Warrants with an average interest rate of 4.96%. The 2010 Warrant bears interest at rates ranging from 2%-5%, payable semiannually beginning August 2010 and continuing through August 2026. The net proceeds of \$29,084,241 (after payment of \$249,016 in underwriting fees, insurance, and other issuance costs and realization of a \$2,313,257 original issue premium) 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 Warrants. As a result, the 2002 Warrants are considered to be defeased and the liability for those warrants has been removed from the statement of net assets. The outstanding principal of the 2002 Warrants was \$26,990,000 at September 30, 2010. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,094,241. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026 using the straight-line method. The City completed the advance refunding to reduce its total debt service payments over the next sixteen years by \$1,290,322 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,185,879.

On July 27, 2010, the City issued its \$3,010,000 General Obligation Refunding Warrant to refund the Industrial Development Board's Series 2000-A Infrastructure Improvement Bonds. The Warrant bears interest at a rate of 2.9%, payable monthly beginning September 2010 and continuing through August 2020. The Industrial Development Board issued the Series 2000-A Bonds for the purpose of paying the cost of acquiring, constructing, installing and equipping certain streets, sidewalks, utilities and other public capital improvements within the City. The Series 2000-A Bonds were limited obligations of the Industrial Development Board payable solely from payments to be made under an irrevocable, direct-pay letter of credit issued by Allied Irish Bank (AIB) pursuant to an amended Letter of Credit Reimbursement Agreement between AIB and the Industrial Development Board. Security for the Industrial Development Board's undertakings under the Reimbursement Agreement consisted solely of amounts pledged by the City under an Appropriation Agreement. Due to various downgrades of the credit rating of AIB, the holders of the Series 2000-A Bonds elected to exercise their tender rights, thus causing the trustee to make a draw under the Letter of Credit to pay the tender price of the bonds. Interest on the Series 2000-A Bonds, as well as interest on the tender drawing is computed at a variable rate, and as a result of the historically low rates of interest now in effect, the likelihood of increases in variable rates of interest in subsequent years and the fact that the Series 2000-A Bonds are not scheduled to mature until May 2020, the Industrial Development Board recommended that the City issue the 2010 fixed-rate Warrants, the proceeds of which retire the Series 2000-A Bonds and convert the City's variable rate exposure to an established fixed rate of interest.

On July 27, 2010, the City issued its \$10,275,000 Taxable General Obligation Refunding Warrant to refund the Industrial Development Board's Series 2004-A Taxable Industrial Development Bonds. The Warrant bears interest at a rate of 4.84%, payable monthly beginning September 2010 and continuing through August 2024. The Industrial Development Board issued the Series 2004-A Bonds for the purpose of financing certain capital improvements within the City. Similar to the Series 2000-A Bonds noted above, the Series 2004-A Bonds were limited obligations of the Industrial Development Board payable solely from payments to be made under an irrevocable, direct-pay letter of credit issued by Allied Irish Bank (AIB) pursuant to an amended Letter of Credit Reimbursement Agreement between AIB and the Industrial Development Board.

On August 20, 2010, the City issued its \$1,870,000 General Obligation Capital Improvement Warrant for the purpose of acquiring certain land and an office building for general municipal purposes including, without limitation, locating the Public Works Department and Environmental Services Department of the City. The Warrant bears interest at a rate of 3.03%, payable monthly beginning October 2010 and continuing through September 2022.

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

The following schedule shows debt service to maturity for bonds and warrants payable of the City of Auburn at September 30, 2010:

Fiscal Year	Total Annual Requirements			Governmental Activity			Business-type Activity			Total Requirements			
	Principal	Interest	Total	Bonds and Warrants Payable			Warrants Payable						
				Payable from			Principal				Interest		
				General Governmental	Issues	Interest	Principal	Interest	Principal		Interest	Principal	Interest
2011	\$ 11,580,654	\$ 8,202,868	\$ 19,783,522	\$ 10,475,654	\$ 6,026,658	\$ 16,502,312	\$ 1,105,000	\$ 2,176,210	\$ 3,281,210	\$ 3,281,210			
2012	11,894,175	7,729,394	19,623,569	10,739,175	5,599,913	16,339,088	1,155,000	2,129,481	3,284,481	3,284,481			
2013	12,802,021	7,231,770	20,033,791	10,922,021	5,167,470	16,089,491	1,880,000	2,064,300	3,944,300	3,944,300			
2014	13,276,196	6,688,574	19,964,770	11,311,196	4,712,173	16,023,369	1,965,000	1,976,401	3,941,401	3,941,401			
2015	12,155,153	6,116,002	18,271,155	10,090,153	4,236,294	14,326,447	2,065,000	1,879,708	3,944,708	3,944,708			
2016	11,308,107	5,582,581	16,890,688	9,133,107	3,803,075	12,936,182	2,175,000	1,779,506	3,954,506	3,954,506			
2017	10,384,832	5,071,787	15,456,619	8,109,832	3,396,713	11,506,545	2,275,000	1,675,074	3,950,074	3,950,074			
2018	10,310,408	4,587,152	14,897,560	7,920,408	3,025,947	10,946,355	2,390,000	1,561,205	3,951,205	3,951,205			
2019	9,103,947	4,152,480	13,256,427	6,593,947	2,713,775	9,307,722	2,510,000	1,438,705	3,948,705	3,948,705			
2020	9,147,930	3,730,566	12,878,496	6,512,930	2,420,486	8,933,416	2,635,000	1,310,080	3,945,080	3,945,080			
2021	9,201,950	3,318,508	12,520,458	6,451,950	2,127,990	8,579,940	2,750,000	1,190,518	3,940,518	3,940,518			
2022	7,782,825	2,942,995	10,725,820	4,922,825	1,863,227	6,786,052	2,860,000	1,079,768	3,939,768	3,939,768			
2023	7,933,697	2,605,886	10,539,583	4,953,697	1,645,212	6,598,909	2,980,000	960,674	3,940,674	3,940,674			
2024	8,201,830	2,248,033	10,449,863	5,101,830	1,415,275	6,517,105	3,100,000	832,758	3,932,758	3,932,758			
2025	5,479,102	1,934,724	7,413,826	4,389,102	1,196,463	5,585,565	1,090,000	738,261	1,828,261	1,828,261			
2026	5,742,927	1,667,536	7,410,463	4,592,927	988,075	5,581,002	1,150,000	679,461	1,829,461	1,829,461			
2027	3,285,048	1,387,476	4,672,524	2,075,048	769,965	2,845,013	1,210,000	617,511	1,827,511	1,827,511			
2028	3,282,572	1,220,007	4,502,579	2,007,572	667,727	2,675,299	1,275,000	552,280	1,827,280	1,827,280			
2029	2,940,000	1,063,980	4,003,980	1,595,000	582,156	2,177,156	1,345,000	481,824	1,826,824	1,826,824			
2030	3,090,000	908,902	3,998,902	1,670,000	502,406	2,172,406	1,420,000	406,496	1,826,496	1,826,496			
2031	3,255,000	744,875	3,999,875	1,755,000	418,906	2,173,906	1,500,000	325,969	1,825,969	1,825,969			
2032	3,420,000	581,188	4,001,188	1,830,000	342,125	2,172,125	1,590,000	239,063	1,829,063	1,829,063			
2033	3,590,000	409,157	3,999,157	1,910,000	262,063	2,172,063	1,680,000	147,094	1,827,094	1,827,094			
2034	3,770,000	228,422	3,998,422	1,995,000	178,500	2,173,500	1,775,000	49,922	1,824,922	1,824,922			
2035	2,085,000	91,219	2,176,219	2,085,000	91,219	2,176,219	-	-	-	-			
<b>Total</b>	<b>\$ 185,023,374</b>	<b>\$ 80,446,082</b>	<b>\$ 265,469,456</b>	<b>\$ 139,143,374</b>	<b>\$ 54,153,813</b>	<b>\$ 193,297,187</b>	<b>\$ 45,880,000</b>	<b>\$ 26,292,269</b>	<b>\$ 72,172,269</b>	<b>\$ 72,172,269</b>			

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

**COMPONENT UNITS**

**Water Works Board**

**Changes in long-term liabilities**

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Balance <u>10/1/2009</u>	Additions	Reductions	Balance <u>9/30/2010</u>	Due Within <u>One Year</u>
Business-type activities:					
Bonds payable:					
Bonds payable-2001 issue	\$ 9,320,000	\$ -	\$ (9,320,000)	\$ -	\$ -
Bonds payable-2002 issue	5,795,000	-	(5,795,000)	-	-
Zero coupon bonds	2,693,924	97,681	(2,791,605)	-	-
Bonds payable - 2010 issue	-	<u>21,595,000</u>	-	<u>21,595,000</u>	<u>645,000</u>
	17,808,924	21,692,681	(17,906,605)	21,595,000	645,000
Add: deferred amounts for issuance premiums	-	1,192,235	(18,064)	1,174,171	-
Less: deferred amounts on refunding	<u>(222,660)</u>	<u>(2,022,930)</u>	<u>278,082</u>	<u>(1,967,508)</u>	<u>-</u>
	<u>17,586,264</u>	<u>20,861,986</u>	<u>(17,646,587)</u>	<u>20,801,663</u>	<u>645,000</u>
 Water supply agreement with City of Opelika	444,933	-	(267,054)	177,879	177,879
Unamortized discount	<u>(42,179)</u>	<u>30,617</u>	<u>-</u>	<u>(11,562)</u>	<u>(11,562)</u>
	<u>402,754</u>	<u>30,617</u>	<u>(267,054)</u>	<u>166,317</u>	<u>166,317</u>
 Accumulated annual leave	101,655	3,883	(11,165)	94,373	-
Other postemployment benefits liability	<u>5,887</u>	<u>2,479</u>	<u>-</u>	<u>8,366</u>	<u>-</u>
 Business-type activity long-term liabilities	<u>\$ 18,096,560</u>	<u>\$ 20,898,965</u>	<u>\$ (17,924,806)</u>	<u>\$ 21,070,719</u>	<u>\$ 811,317</u>

Bonds payable at September 30, 2010, are comprised of an original bond issue of \$21,595,000 dated June 1, 2010. As discussed in the following paragraphs, the 2010 bond proceeds were used to call the 2001 and 2002 series bonds dated July 1, 2001 and August 1, 2002, respectively, and to fund various capital projects.

On June 1, 2010, the Board issued \$21,595,000 in Water Revenue Capital Improvement and Refunding Bonds with an average interest rate of 4.36% to advance refund \$9,320,000 of outstanding 2001 Capital Improvement Bonds with an average interest rate of 5.10%, to advance refund \$5,795,000 of outstanding 2002 Capital Improvement Bonds (current interest bonds) with an average interest rate of 4.57%, to advance refund \$2,791,605 of outstanding 2002 Capital Improvements Bonds (capital appreciation bonds) with an average interest rate of 5.39% and to finance water capital projects. The net proceeds of \$17,853,870 (after payment of \$216,969 in underwriting fees, insurance, and other issuance costs, realization of a \$1,192,235 original issue premium, and transferring \$4,716,396 into the 2010 Capital Improvements Fund) 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 2001 and 2002 bonds. As a result, the 2001 and 2002 bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. The outstanding principal of the three defeased bonds was \$17,346,608 at September 30, 2010. The stated maturity dates of the 2010 bonds are September 1 beginning in 2011 and continuing through 2032.

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES – CONTINUED**

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,021,687. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 using the straight-line method. The Board completed the advance refunding to reduce its total debt service payments over the next 22 years by \$3,096,477 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,264,863.

The Board entered into an agreement with the City of Opelika Water Board effective on June 1, 1983, for the right to purchase water from Opelika. The agreement provides that the Auburn Board shall pay its proportionate share of the debt service on Opelika's Series 1983 bonds plus its share of the bond issue costs and an initial capital contribution. In return for its payment of these amounts, Auburn's Board received the right to purchase not greater than 3.6 million gallons of water per day. Under the agreement Auburn would pay Opelika for the water it purchased based on its share of the production and transmission costs in relation to total production. The agreement is for a term of 30 years beginning June 1, 1983, and there is a 20-year renewal clause at no additional cost to Auburn.

Bonds payable of the Water Works Board of the City of Auburn at September 30, 2010, are comprised of the following individual issues:

	<u>Interest Rate</u>	<u>Interest Dates</u>	<u>Source of Payment</u>	<u>Principal Issued</u>	<u>Principal Outstanding September 30, 2010</u>	<u>Year of Final Principal Maturity</u>
Business type activities						
Bonds payable:						
Capital improvement bonds, Dated 06/01/10	3.0% to 5.0%	3/1-9/1	Revenues	<u>\$ 21,595,000</u>	<u>\$ 21,595,000</u>	2032

The following schedule shows debt service to maturity for bonds and water supply agreement payable of the Water Works Board of the City of Auburn at September 30, 2010:

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 811,317	\$ 915,809	\$ 1,727,126
2012	650,000	899,088	1,549,088
2013	660,000	893,888	1,553,888
2014	675,000	874,088	1,549,088
2015	710,000	840,338	1,550,338
2016-2020	4,055,000	3,709,188	7,764,188
2021-2025	5,005,000	2,749,625	7,754,625
2026-2030	6,270,000	1,487,250	7,757,250
2031-2032	<u>2,925,000</u>	<u>176,600</u>	<u>3,101,600</u>
Total	<u>\$ 21,761,317</u>	<u>\$ 12,545,874</u>	<u>\$ 34,307,191</u>

Revenue bonds

Water Revenue Bonds issued in 2010 are collateralized by a pledge of net system revenues derived and to be derived from the operation of the Board's water system. The Board is also required to maintain such rates and charges for the water service and other services supplied from the System and make collections from the users thereof in such a manner as shall produce revenues sufficient at all times (i) to provide for payment of all operating expenses, (ii) to produce annual net income of not less than 110% of the then applicable maximum annual debt service requirement and (iii) to make all monthly payments provided herein to be made into each of the special funds. These coverage requirements have been met by the Board for the year ended September 30, 2010.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED****Industrial Development Board**Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Balance 10/01/09	Additions	Reductions	Balance 09/30/10	Due Within One Year
Notes payable	\$ 25,637,268	\$ 3,384,692	\$ (5,060,638)	\$ 23,961,322	\$ 3,315,545
Short term					
construction loans	-	665,141	(665,141)	-	-
Bonds payable	19,460,000	-	(14,000,000)	5,460,000	5,460,000
Less: deferred amount on refunding	(121,563)	-	121,563	-	-
Total	<u>\$ 44,975,705</u>	<u>\$ 4,049,833</u>	<u>\$ (19,604,216)</u>	<u>\$ 29,421,322</u>	<u>\$ 8,775,545</u>

Short-term construction loans were issued to finance construction costs for buildings held for resale and buildings held for leasing prior to obtaining permanent financing.

Bonds payable

Bonds payable at September 30, 2010 are comprised of Series 2006-A Taxable Industrial Development Refunding and Improvement Bonds in the original principal amount of \$5,640,000. The bonds were used to fund real property improvements and to refund previous outstanding debt. During fiscal year 2010, the Board retired its Series 2000-A Tax-Exempt Infrastructure Improvement Bonds in the original principal amount of \$4,680,000 and its Series 2004-A Taxable Industrial Development Refunding and Infrastructure Bonds in the original principal amount of \$12,075,000, using funds received pursuant to its Appropriation Agreements with the City of Auburn. The following is a summary of changes in bonds payable for the year ended September 30, 2010:

	Balance 10/01/09	Additions	Reductions	Balance 09/30/10	Due Within One Year
Series 2000-A	\$ 3,200,000	-	\$ (3,200,000)	-	-
Series 2004-A	10,620,000	-	(10,620,000)	-	-
Series 2006-A	5,640,000	-	(180,000)	5,460,000	5,460,000
Total	<u>\$ 19,460,000</u>	<u>\$ -</u>	<u>\$ (14,000,000)</u>	<u>\$ 5,460,000</u>	<u>\$ 5,460,000</u>

The debt service payments on the Series 2006-A bonds are limited obligations of the Board, payable solely out of payments received pursuant to an Appropriation Agreement with the City of Auburn and funds drawn by the trustee from a letter of credit issued by Allied Irish Bank. Under the agreement which was approved by City Council in July 2006, the City has agreed to appropriate during each fiscal year an amount equal to the debt service on the bonds. The agreement is automatically renewed each fiscal year for a term of twelve months, unless the City passes a resolution electing not to renew the agreement prior to the first day of the applicable fiscal year. As of the date of these financial statements, the agreement had been extended to September 30, 2011. The City intends to fund the appropriations through additional tax revenues derived from future industrial recruitment. The Appropriation Agreement has been assigned and pledged by the Industrial Development Board as security for the bonds.

The bonds are subject to purchase on demand of the holder at a price equal to 100% of the principal amount of the bond plus accrued interest. The bonds must be presented for payment with seven days notice to the bond trustee and upon repurchase; the remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount.

There is no take out agreement in place to convert the bonds to permanent financing in the event the remarketing agent is unable to resell bonds that are repurchased under the optional tender provision. Under an irrevocable letter of credit issued by Allied Irish Bank, the trustee or remarketing agent may draw an amount equal to the purchase price of bonds tendered for purchase plus an amount corresponding to thirty-five (35) days of interest on the bonds, computed at the maximum rate of interest. Under the original terms of the agreement, in the event the remarketing agent is unable to resell the tendered bonds, any principal drawn on the letter of credit to purchase the bonds bears interest at a variable rate equal to the prime rate plus 2%.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

On May 21, 2010, the bonds were tendered for payment, and as of the date of these financial statements, have not been remarketed. In June, 2010, Allied Irish Bank granted the Board a Tender Draw Forbearance, effectively agreeing to forbear from demanding repayment of the tender draw, to forbear from charging the default rate (prime plus 2%), and to waive the late fee on the amount of the draw. The terms of the forbearance letter include interest charged on the amount of the tender draw at the lesser of the bank's prime rate or cost of funds rate, plus 1% per annum, payable monthly beginning June 1, 2010 through the forbearance termination date of August 21, 2010. Prior to September 30, 2010, the forbearance termination date was extended to November 22, 2010. The interest rate in effect at September 30, 2010 was 2%. Subsequent to September 30, 2010, the forbearance was extended to February 22, 2011, then to July 6, 2011. The interest rate was adjusted to the lesser of the bank's prime rate or cost of funds rate, plus 1.5% per annum; the rate in effect as of the date of these financial statements is 3.25%. In the event the bonds are not remarketed, the entire principal balance of \$5,460,000 will be due on July 6, 2011, the date the forbearance agreement and the letter of credit expire.

In the event the bonds are remarketed, the terms of the original bond issue would apply. The bonds would mature on July 1, 2026, and would bear interest at a variable rate determined weekly by the Board's remarketing agent, The Frazer Lanier Company, Inc., with the interest payable in arrears on the first business day of the following month. The rate is the lowest rate that would, in the opinion of the remarketing agent, result in the market value of the bonds being 100% of the purchase price on the date of determination, with a maximum rate of 12% per annum. Interest was calculated using this method until May 21, 2010, the date the bonds were tendered. The weighted average interest rate for FY 2010 was 1.86%. Interest incurred for the fiscal year amounted to \$416,458.

Until the date of the tender draw, the Board was required to pay to Allied Irish Bank annual fees for the letter of credit in the amount of 1.00% of the outstanding principal amount of the bonds plus 35 days of interest at 12%. In addition, the remarketing agent was paid an annual fee of one-eighth of one percent of the weighted average daily principal amount of the bonds outstanding, until the date the remarketing of the bonds failed.

In addition to the optional tender provision, the terms of the credit agreement require that the Board redeem the bonds on the following mandatory tender dates at the indicated principal amounts, provided the bonds are remarketed prior to July 2011:

Fiscal Year	Series 2006-A
2011	\$ 195,000
2012	205,000
2013	220,000
2014	235,000
2015	255,000
2016	270,000
2017	290,000
2018	315,000
2019	335,000
2020	360,000
2021	385,000
2022	415,000
2023	445,000
2024	475,000
2025	510,000
2026	550,000
Total	<u>\$ 5,460,000</u>



CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

The following schedule shows debt service requirements to maturity for the bonds outstanding at September 30, 2010, using the variable interest rate in effect on the last day of the fiscal year (2.00%):

Fiscal Year	Series 2006-A		Total
	Principal	Interest	
2011	\$ 195,000	\$ 108,548	\$ 303,548
2012	205,000	104,615	309,615
2013	220,000	100,465	320,465
2014	235,000	96,014	331,014
2015	255,000	91,248	346,248
2016	270,000	86,097	356,097
2017	290,000	80,631	370,631
2018	315,000	74,747	389,747
2019	335,000	68,380	403,380
2020	360,000	61,597	421,597
2021	385,000	54,313	439,313
2022	415,000	46,513	461,513
2023	445,000	38,113	483,113
2024	475,000	29,112	504,112
2025	510,000	19,495	529,495
2026	550,000	9,162	559,162
Total	<u>\$ 5,460,000</u>	<u>\$ 1,069,050</u>	<u>\$ 6,529,050</u>

*Swap payments and associated debt* – With respect to the Series 2006-A bonds, the Board entered into an interest rate swap agreement with Allied Irish Bank to effectively change the Board’s variable interest rate on the bonds to a fixed rate (see Note 5). Using rates as of September 30, 2010, debt service requirements of the variable rate debt and net swap payments on the associated hedging derivative instrument are presented below. These amounts assume that current interest rates on the variable-rate bonds and the current reference rates of the hedging derivative instrument will remain the same for their term. As these rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2011	\$ 195,000	\$ 108,548	\$ 304,681	\$ 608,229
2012	205,000	104,615	293,641	603,256
2013	220,000	100,465	281,992	602,457
2014	235,000	96,014	269,501	600,515
2015	255,000	91,248	256,121	602,369
2016	270,000	86,097	241,665	597,762
2017	290,000	80,631	226,320	596,951
2018	315,000	74,747	209,806	599,553
2019	335,000	68,380	191,934	595,314
2020	360,000	61,597	172,894	594,491
2021	385,000	54,313	152,451	591,764
2022	415,000	46,513	100,929	562,442
2023	445,000	38,113	-	483,113
2024	475,000	29,112	-	504,112
2025	510,000	19,495	-	529,495
2026	550,000	9,162	-	559,162
Total	<u>\$ 5,460,000</u>	<u>\$ 1,069,050</u>	<u>\$ 2,701,935</u>	<u>\$ 9,230,985</u>

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 11. LONG-TERM LIABILITIES - CONTINUED**

Notes payable

Notes payable of the Board at September 30, 2010, are comprised of the following individual issues:

	Interest Rate	Interest Dates	Principal Issued	Principal Outstanding 9/30/10	Year of Final Principal Maturity
AuburnBank	6.000%	Monthly	\$ 8,670,000	\$ 7,060,877	2013
AuburnBank	6.000%	Monthly	2,700,000	2,535,740	2013
AuburnBank	8.750%	Monthly	300,000	273,365	2011
AuburnBank	7.000%	Monthly	775,000	12,162	2011
AuburnBank	6.500%	Monthly	447,147	308,541	2012
AuburnBank	6.500%	Monthly	1,079,500	957,059	2012
AuburnBank	6.000%	Monthly	3,400,000	3,225,056	2013
AuburnBank	6.500%	Monthly	360,000	355,871	2015
AuburnBank	7.750%	Monthly	1,290,000	1,184,057	2012
AuburnBank	8.250%	Monthly	1,100,000	1,005,266	2012
AuburnBank	8.000%	Monthly	69,991	38,603	2013
AuburnBank	6.000%	Monthly	1,025,000	944,893	2012
AuburnBank	6.250%	Monthly	2,210,000	2,210,000	2011
AuburnBank	6.000%	Monthly	2,380,000	2,326,167	2014
AuburnBank	6.470%	Monthly	825,000	804,816	2014
Compass Bank	6.250%	Monthly	644,692	607,469	2016
Compass Bank	7.500%	Monthly	186,602	111,380	2012
Total notes payable			<u>\$ 27,462,932</u>	<u>\$ 23,961,322</u>	

Proceeds of the notes were used to construct industrial buildings held for leasing by the Board, and to finance equipment sold under a capital lease.

The following schedule shows debt service to maturity for notes payable of the Industrial Development Board at September 30, 2010:

Fiscal Year	Total Annual Requirements		
	Principal	Interest	Total
2011	\$ 3,315,545	\$ 1,384,143	\$ 4,699,688
2012	5,016,188	1,135,951	6,152,139
2013	12,197,235	893,714	13,090,949
2014	2,991,359	91,287	3,082,646
2015	358,256	21,603	379,859
2016	82,739	1,921	84,660
Total	<u>\$ 23,961,322</u>	<u>\$ 3,528,619</u>	<u>\$ 27,489,941</u>

**NOTE 12. DEFERRED PROGRAM REVENUE**

During prior years, the City received monies from the U.S. Department of Housing and Urban Development (HUD) for Urban Development Action Grants and Housing Development Action Grants. Under the terms of the grants, the monies received from HUD are loaned to qualified borrowers and the City holds second mortgages as collateral. When the City made these loans, deferred revenue equal to the principal amount of the mortgage was recorded in the governmental fund financial statements. The loans will remain outstanding until such time as specified in the grant agreements. At that time, the City will receive the balance of the second mortgages plus interest, and deferred revenue equal to the amount of principal repayment received by the City will be recognized as program revenue. The mortgages outstanding at September 30, 2010, totaled \$398,802.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 12. DEFERRED PROGRAM REVENUE- CONTINUED**

During prior years and the current year, the City received monies from the U.S. Department of Housing and Urban Development (HUD) for Community Development Block Grants. Under the terms of the grants the monies received from HUD are loaned to qualified borrowers for housing rehabilitation and the City holds second mortgages as collateral. When the City made these loans, deferred revenue equal to the principal amount of the mortgage was recorded in the governmental fund financial statements. The loans made under this program are deferred for 20 years from the date of the loan. At that time, the City will begin receiving amortized payments of principal and interest for the second mortgages, and deferred revenue equal to the amount of principal repayment received by the City will be recognized as program revenue. The mortgages outstanding at September 30, 2010, totaled \$932,037.

**NOTE 13. LEASE AGREEMENTS****COMPONENT UNITS****Industrial Development Board**

Description of leasing arrangements - The Board's leasing activities consist of the leasing of industrial space in facilities owned by the Board (operating leases) and sales-type capital leases to various industries for land, buildings and/or equipment located in the Board's industrial parks. The operating leases expire over the next twelve years and the capital leases expire over the next twenty-five years.

Operating leases - The Industrial Development Board began leasing industrial space during fiscal year 1995. The cost of land and buildings held for leasing by the Board at September 30, 2010, was \$5,022,091 and \$35,570,726, respectively; accumulated depreciation on the buildings was \$4,289,128. Rents received during 2010 were \$3,093,517. Of the fifteen leases in effect at September 30, 2010, fourteen were noncancelable, with one having an option for the lessee to occupy more space at a higher rental rate. One lease has a cancellation clause allowing the lessee to cancel by giving notice at least 30 days prior to the expiration of each renewal term; the lease provides for automatic one-year renewal terms ending on June 1, 2014, and annual minimum rentals of \$24,000.

During fiscal year 2006, one of the operating leases was amended to provide for expansion of the current facility. Pursuant to the terms of an interest rate swap, rentals due under the lease were changed to the following amounts: from August 1, 2006 to July 31, 2007, the monthly rental was \$2,578 per month; from August 1, 2007 to July 31, 2009, the monthly rental is equal to the monthly interest due on the Board's Series 2006-A bonds, plus \$2,578 per month through the April 1, 2009 payment; and from August 1, 2009 to July 31, 2022, the monthly rental is equal to total debt service on the Series 2006-A bonds, including certain fees related to the debt, and payments due under the rate swap agreement. Because the debt service payments are based on variable rates and include payments due under the swap, only the base rental amounts due through July 1, 2022 are included in the following schedule of future minimum rental payments.

The following is a schedule by years of future minimum rental payments required under the leases with remaining noncancelable lease terms in excess of one year as of September 30, 2010:

<u>Fiscal Year</u>	
2011	\$ 2,932,655
2012	2,733,257
2013	2,674,169
2014	2,609,855
2015	2,556,437
2016	2,554,553
2017	2,353,897
2018	2,180,331
2019	927,422
2020	732,823
2021 and thereafter	<u>1,110,362</u>
Total	<u>\$ 23,365,761</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 13. LEASE AGREEMENTS - CONTINUED**

Capital leases

- A. The Board has leased, under capital leases, ten parcels of land located in its Industrial Parks. Each lease contains a bargain-purchase option which can be exercised during the term of the lease. All rentals due under the leases were paid in advance and are not refundable in the event of lease cancellation or exercise of purchase option. Expiration of the leases ranges from 2013 to 2035, and several of these leases provide for renewal terms. No lease payments were received in fiscal year 2010 and future amounts receivable under the leases consist solely of payments under the bargain-purchase options, which are minimal. See Note 34 for disclosures pertaining to leases involving related parties.
- B. The Board has one sales-type capital lease involving manufacturing equipment. The initial lease term expires in 2016. The components of the net investment in sales-type capital leases at September 30, 2010 are as follows:

Total minimum lease payments to be received	\$	733,876
Less: unearned income		<u>(118,819)</u>
Net investment in capital lease	\$	<u>615,057</u>

Executory costs such as maintenance and insurance are paid directly by lessee and therefore are not included in minimum lease payments. All lease payments are deemed collectible and there are no contingent rentals or unguaranteed residual values associated with the lease. Future minimum lease payments due under the lease are as follows:

<u>Fiscal Year</u>		
2011	\$	129,482
2012		129,482
2013		129,482
2015		129,482
2015		129,482
2016		<u>86,466</u>
Total	\$	<u>733,876</u>

The Auburn Center for Developing Industries (a component unit of the Industrial Development Board) maintains industrial space for rent to new industries. The leases are noncancelable operating leases. The land and buildings held for leasing by the Center are owned by the Industrial Development Board. Rents received during fiscal year 2010 were \$128,078. As of September 30, 2010, there were nine leases in effect: seven that expire within one year and two that expire in fiscal year 2012. Future minimum rentals due under the leases are as follows:

<u>Fiscal Year</u>		
2011	\$	140,958
2012		<u>8,258</u>
Total	\$	<u>149,216</u>

**NOTE 14. DEFINED BENEFIT PENSION PLANS**

**CITY OF AUBURN PRIMARY GOVERNMENT**

*Plan Description.* The City contributes to the Employees' Retirement System of Alabama ("System"), an agent multiple-employer public employee retirement system (PERS) which acts as a common investment and administrative agent for all State agencies and departments as well as for cities and counties which elect to participate in the System. All regular full-time and certain regular part-time City employees are eligible to participate in the System. Benefits vest after ten years of service. Vested employees may choose

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 14. DEFINED BENEFIT PENSION PLANS - CONTINUED**

a lump sum benefit, payments for a specified time period or for life. The benefit amount is based upon employee and employer contributions and accrued interest as of the retirement date and is established by State statute. The System also provides death and disability benefits. The Retirement System issues a publicly available report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to The Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150 or by calling (334) 517-7000.

*Funding Policy.* Covered employees are required by State statute to contribute five percent (5%) of their salaries/wages to the System. The City is required by the same statute to contribute the remaining amounts necessary to fund the System using the actuarial basis specified by the statute. The City's contribution rate for the year-ended September 30, 2010, was 10.17% of covered payroll.

*Annual Pension Cost.* The City's annual pension cost of \$1,900,963 was equal to the City's required and actual contributions. In accordance with Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, a pension liability of \$0 was calculated at the transition date. Trend information for the most current valuation year and the two preceding years is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/07	\$ 1,405,320	100%	\$0
9/30/08	\$ 1,786,009	100%	\$0
9/30/09	\$ 1,987,347	100%	\$0

The required contribution was determined as part of the September 30, 2009, actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include: a) a rate of return on the investment of present and future assets of 8.0%, b) projected annual rate of salary increases ranging from 4.61% to 7.75%, based on age, and c) no cost-of-living adjustments. Both a) and b) included an inflation component of 4.50%. The actuarial value of the plan's assets was determined using the 5-year smoothed market value of investments. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2009, was 24 years. These assumptions were also used in the computation of actuarially determined contribution requirements.

*Funded Status and Funding Progress.* As of September 30, 2009, the most recent actuarial valuation date, the plan was 65.9% funded. The actuarial accrued liability for benefits was \$67,126,111, and the actuarial value of assets was \$44,206,957, resulting in an unfunded actuarial accrued liability (UAAL) of \$22,919,154. The covered payroll (annual payroll of active employees covered by the plan) was \$22,972,396, and the ratio of the UAAL to the covered payroll was 99.8%.

The plan's schedule of funding progress for the most current valuation year and the two preceding years is 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 P/R ( (b - a)/c )
9/30/07	\$ 41,989,069	\$ 56,867,330	\$ 14,878,261	73.8%	\$ 20,085,917	74.1%
9/30/08	\$ 43,850,832	\$ 63,229,284	\$ 19,378,452	69.4%	\$ 21,739,441	89.1%
9/30/09	\$ 44,206,957	** \$ 67,126,111	\$ 22,919,154	65.9%	\$ 22,972,396	99.8%

\* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

\*\* Market Value of Assets as of September 30, 2009: \$33,879,717

**COMPONENT UNITS****Board of Education**

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

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 14. DEFINED BENEFIT PENSION PLANS - CONTINUED**

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. 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, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under the formula method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

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

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150 or by calling (334) 517-7000.

*Funding Policy.* Employees are required by statute to contribute 5 percent of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

Fiscal year ended September 30,	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total percentage of covered payroll	17.51%	17.07%	16.75%
Contributions:			
Percentage contributed by the Board	12.51%	12.07%	11.75%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Contributed by the Board	\$ 4,226,839	\$ 3,974,216	\$ 3,804,056
Contributed by the employees	<u>1,689,545</u>	<u>1,646,356</u>	<u>1,618,900</u>
Total contributions	<u>\$ 5,916,384</u>	<u>\$ 5,620,572</u>	<u>\$ 5,422,956</u>

**Water Works Board**

The Board also contributes to the Employees' Retirement Systems of Alabama under the same plan description and statutory requirements as the City. The Board's contribution rate for the year-ended September 30, 2010, was 4.86% of annual covered payroll; and the Board's annual pension cost of \$60,838 was equal to its required and actual contributions. The remaining amortization period at September 30, 2009, was 30 years.

In accordance with Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as amended by Statement No. 50, *Pension Disclosures*, a pension liability of \$0 was calculated at the transition date. Trend information for the most current valuation year and the two preceding years is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/07	\$ 70,827	100%	\$0
9/30/08	\$ 81,855	100%	\$0
9/30/09	\$ 73,355	100%	\$0

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 14. DEFINED BENEFIT PENSION PLANS - CONTINUED**

The plan's schedule of funding progress 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.

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 P/R ( (b - a)/c )
9/30/07	\$ 2,192,273	\$ 2,148,625	\$ (43,648)	102.0%	\$ 1,273,658	-3.4%
9/30/08	\$ 2,364,216	\$ 2,491,732	\$ 127,516	94.9%	\$ 1,389,620	9.2%
9/30/09	\$ 2,411,739	** \$ 2,776,252	\$ 364,513	86.9%	\$ 1,510,875	24.1%

\* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

\*\* Market Value of Assets as of September 30, 2009: \$1,856,862

**NOTE 15. OTHER POSTEMPLOYMENT BENEFITS**

**CITY OF AUBURN PRIMARY GOVERNMENT**

The City of Auburn's General Employees' OPEB Plan is a single-employer, defined benefit OPEB plan. From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future years in which paid. In adopting the requirements of GASB Statement No. 45 during the year ended September 30, 2009, the City recognized the cost of postemployment healthcare in the year when employee services are received, reported the accumulated liability from prior years, and provided information useful in assessing potential demands on the City's future cash flows. Because the City adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

Plan description

The City provides medical benefits to employees upon retirement according to the retirement eligibility provisions as follows: 25 years of service at any age; or, age 60 and 10 years of service. The retirees pay 100% of the premium costs and specific deductibles. Employees do not contribute to their postemployment benefits costs until they retire and begin receiving those benefits. The City pays for all costs in excess of premiums and deductibles. Benefits and contribution requirements (both employee and employer) for the General Employees OPEB Plan are established by City ordinance and can only be amended by City Council. OPEB benefits are administered by City personnel. No separate financial statements are issued.

Funding policy

The City currently pays for postemployment health care benefits on a pay-as-you-go basis. Although the City could establish a trust to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

Annual required contribution

The City's annual required contribution (ARC) is an amount actuarially determined in accordance with GASB Statement No. 45. The ARC is the sum of the normal cost plus the contribution to amortize the actuarial accrued liability (AAL). A level dollar, closed amortization period of 30 years (the maximum amortization period allowed by GASB 45) has been used for the postemployment benefits. The total ARC for the year ending September 30, 2010 is as follows:

	2010	2009
Normal cost	\$ 18,713	\$ 36,429
30-Year unfunded accrued liability amortization amount	40,858	92,845
Annual required contribution (ARC)	<u>\$ 59,571</u>	<u>\$ 129,274</u>

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

SEPTEMBER 30, 2010

**NOTE 15. OTHER POSTEMPLOYMENT BENEFITS - CONTINUED**

Net postemployment benefit obligation

The table below shows the City's net other postemployment benefit (OPEB) obligation at September 30, 2010:

	2010	2009
Annual required contribution (ARC)	\$ 59,571	\$ 129,274
Interest on net OPEB obligation	-	-
ARC adjustment	-	-
OPEB cost	59,571	129,274
Contribution	-	-
Current year retiree premium	(22,942)	(46,221)
Change in net OPEB obligation	36,629	83,053
Beginning net OPEB obligation	83,053	-
Ending net OPEB obligation	\$ 119,682	\$ 83,053
Ending net OPEB obligation by fund/employer		
City of Auburn General Fund	\$ 100,161	\$ 69,529
Sewer Revenue Fund of City of Auburn	3,951	2,864
Solid Waste Management Fund of City of Auburn	7,204	4,773
Water Works Board of City of Auburn	8,366	5,887
Total	\$ 119,682	\$ 83,053

In future years, three-year trend information will be presented.

Funded status and funding progress

In the fiscal year ending September 30, 2010, the City made no contributions to its postemployment benefits plan. The plan has no assets and therefore has a funded ratio of zero. As of September 30, 2009, the most recent actuarial valuation, the actuarial accrued liability was \$1,533,348, which is defined as that portion, as determined by a particular actuarial cost method (the City of Auburn uses the unit credit cost method), of the actuarial present value of postemployment plan benefits and expenses which is not provided by normal cost. Since the plan is not funded, the entire actuarial accrued liability was unfunded.

	2010	2009
Actuarial accrued liability (AAL)	\$ 1,533,348	\$ 1,152,007
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 1,533,348	\$ 1,152,007
Funded ratio	0%	0%
Covered payroll (active plan members)	\$ 22,572,357	\$ 21,902,318
UAAL as a percentage of covered payroll	6.79%	5.26%

Actuarial methods and assumptions

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer portion has been estimated as the average claims plus administrative expenses, less the employee portion paid, over the preceding year for the retired group and has been used as the basis for projecting the medical trend assumption into the future. The City does not pay any portion of the retiree premium after the eligibility age for Medicare. The unfunded actuarial accrued liability is being amortized over 30 years. It is assumed that entitlement to benefits will commence three years after earliest eligibility to retire. An age-related turnover scale based on actual experience has been used. The rates, when applied to the active employee census, produce an annual turnover of approximately 10%. It is also assumed that 29% of retirees elect not to have retiree medical coverage because of the employee premium required.



## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 15. OTHER POSTEMPLOYMENT BENEFITS - CONTINUED**

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 30, 2009, actuarial valuation, the liabilities were computed using the projected unit credit cost method and level dollar amortization. The actuarial assumptions utilized a 4% discount rate. This discount rate is a conservative estimate of the expected long term return of a balanced and conservative investment portfolio under professional management. The expected rate of increase in medical cost is based on projections performed by the Office of the Actuary at the Centers for Medicare and Medicaid Services. The valuation assumes an 8% healthcare cost trend increase for fiscal year 2008, graded down to an ultimate annual rate of 5% for 2016 and later.

**COMPONENT UNITS**Board of Education

The Board contributes to the Alabama Retired Education Employee's Health Care Trust (Trust), a multiple employer cost sharing defined benefit health care plan established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. The Trust is administered by members of the Public Education Employees' Health Insurance Board (PEEHIB). The Trust provides health care benefits to state and local school system retirees. *Code of Alabama 1975*, Section 16-25A-4 provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. The Alabama Retired Education Employees' plan issues a stand-alone financial report that includes financial statements and required supplementary information for the Trust. That report may be obtained at the Public Education Employees' Health Insurance Plan website <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Statements tab.

*Code of Alabama 1975*, Section 16-25A-8 provides the PEEHIB explicit authority to set the contribution requirements for plan members and employers. Retirees eligible for Medicare benefits must pay \$1.14 per month for coverage while those not eligible for Medicare must pay \$98 per month for coverage. The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you-go basis. The fiscal year 2010 rate paid by the Board was \$752 per active participant per month; \$241, or approximately 32% of the allocation for active participants, represents the required contribution for retirees. This required contribution rate is determined annually by the State Legislature. The estimated portion of health insurance premiums paid by the Board for retired employees for fiscal years ending September 30, 2010 and 2009 were approximately \$2,344,868 and \$1,939,037 respectively, equal to its required contributions each year. The estimated portion of payments made on behalf of the Board for retiree drug subsidy payments for fiscal years ending September 30, 2010 and 2009 were approximately \$173,685 and \$149,942, respectively. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees. The requirements of GASBS No. 45 were implemented prospectively beginning at October 1, 2008.

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 16. LIABILITY AND WORKMEN'S COMPENSATION SELF-INSURANCE**

The City has retained risk of loss for general liability claims arising prior to the purchase of commercial insurance in fiscal year 2000 and all workmen's compensation claims. These risks are accounted for as governmental activities of the primary government. The following is a schedule of changes in claims liabilities for these two risk areas during the past two fiscal years:

	<u>Fiscal Year</u>	
	<u>2010</u>	<u>2009</u>
Unpaid claims, beginning of year	\$ 172,809	\$ 90,759
Incurred claims (including claims incurred but not reported at September 30):		
Provision for current year events where the City has retained risk of loss	109,887	220,702
Increases (decreases) in provision for prior year's events where the City has retained risk of loss	<u>159,051</u>	<u>(16,826)</u>
Total incurred claims	<u>268,938</u>	<u>203,876</u>
Payments:		
Claims attributable to current year events where the City has retained risk of loss	(86,405)	(80,931)
Claims attributable to prior years' events where the City has retained risk of loss	<u>(152,152)</u>	<u>(40,895)</u>
Total payments	<u>(238,557)</u>	<u>(121,826)</u>
Unpaid claims, end of year	<u>\$ 203,190</u>	<u>\$ 172,809</u>

Total general liability for uninsured risks and workmen's compensation claims liability at September 30, 2010, is recorded as follows: \$85,509 is recorded as a current liability in the General Fund's current portion of long-term debt, unrestricted, and the long-term portion, \$117,681, along with the estimated liability for insured risks of \$138,279, is recorded in the primary government's governmental activities' long-term debt and other liabilities in the government-wide financial statements.

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 17. MEDICAL SELF-INSURANCE**

The City has chosen to retain risk of loss relating to medical claims of City employees and their covered dependents. These risks are accounted for in the General Fund. The following is a schedule of changes in medical claims liabilities during the past two fiscal years:

	Fiscal Year	
	2010	2009
Unpaid claims, beginning of year	<u>\$ 106,454</u>	<u>\$ 114,796</u>
Incurred claims (including claims incurred but not reported at September 30):		
Provision for current year events where the City has retained risk of loss	2,129,783	1,944,044
Increases (decreases) in provision for prior years' events where the City has retained risk of loss	<u>38,441</u>	<u>3,889</u>
Total incurred claims	<u>2,168,224</u>	<u>1,947,933</u>
Payments:		
Claims attributable to current year events where the City has retained risk of loss	(2,012,767)	(1,837,548)
Claims attributable to prior years' events where the City has retained risk of loss	<u>(144,894)</u>	<u>(118,727)</u>
Total payments	<u>(2,157,661)</u>	<u>(1,956,275)</u>
Unpaid claims, end of year (includes claims incurred but not reported)	<u>\$ 117,017</u>	<u>\$ 106,454</u>

The unpaid claims as of September 30, 2010, are reported in the General Fund.

**NOTE 18. UNEMPLOYMENT COMPENSATION**

The City of Auburn is on the reimbursement method of unemployment compensation, and the actual amount paid in the fiscal year ended September 30, 2010, by the State (\$67,069) to individuals is reflected as an expense of the General Fund.

**NOTE 19. AD VALOREM TAX COLLECTION EXPENSE**

The City is charged a collection fee by the County Revenue Commissioner for the collection of the 26-mill ad valorem taxes and auto taxes. The following is a summary of taxes collected and related expenses for the year-ended September 30, 2010:

Funds	Millage	Taxes Collected	Collection Fee	Reappraisal Costs	Net Received by the City
General Fund	5	\$ 3,662,878 *	\$ 80,827	\$ 45,613	\$ 3,536,438
Special 5-Mill Tax Fund	5	3,657,712 **	80,827	45,613	3,531,272
Special School Tax Fund	<u>16</u>	<u>12,419,405</u>	<u>272,948</u>	<u>155,557</u>	<u>11,990,900</u>
Property tax totals	<u>26</u>	<u>\$ 19,739,995</u>	<u>\$ 434,602</u>	<u>\$ 246,783</u>	<u>\$ 19,058,610</u>

\* Includes taxes on mobile homes and is reduced by industrial tax exemptions.

\*\* Reduced by industrial tax exemptions.

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 20. INTERFUND RECEIVABLES AND PAYABLES**

Primary Government interfund receivables and payables for the year ended September 30, 2010 consist of the following:

<u>Amount</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Purpose</u>
<u>\$ 15,527</u>	General Fund	Nonmajor Governmental Funds	Provide cash flow for grants program and fund capital projects
	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>	<u>Purpose</u>
<u>\$ 216,892</u>	General Fund	Nonmajor Proprietary Fund	Provide funding for equipment purchase

**NOTE 21. INTERFUND TRANSFERS**

The following is a schedule of interfund transfers for the year ended September 30, 2010:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
General Fund	\$ 241,250	\$ 304,143
Nonmajor Governmental Funds	<u>484,021</u>	<u>654,021</u>
Total governmental activities	<u>725,271</u>	<u>958,164</u>
Major Proprietary Fund		
Sewer Revenue Fund	-	71,250
Nonmajor proprietary fund	<u>304,143</u>	<u>-</u>
Total business-type activities	<u>304,143</u>	<u>71,250</u>
Total primary government	<u>\$ 1,029,414</u>	<u>\$ 1,029,414</u>

Interfund transfers are reported in the governmental activities and business-type activities fund financial statements. Interfund transfers are eliminated in the government-wide financial statements.

Transfers are used to (1) move revenues from funds accounting for revenues with a restricted purpose to funds expending resources for the restricted purpose, (2) move receipts restricted to debt service from the funds collecting the receipts to the funds making the payments as debt service payments become due, and (3) use unrestricted revenues collected in various funds to finance programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 22. INTRA-ENTITY TRANSACTIONS**

The following schedules provide details of various transactions between the primary government and discretely presented component units.

A. Short-term receivables and payables

	<u>Due To</u>	<u>Due From</u>
Component Units		
Industrial Development Board	\$ 1,148,797	\$ -
Water Works Board	269,890	9,342
Primary Government		
General Fund	95	1,384,268
Sewer Revenue Fund	9,247	34,419
Total	<u>\$ 1,428,029</u>	<u>\$ 1,428,029</u>

Amounts loaned from the City of Auburn to its component units represent reimbursements due for operating expenses, and repayment will be made from operating revenues in the next fiscal period.

B. Long-term advances

	<u>Advances To</u>	<u>Advances From</u>
Primary Government		
General Fund	\$ 2,537,853	\$ -
Special School Tax Fund	700,000	-
Component Units		
Auburn City Board of Education	-	700,000
Industrial Development Board	-	<u>2,537,853</u>
Total	<u>\$ 3,237,853</u>	<u>\$ 3,237,853</u>

Amounts loaned from the City of Auburn to its component units consist primarily of funding for construction projects. Repayment from the Industrial Development Board will be made from future property sales. Repayment from the Auburn City Board of Education will be made by transferring from the Special School Tax Fund to the City General Fund \$140,000 per year for five years from the general property taxes collected by the City on behalf of the school board.

C. Payments between the City and Component Units

	<u>Appropriations From Primary Government</u>	<u>Payments to Component Units</u>
Primary Government		
General Fund	\$ -	\$ 22,032,280
Special School Tax Fund	-	6,480,036
Nonmajor governmental funds	-	306,225
Component Units		
Auburn City Board of Education	13,530,795	-
Industrial Development Board	15,119,990	-
Public Parks and Recreation Board	167,381	-
Commercial Development Authority	375	-
Total	<u>\$ 28,818,541</u>	<u>\$ 28,818,541</u>

Payments from the City to its component units consist primarily of funding for routine operating expenses and debt service payments. The payments between the City and its component units do not balance in the fund financial statements due to a difference in the measurement focus and basis of accounting between governmental funds and proprietary-type component units. In addition to the above scheduled payments, the City makes debt service payments on behalf of the Board of Education that are not recorded as payments to the Board. The debt payments (including bond trustee fees) paid on behalf of the Board of Education are reflected on the City's books as debt service expenditures and amounted to \$5,365,945. The City also makes debt service payments on behalf of the Commercial Development Authority that are not included in the schedule above. The debt payments (including bond trustee fees) paid on behalf of the Commercial Development Authority are reflected on the City's books as debt service expenditures and amounted to \$1,100,540.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 23. REPORTING OF FEDERAL GRANT LOAN REPAYMENT SPECIAL REVENUE FUND**

To facilitate the reporting of Special Revenue Funds, several Special Revenue Funds, the operations of which are very similar in nature, have been combined and reported as a single fund in the basic financial statements.

In previous years, the City received various HODAG and UDAG federal grants which were used to make loans to private entities to be used for housing and business development activities within the City. As the City receives repayments from these loans, the repayments of funds may be expended for Title I eligible purposes. The City is using some of these repayments to make loans and to grant incentives to private entities and individuals for further housing and business development activities. Based on their related purposes and activities, the following Special Revenue Funds are presented as a single fund entitled the Federal Grant Loan Repayment Fund: the Shelton Park Urban Development Action Grant (UDAG) Fund, the Revolving Loan Fund, the Affordable Housing Fund, the CDBG RLF Housing Rehab Loan Program Fund, and the CDBG RLF Affordable Housing Loan Program Fund.

Selected financial information for the sub-funds of the Federal Grant Loan Repayment Fund for the current fiscal year is as follows:

	Shelton Park UDAG*	Revolving Loan*	Affordable Housing*	Housing Rehab Loan*	Affordable Housing Loan*	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 59,697	\$ 75,451	\$ 64,250	\$ 532	\$ 816	\$ 200,746
Mortgages receivable	<u>128,245</u>	<u>204,178</u>	<u>66,330</u>	<u>658,284</u>	<u>273,753</u>	<u>1,330,790</u>
Total assets	<u>\$ 187,942</u>	<u>\$ 279,629</u>	<u>\$ 130,580</u>	<u>\$ 658,816</u>	<u>\$ 274,569</u>	<u>\$ 1,531,536</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$ -	\$ 15,000	\$ 123	\$ 90	\$ -	\$ 15,213
Deferred program revenue	<u>128,245</u>	<u>204,178</u>	<u>66,379</u>	<u>658,284</u>	<u>273,753</u>	<u>1,330,839</u>
Total liabilities	<u>128,245</u>	<u>219,178</u>	<u>66,502</u>	<u>658,374</u>	<u>273,753</u>	<u>1,346,052</u>
Fund balances:						
Fund balance-reserved for encumbrances	-	189,127	-	-	-	189,127
Fund balance-unreserved	<u>59,697</u>	<u>(128,676)</u>	<u>64,078</u>	<u>442</u>	<u>816</u>	<u>(3,643)</u>
Total fund balances	<u>59,697</u>	<u>60,451</u>	<u>64,078</u>	<u>442</u>	<u>816</u>	<u>185,484</u>
Total liabilities and fund balances	<u>\$ 187,942</u>	<u>\$ 279,629</u>	<u>\$ 130,580</u>	<u>\$ 658,816</u>	<u>\$ 274,569</u>	<u>\$ 1,531,536</u>
Revenues						
Program income	\$ 24,550	\$ 227,891	\$ 3,797	\$ 7,714	\$ 257,212	\$ 521,164
Miscellaneous	-	-	86	6	24	116
Other interest	<u>34,669</u>	<u>10,914</u>	<u>2,576</u>	<u>922</u>	<u>4,358</u>	<u>53,439</u>
Total revenues	<u>59,219</u>	<u>238,805</u>	<u>6,459</u>	<u>8,642</u>	<u>261,594</u>	<u>574,719</u>
Expenditures						
Economic development	<u>-</u>	<u>576,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>576,270</u>
Excess (deficiency) of revenues over expenditures	59,219	(337,465)	6,459	8,642	261,594	(1,551)
Other financing sources (uses)						
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,621)</u>	<u>(460,715)</u>	<u>(472,336)</u>
Net changes in fund balances	59,219	(337,465)	6,459	(2,979)	(199,121)	(473,887)
Fund balances,						
beginning of year	<u>478</u>	<u>397,916</u>	<u>57,619</u>	<u>3,421</u>	<u>199,937</u>	<u>659,371</u>
Fund balances, end of year	<u>\$ 59,697</u>	<u>\$ 60,451</u>	<u>\$ 64,078</u>	<u>\$ 442</u>	<u>\$ 816</u>	<u>\$ 185,484</u>

\*Net of interfund eliminations.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 24. REPORTING OF PUBLIC SAFETY SUBSTANCE ABUSE REVENUE FUND**

Beginning in fiscal year 2000, City management created the State Funded Seizures Special Revenue Fund for internal reporting purposes. The fund's purpose is to separately track police seizure revenues that are from state government sources. Because its operations are very similar in nature to those accounted for in the Public Safety Substance Abuse Special Revenue Fund, those activities have been combined and reported as a single fund in the basic financial statements. Selected financial information for the sub-funds of the Public Safety Substance Abuse Special Revenue Fund is shown below, net of interfund eliminations:

	State Funded Seizures	Public Safety Substance Abuse (other seizures)	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 61,658	\$ 48,712	\$ 110,370
<b>Liabilities and fund balance</b>			
Accounts payable and accrued liabilities	\$ 1,442	\$ -	\$ 1,442
Fund balance-unreserved	60,216	48,712	108,928
<b>Total liabilities and fund balance</b>	<b>\$ 61,658</b>	<b>\$ 48,712</b>	<b>\$ 110,370</b>
<b>Revenues</b>			
Confiscation revenue	\$ 94,677	\$ 13,028	\$ 107,705
Interest	1,071	949	2,020
<b>Total revenues</b>	<b>95,748</b>	<b>13,977</b>	<b>109,725</b>
<b>Expenditures</b>			
Public safety	20,781	3,192	23,973
Capital outlay	115,506	69,837	185,343
<b>Total expenditures</b>	<b>136,287</b>	<b>73,029</b>	<b>209,316</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(40,539)</b>	<b>(59,052)</b>	<b>(99,591)</b>
<b>Fund balances, beginning of year</b>	<b>100,755</b>	<b>107,764</b>	<b>208,519</b>
<b>Fund balances, end of year</b>	<b>\$ 60,216</b>	<b>\$ 48,712</b>	<b>\$ 108,928</b>

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 SEPTEMBER 30, 2010

**NOTE 25. REPORTING OF GENERAL FUND ACTIVITIES**

For managerial accounting purposes, several activities reported in the City of Auburn's General Fund are recorded in sub-funds. Selected financial information for these various activities for the current fiscal year (as reflected in the governmental fund financial statements) is shown below, net of related eliminating entries:

	<u>General Government Operations</u>	<u>Special Improvement Projects</u>	<u>Employee Benefit Risk Financing</u>	<u>General Liability Risk Financing</u>	<u>Total (Net of Eliminations)</u>
<b>ASSETS</b>					
Cash	\$ 1,717,895	\$ -	\$ -	\$ -	\$ 1,717,895
Equity in pooled cash and cash equivalents	5,887,220	1,043,453	2,472,609	1,454,233	10,857,515
Restricted cash and investments	<u>170,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,519</u>
Total cash and cash equivalents	7,775,634	1,043,453	2,472,609	1,454,233	12,745,929
Certificate of deposit	5,126,824	-	-	-	5,126,824
Receivables					
Revenues	5,002,670	64,721	-	-	5,067,391
Other governmental units	735,363	-	-	-	735,363
Special assessments	25,107	-	-	-	25,107
Other	461,607	252	15,656	-	477,515
Due from other funds	15,527	-	-	-	15,527
Due from component units	1,384,268	-	-	-	1,384,268
Inventories, at cost	15,919	-	-	-	15,919
Prepaid expenses	4,010	-	-	-	4,010
Advances to other funds	216,892	-	-	-	216,892
Advances to component units	2,537,853	-	-	-	2,537,853
Advances to other agencies	337,174	-	-	-	337,174
Property for resale	<u>4,131,127</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,131,127</u>
<b>TOTAL ASSETS</b>	<u>\$ 27,769,974</u>	<u>\$ 1,108,426</u>	<u>\$ 2,488,265</u>	<u>\$ 1,454,233</u>	<u>\$ 32,820,898</u>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>					
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 3,416,975	\$ 49,876	\$ 1,404	\$ 85,509	\$ 3,553,764
Customer deposits	129,004	-	-	-	129,004
Due to other funds	-	-	-	-	-
Due to component units	95	-	-	-	95
Deferred revenue	849,494	1,070,058	-	-	1,919,552
Claims payable	<u>-</u>	<u>-</u>	<u>117,016</u>	<u>-</u>	<u>117,016</u>
Advances from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>4,395,568</u>	<u>1,119,934</u>	<u>118,420</u>	<u>85,509</u>	<u>5,719,431</u>
<b>Fund equity and other credits</b>					
<b>Fund balances</b>					
<b>Reserved for-</b>					
Inventories	15,919	-	-	-	15,919
Prepaid expenses	4,010	-	-	-	4,010
Encumbrances	183,062	25,948	-	-	209,010
Advances	3,091,919	-	-	-	3,091,919
Property for resale	4,131,127	-	-	-	4,131,127
<b>Unreserved -</b>					
<b>Designated -</b>					
Future emergency purp	4,682,899	-	-	-	4,682,899
Equipment replacement	-	-	-	-	-
Undesignated (deficit)	<u>12,206,160</u>	<u>(37,457)</u>	<u>1,791,419</u>	<u>1,006,461</u>	<u>14,966,583</u>
Total equity and other credits	<u>24,315,096</u>	<u>(11,509)</u>	<u>1,791,419</u>	<u>1,006,461</u>	<u>27,101,467</u>
<b>TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>	<u>\$ 28,710,664</u>	<u>\$ 1,108,425</u>	<u>\$ 1,909,839</u>	<u>\$ 1,091,970</u>	<u>\$ 32,820,898</u>



CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 25. REPORTING OF GENERAL FUND ACTIVITIES - CONTINUED**

	General Government Operations	Special Improvement Projects	Employee Benefit Risk Financing	General Liability Risk Financing	Total (Net of Eliminations)
<b>Revenues</b>					
Sales and use taxes	\$ 21,081,232	\$ -	\$ -	\$ -	\$ 21,081,232
Occupational license fees	8,448,505	-	-	-	8,448,505
Motor fuel taxes	547,407	-	-	-	547,407
Lodging taxes	1,253,511	-	-	-	1,253,511
Rental and leasing taxes	420,201	-	-	-	420,201
Other taxes	199,133	-	-	-	199,133
Licenses and permits	9,002,598	-	-	-	9,002,598
General property tax	4,092,017	-	-	-	4,092,017
Charges for services	4,545,815	-	741,130	-	5,286,945
Fines and forfeitures	1,323,548	-	-	-	1,323,548
State shared taxes	639,987	-	-	-	639,987
Contributions from the public	182,709	48,191	-	-	230,900
Interest	244,203	-	22,648	13,470	280,321
Miscellaneous	89,162	-	-	-	89,162
<b>Total revenues</b>	<b>52,070,028</b>	<b>48,191</b>	<b>763,778</b>	<b>13,470</b>	<b>52,895,467</b>
<b>Expenditures</b>					
<b>General government and administration</b>					
Public works	4,369,835	-	-	-	4,369,835
Environmental services	3,309,122	-	-	-	3,309,122
Public safety	1,609,168	-	-	-	1,609,168
Library	15,752,082	-	-	-	15,752,082
Parks and recreation	1,412,899	-	-	-	1,412,899
Planning	4,580,462	-	-	-	4,580,462
Economic development	664,088	-	-	-	664,088
Employee services	988,791	-	-	-	988,791
Risk management	656,148	-	-	-	656,148
<b>Total departmental</b>	<b>193,059</b>	<b>-</b>	<b>902,063</b>	<b>218,795</b>	<b>1,313,917</b>
Non-departmental	33,535,654	-	902,063	218,795	34,656,512
<b>Total general government and administration</b>	<b>1,382,932</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,382,932</b>
<b>Debt service:</b>					
Administrative charges	9,009	-	-	-	9,009
Interest	1,568,316	-	-	-	1,568,316
Principal retirement	4,848,073	-	-	-	4,848,073
Capital outlay	4,377,980	59,700	-	-	4,437,680
Intergovernmental	812,921	-	-	-	812,921
Payments to component units	22,032,280	-	-	-	22,032,280
<b>Total debt service</b>	<b>68,567,165</b>	<b>59,700</b>	<b>902,063</b>	<b>218,795</b>	<b>69,747,723</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(16,497,137)</b>	<b>(11,509)</b>	<b>(138,285)</b>	<b>(205,325)</b>	<b>(16,852,256)</b>

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 25. REPORTING OF GENERAL FUND ACTIVITIES - CONTINUED**

	General Government Operations	Special Improvement Projects	Employee Benefit Risk Financing	General Liability Risk Financing	Total (Net of Eliminations)
Other financing sources (uses)					
Debt issuance	15,155,000	-	-	-	15,155,000
Sale of surplus assets	33,355	-	-	-	33,355
Transfers in	241,250	-	-	-	241,250
Transfers out	<u>(304,143)</u>	-	-	-	<u>(304,143)</u>
Total other financing sources (uses)	<u>15,125,462</u>	-	-	-	<u>15,125,462</u>
Net changes in fund balances	(1,371,675)	(11,509)	(138,285)	(205,325)	(1,726,794)
Fund balances, beginning of year	<u>25,686,771</u>	-	<u>1,929,704</u>	<u>1,211,786</u>	<u>28,828,261</u>
Fund balances, end of year	<u>\$ 24,315,096</u>	<u>\$ (11,509)</u>	<u>\$ 1,791,419</u>	<u>\$ 1,006,461</u>	<u>\$ 27,101,467</u>

**NOTE 26. RESTRICTED ASSETS****COMPONENT UNITS****Water Works Board**

Restricted assets of the Water Works Board consist of restricted investments held by a trustee for retirement of bonds and restricted cash collected from access fees. Access fees are assessed to developers and maintained in a capital fund account. Board approval is required to use the access fees received to finance the design, acquisition and/or construction of capital projects that expand the Board's water collection, treatment and distribution system.

**Industrial Development Board**

Restricted assets of the Industrial Development Board consist of restricted investments held by a trustee for debt service payments in accordance with the terms of a bond indenture.

**NOTE 27. DEFERRED WATER RIGHTS**

The Board entered into a Water Supply Agreement with the City of Opelika Water Board in June 1983 (See Note 11.) Auburn's share, as computed under the agreement, of the initial expenditures, capital contributions, bonds payable, and interest incurred through October 27, 1986 (when the agreement became operational), has been capitalized as deferred water rights. On October 27, 1986, the date Opelika's source supply became operational, amortization of the deferred water rights over the remaining life of the agreement began. A summary of deferred water rights at September 30, 2010, follows:

Deferred water rights, beginning of year	\$ 621,336
Amortization of deferred water rights	<u>(169,456)</u>
Deferred water rights, end of year	<u>\$ 451,880</u>

**NOTE 28. DEPRIVATIZATION OF SEWER PLANTS**

On December 27, 1984, the City entered into a Service Agreement with Merscot-Auburn Limited Partnership (the Partnership) for the design, construction, ownership, operation and maintenance of two wastewater treatment plants and approximately 25 miles of interceptor sewer lines. The plants are designed to handle approximately 10.6 million gallons per day of wastewater.

The Service Agreement term began upon the completion of the construction. It expired on the date of the payment in full of the Partnership's bonds issued in connection with the project (August 1, 2001).

Payments under the Service Agreement began with the completion of the projects and were based on two types of charges as follows:

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

SEPTEMBER 30, 2010

**NOTE 28. DEPRIVATIZATION OF SEWER PLANTS – CONTINUED**

- A. Base Service Charge – payable monthly, and on an annual basis will increase from \$1,332,440 for the first twelve month period to \$2,216,964 for the seventh through twenty-fifth periods. The Base Service Charge was intended to cover the costs of debt service on the debt issued to finance the construction of the treatment plants. Effective August 1, 2001, the date that the original bonds issued in connection with the project were repaid, the base service charge was no longer payable to the Partnership.
- B. Additional Service Charge – payable annually by the City. The annual payment was initially set at \$789,108; however, it may be increased semi-annually based on the consumer price index and net power costs. This charge is renegotiable on a fair and reasonable basis at five year intervals. The Additional Service Charge was intended to cover the operations and maintenance costs of the treatment plants.

During fiscal year 2001, the City purchased the two plants, the interceptor lines, and certain equipment from U.S. Filter Operating Services, Inc., successor to Merscot-Auburn Limited Partnership. The terms of the purchase were as follows:

- A. The Partnership deposited all amounts remaining in its debt service reserve fund (established with issuance of its 1984 bonds), after payment of interest due on the outstanding bonds, into an escrow account.
- B. The City deposited to the escrow account the remaining amounts required to redeem the original bonds.
- C. The City issued a noninterest bearing General Obligation Warrant to the Partnership in the amount of \$9,400,000; due January 1, 2012 (these warrants were refunded during 2007).
- D. The City agreed to enter into a contract with the Partnership for the design, engineering and management of a construction program to upgrade the sewer system in the approximate capital amount of \$10,000,000.
- E. The City and the Partnership agreed to extend the existing contract for the operation of the wastewater treatment plants (included in the Service Agreement) until January 1, 2020. See Note 34 for more details on the agreement.

To provide the funds required to be deposited in the escrow account for retirement of the bonds and the funds needed for the capital improvements, the City issued \$24,765,000 General Obligation Warrants which mature in 2024.

Effective August 1, 2001, the Base Service Charge included in the original Service Agreement is no longer payable to U.S. Filter by the City. The Additional Service Charge (\$1,642,990, annually) continues to be payable to Veolia Water Inc. (successor to U.S. Filter) under the terms of the extension of the Service Agreement until January 1, 2020.

**NOTE 29. SUBSEQUENT EVENTS**

**CITY OF AUBURN PRIMARY GOVERNMENT**

Subsequent to September 30, 2010, the City Council approved various design and construction contracts totaling approximately \$2,377,000, professional services type contracts totaling approximately \$647,000, equipment and computer software purchases totaling approximately \$538,000, and Revolving Loan Fund loans to new businesses up to \$965,000.

**COMPONENT UNITS**

**Board of Education**

Subsequent to September 30, 2010, the Board entered into an agreement with a contractor in the amount of \$505,650 for partial re-roofing projects at various schools within the school system. Also, subsequent to year end, the Board approved the purchase of six 78-passenger buses at a total cost of \$502,692.

**Industrial Development Board**

Subsequent to September 30, 2010, the Auburn Research and Technology Foundation (ARTF) satisfied all obligations it owed to the Board in connection with construction of the Auburn University Research Park. During the construction period, the property was owned by the Board, and upon repayment of outstanding obligations, the property was deeded to the ARTF by the Board. This resulted in a capital contribution from the Board to the ARTF of approximately \$11,150,000 in fiscal year 2011.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 29. SUBSEQUENT EVENTS – CONTINUED**

Land and buildings held for leasing were sold by the Board after September 30, 2010 with proceeds of \$525,000. Proceeds were used to retire associated debt in the amount of \$295,261.

The Board signed two construction contracts subsequent to September 30, 2010, totaling approximately \$3.3 million for expansion projects for two local industries. \$3.1 million of short term construction financing was obtained by the Board to finance the construction cost. Loan closing costs totaling approximately \$33,000 were paid in connection with the construction loans. Upon completion, the expansions will be leased to the industries through operating leases.

Prior to the date of these financial statements but subsequent to September 30, 2010, the Board provided a working capital loan to a local industry in the amount of \$100,000. The loan bears interest at 5%, and will be repaid in four quarterly payments beginning September 4, 2011.

Subsequent to September 30, 2010, various incentive packages were committed to seven companies as incentives to locate in Auburn, or to expand existing operations. The incentives include property acquisitions at discounted values; cash assistance for relocation, training, and site preparation; working capital loans; tax abatements; and construction financing. As of the date of these financial statements, none of the incentives had been executed.

**NOTE 30. COMMITMENTS, LITIGATION AND CONTINGENCIES**

**CITY OF AUBURN PRIMARY GOVERNMENT**

Commitments - The City was committed under certain construction contracts for various general government projects. The aggregate amount of such commitments was \$3,600,000 as of September 30, 2010.

In September 2004, the City signed an agreement with Lee County, Alabama for the County to provide jail services to the City. In addition to a per inmate charge, the City agreed to assist the County with funding for its jail expansion project. The City agreed to make annual appropriations provided that the payments can be made from current revenues budgeted and appropriated for such purpose. Provided that this restriction is met, the following payments would be made to the County:

<u>Fiscal Year</u>	<u>Appropriation</u>
2011	\$ 378,630
2012	377,480
2013	375,970
2014	378,875
2015	376,113
2016	378,062
2017	379,303
2018	376,802
2019	378,803
2020	375,052
2021	375,803
2022	375,803
2023	375,053
2024	376,027
2025	<u>376,020</u>
Total	<u>\$ 5,653,796</u>

In July 2006, the City entered into a development, funding and cooperation agreement with Auburn University and The Public Park and Recreation Board of the City of Auburn. The agreement provided for the construction of a tennis facility on approximately 11.21 acres of City owned land to include both an Auburn City tennis facility and a tennis facility leased to Auburn University. The costs for constructing the tennis facilities were paid from general obligation bonds and warrants. The entire complex is being leased by the City to the Park Board for a period of twenty years. The Park Board subleases the University tennis facility to Auburn University, also for a period of twenty years. The tennis complex was completed in August 2007.

Claims and Litigation - As of September 30, 2010, the City had been named defendant in two pending lawsuits. One of these suits does not specify a dollar amount of damages claimed, and the total damages claimed in the suit specifying damages is \$3,000,000.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**NOTE 30. COMMITMENTS, LITIGATION AND CONTINGENCIES – CONTINUED**

City management intends to vigorously defend these suits, and estimates that the City's potential loss in these actions will not exceed \$51,245.

In fiscal year 2010, the City expended \$194,086 in payment of claims and judgments and legal costs associated therewith. These expenditures are included in the General Fund as current expenditures for Risk Management.

Contingency: Audit of Federal and State Grants - The City received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements by grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, City Management believes such disallowances, if any, will be immaterial.

**COMPONENT UNITS****Board of Education**

Contingency: Audit of Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds or the General Fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial.

The Board is obligated under certain leases which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. Therefore, the results of these lease agreements are not reflected as part of the Board's capital assets. The Board has several non-cancelable leases for certain equipment that are classified as operating leases. Rent expense under these noncancelable leases was \$90,676 for the fiscal year ended September 30, 2010.

The approximate remaining annual minimum lease payments under the noncancelable operating leases existing as of September 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 81,775
2012	56,385
2013	<u>29,302</u>
Total	<u>\$ 167,462</u>

During fiscal year 2009, the Board entered into lease agreements with Hewlett-Packard Financial Services Company for the purchase of student laptop computers. These agreements qualified as capital leases for accounting purposes and were recorded at the present value of the future minimum lease payments as of the date of inception. Interest expense for the year ended September 30, 2010, was \$29,624.

The following is a summary of changes in obligations under capital leases of the Board for the year ended September 30, 2010:

	<u>Capital Lease Payable</u>
Balance, September 30, 2009	\$ 1,384,141
Retirement of debt	<u>(164,753)</u>
Balance, September 30, 2010	<u>\$ 1,219,388</u>

The approximate remaining annual minimum lease payments under the capital leases existing as of September 30, 2010, are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 345,862	\$ 48,901	\$ 394,763
2012	360,761	34,002	394,763
2013	454,918	18,192	473,110
2014	<u>57,847</u>	<u>1,254</u>	<u>59,101</u>
	<u>\$ 1,219,388</u>	<u>\$ 102,349</u>	<u>\$ 1,321,737</u>

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

SEPTEMBER 30, 2010

**NOTE 30. COMMITMENTS, LITIGATION AND CONTINGENCIES – CONTINUED**

**Water Works Board**

**Commitments** – The Water Works Board has commitments for construction projects in connection with system improvements. The cost to complete the projects as of September 30, 2010 is approximately \$740,342.

**Industrial Development Board**

**Commitments** – As of September 30, 2010, the Board was committed under certain construction contracts in the amount of \$52,216. This amount represents the remaining commitment for construction of the Auburn University Research Park, which is funded by a note receivable from the Auburn Research and Technology Foundation.

In connection with a package of incentives offered to a company that chose to locate in Auburn during fiscal year 2008, the Board agreed to make available for a period of five years a 25-acre lot in Auburn Technology Park West. The lot had an estimated value of \$625,000 at September 30, 2010.

Prior to September 30, 2010, the Board had approved an incentive package for a company that has located in Auburn. Incentives committed include cash assistance in the amount of \$200,000 for rent, payable monthly over a two year period beginning November 2008. The remaining commitment at September 30, 2010 is \$8,333.

**Contingencies** – The Board has received several state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements by grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, Board management believes such disallowances, if any, will be immaterial.

**NOTE 31. PRIOR PERIOD ADJUSTMENTS**

**CITY OF AUBURN PRIMARY GOVERNMENT**

During fiscal year 2010, a prior period adjustment of \$10,000 was recorded to capitalize the cost of land near Memorial Park Cemetery that was not previously included in the City's capital assets. When the City transferred a portion of the cemetery land to the Auburn Board of Education for use as a parking lot, it was discovered that the land had never been capitalized. The City used the original deed as the basis for recording the cost of the land during the current fiscal year.

**PRIVATE PURPOSE TRUST FUND**

During fiscal year 2010, a prior period adjustment of \$22,390 was recorded to recognize a cash account that had not been previously included in the Youth Athletic Association's assets. The omission of the cash account was discovered when the City transferred all of the Association's checking accounts from one bank to another.

**NOTE 32. LANDFILL CLOSURE AND POSTCLOSURE CARE**

State and federal laws and regulations require the City to place a final cover on its inert landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City's landfill closed in fiscal year 2000. Post closure care costs are paid only after the date that the landfill stops accepting waste; the City reports these post closure care costs in governmental activities' long-term debt and other liabilities. There were no expenditures for landfill closure and post closure care during fiscal year 2010. The \$175,000 reported as landfill post closure care liability in the governmental activities' long-term debt and other liabilities at September 30, 2010, represents estimated costs of post closure care based on what it would cost to perform all post closure care in 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

CITY OF AUBURN, ALABAMA  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2010

**NOTE 33. RELATED PARTY TRANSACTIONS**

**COMPONENT UNIT**

**Industrial Development Board**

During fiscal year 1995, the Industrial Development Board entered into a capital lease agreement with one of its Board members. The Board leased a parcel of land located in one of its Industrial Parks to the Board member for a term of twenty years with lease payments over the term of the lease totaling \$50,000. The lease contains a bargain-purchase option for a minimal amount and all rentals due under the lease (\$50,000) were paid in advance during fiscal year 1995.

**NOTE 34. SPECIAL ITEMS – CERTAIN RECEIVABLE TRANSACTIONS**

During 2002, the City entered into an agreement with Veolia Water North America Operating Services, LLC (Veolia), which provides for the operation, management and maintenance of the City's publicly owned wastewater treatment facilities. During fiscal year 2010, the City and Veolia agreed to amend the agreement to provide a one-time, mid-term concession payment by Veolia to the City in the amount of \$675,000, which will be paid in the form of credits against future Veolia invoices. Also, the City and Veolia amended the original agreement to include services not contemplated in the original agreement and to make provision for a better review and exchange of operational and financial information between the two parties.

**NOTE 35. EXTRAORDINARY ITEM – EXTINGUISHMENT OF DEBT**

**COMPONENT UNIT**

**Industrial Development Board**

On July 28, 2010, the Board retired its Series 2000-A Tax-Exempt Infrastructure Improvement Bonds in the original principal amount of \$4,680,000 and its Series 2004-A Taxable Industrial Development Refunding and Infrastructure Bonds in the original principal amount of \$12,075,000, using funds received pursuant to its Appropriation Agreements with the City of Auburn. The Board recognized a loss from extinguishment of debt calculated as follows:

Reacquisition price of debt extinguished	\$ 13,220,000
Less: Net carrying amount of debt extinguished	<u>(12,888,762)</u>
Loss from extinguishment of debt	<u>\$ 331,238</u>

The reacquisition price consists of the principal amount remaining on the extinguished debt. The net carrying amount is the amount due at maturity for the extinguished debt, plus unamortized debt issue costs and unamortized deferred amount on refunding related to the extinguished debt. The loss from extinguishment of debt is reported as an extraordinary item in the Statement of Revenues, Expenses and Changes in Net Assets.



City of Auburn



# Nonmajor Governmental Funds

## Special Revenue Funds

Special Revenue Funds are operating funds used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes other than special assessments or major capital projects.

**Seven-Cent Gas Tax Fund** accounts for funds received from the State of Alabama and expended for street related projects.

**Four and Five Cent Gas Tax Fund** accounts for Auburn's share of the State of Alabama four and five cent gas tax revenues and expenditures for the resurfacing, restoration and rehabilitation of roads, bridges and streets.

**Public Safety - Substance Abuse Fund** accounts for funds received from the U.S. Marshal and the State of Alabama to be used for enforcement of laws against drug trafficking.

**Grants – General Activities** accounts for state and federal grants.

**Community Development Block Grant Fund** accounts for those funds received from federal Community Development Block Grants and expended for approved community development projects.

**Federal Grant Loan Repayment Fund** accounts for mortgage revenue from grants provided by the U.S. Department of Housing and Urban Development used to fund Title I projects within the city.

## Debt Service Funds

Debt Service Funds are used to account for the payment of principal and interest on long-term debt. Debt Service revenues are from taxes and other operating revenues, some of which are pledged specifically to repay certain outstanding bond issues.

**Special 5-Mill Tax Fund** accounts for general property tax receipts used to pay principal and interest on voted bonds issued to finance projects approved by the voters.

## Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

**'03 \$6.3 Million Capital Projects Fund** accounts for the proceeds of the General Obligation Warrant dated December 23, 2003. The proceeds are being used to finance infrastructure construction, road reconstruction, and improvements to the Parks and Recreation and Public Safety departments' facilities.

**Tennis Center/Library Expansion Fund** accounts for the proceeds of a General Obligation Warrant issued in fiscal year 2007. The proceeds will be used to construct the City portion of the Auburn Tennis Center and expansion of the existing library.

**Bent Creek/West Technology Park Fund** accounts for the proceeds of a General Obligation Warrant dated December 13, 2005. The proceeds are being used to finance infrastructure improvements within the City of Auburn.

**Tennis Center/AU Portion Fund** accounts for the proceeds of the General Obligation Warrant dated September 22, 2006. The proceeds are being used to construct the Auburn University portion of the Auburn Tennis Center.

**AU Research Park Capital Projects Fund** accounts for the infrastructure construction related to the Auburn Research Park, which is collaboration among the City of Auburn, Auburn University, and the State of Alabama.

**2009 Capital Projects Fund** accounts for the revenue and expenditure of bonds issued by the City for the construction and acquisition of public transportation improvements, recreational facility improvements, and fire protection services improvements.

**CITY OF AUBURN, ALABAMA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
September 30, 2010**

	Special Revenue Funds							Debt Service Fund
	Seven-Cent Gas Tax Fund	Four and Five-Cent Gas Tax Fund	Public Safety- Substance Abuse Fund	Grants General Activities	Community Development Block Grant Fund	Federal Grant Loan Repayment Funds	Total	
<b>ASSETS</b>								
Cash and cash equivalents	147,454	109,962	110,370	150,057	\$ -	\$ 200,745	\$ 718,588	3,801,063
Receivables, net	12,228	9,561	-	37,293	99,676	-	158,758	29,981
Prepaid items	-	-	-	-	244	-	244	-
Mortgages receivable	-	-	-	-	-	1,330,790	1,330,790	-
Total assets	159,682	119,523	110,370	187,350	99,920	1,531,535	2,208,380	3,831,044
<b>LIABILITIES AND FUND BALANCES</b>								
Accounts payable and accrued liabilities	-	-	1,442	8,104	84,393	15,212	109,151	-
Due to other funds	-	-	-	-	15,527	-	15,527	-
Deferred revenue	-	-	-	10,465	-	-	10,465	-
Deferred program revenue	-	-	-	-	-	1,330,839	1,330,839	-
Total liabilities	-	-	1,442	18,569	99,920	1,346,051	1,465,982	-
Fund balances:								
Reserved:								
Prepaid expenses	-	-	-	-	244	-	244	-
Encumbrances	-	-	-	31,284	52,411	189,127	272,822	-
Unreserved:								
Undesignated (deficit)	159,682	119,523	108,928	137,497	(52,655)	(3,643)	469,332	3,831,044
Total fund balances	159,682	119,523	108,928	168,781	-	185,484	742,398	3,831,044
Total liabilities and fund balances	159,682	119,523	110,370	187,350	99,920	1,531,535	2,208,380	3,831,044

Capital Projects Funds

	'03 6.3 Mil Capital Projects Fund	Tennis Center/ Library Expansion Fund	Bent Creek Interchange/ West Tech Park Fund	Tennis Center/ AU Portion Fund	AU Research Park Capital Projects Fund	2009 Capital Projects Fund	Total	Total Nonmajor Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 119,213	\$ -	\$ 403,453	\$ 104,227	\$ 107,527	\$ 3,763,491	\$ 4,497,911	\$ 9,017,562
Receivables, net	3,445	-	-	-	20,380	511,179	535,004	723,743
Prepaid items	-	-	-	-	-	-	-	244
Mortgages receivable	-	-	-	-	-	-	-	1,330,790
Total assets	122,658	-	403,453	104,227	127,907	4,274,670	5,032,915	11,072,339
LIABILITIES AND FUND BALANCES								
Accounts payable and accrued liabilities	56,927	-	-	-	66,939	508,695	632,561	741,712
Due to other funds	-	-	-	-	-	-	-	15,527
Deferred revenue	-	-	-	-	-	-	-	10,465
Deferred program revenue	-	-	-	-	-	-	-	1,330,839
Total liabilities	56,927	-	-	-	66,939	508,695	632,561	2,098,543
Fund balances:								
Reserved:								
Prepaid expenses	-	-	-	-	-	-	-	244
Encumbrances	96,133	-	-	-	13,628	2,992,755	3,102,516	3,375,338
Unreserved:								
Undesignated (deficit)	(30,402)	-	403,453	104,227	47,340	773,220	1,297,838	5,598,214
Total fund balances	65,731	-	403,453	104,227	60,968	3,765,975	4,400,354	8,973,796
Total liabilities and fund balances	122,658	-	403,453	104,227	127,907	4,274,670	5,032,915	11,072,339

**CITY OF AUBURN, ALABAMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Special Revenue Funds							Total	Debt Service Fund
	Seven-Cent Gas Tax Fund	Four and Five-Cent Gas Tax Fund	Public Safety-Substance Abuse Fund	Grants General Activities	Community Development Block Grant Fund	Federal Grant Loan Repayment Funds	Total		
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	
General property taxes	-	-	-	-	-	-	-	3,657,712	
State shared taxes	135,548	105,605	-	-	-	-	241,153	-	
Contributions from the public	-	-	107,704	9,547	-	-	117,251	-	
Grants	-	-	-	1,580,486	892,187	-	2,472,673	-	
Program income	-	-	-	-	-	521,164	521,164	-	
Interest	1,286	1,005	2,020	-	-	53,437	57,748	48,663	
Miscellaneous	-	-	-	-	-	118	118	-	
<b>Total revenues</b>	<u>136,834</u>	<u>106,610</u>	<u>109,724</u>	<u>1,590,033</u>	<u>892,187</u>	<u>574,719</u>	<u>3,410,107</u>	<u>3,706,375</u>	
<b>Expenditures</b>									
General government and administration	-	-	-	47,761	-	-	47,761	-	
Public works	-	-	-	-	-	-	-	-	
Public safety	-	-	23,973	177,631	-	-	201,604	-	
Library	-	-	-	12,500	-	-	12,500	-	
Economic development	-	-	-	-	907,660	291,270	1,198,930	-	
Total departmental	-	-	23,973	237,892	907,660	291,270	1,460,795	-	
Non-departmental	-	-	-	-	-	-	-	126,441	
Debt service:									
Principal retirement	-	-	-	-	-	-	-	2,545,000	
Interest	-	-	-	-	-	-	-	1,092,369	
Administrative charges	-	-	-	-	-	-	-	10,152	
Capital outlay	-	-	185,343	1,130,603	456,862	-	1,772,808	-	
Intergovernmental	-	-	-	197,609	-	-	197,609	-	
Payments to component units	-	-	-	-	-	285,000	285,000	-	
Total expenditures	<u>-</u>	<u>-</u>	<u>209,316</u>	<u>1,566,104</u>	<u>1,364,522</u>	<u>576,270</u>	<u>3,716,212</u>	<u>3,773,962</u>	
Excess (deficiency) of revenues over expenditures	136,834	106,610	(99,592)	23,929	(472,335)	(1,551)	(306,105)	(67,587)	
Other financing sources (uses)									
Transfers in	-	-	-	-	472,335	-	472,335	-	
Transfers out	(90,000)	(80,000)	-	-	-	(472,335)	(642,335)	-	
Total other financing sources (uses)	<u>(90,000)</u>	<u>(80,000)</u>	<u>-</u>	<u>-</u>	<u>472,335</u>	<u>(472,335)</u>	<u>(170,000)</u>	<u>-</u>	
Net changes in fund balances	46,834	26,610	(99,592)	23,929	-	(473,886)	(476,105)	(67,587)	
Fund balances, beginning of year	112,848	92,913	208,519	144,850	-	659,371	1,218,501	3,898,631	
Fund balances, end of year	<u>159,682</u>	<u>119,523</u>	<u>108,927</u>	<u>168,779</u>	<u>-</u>	<u>185,485</u>	<u>742,396</u>	<u>3,831,044</u>	

Capital Projects Funds

	'03 6.3 Mill Capital Projects Fund	Tennis Center/ Library Expansion Fund	Bent Creek Interchange/ West Tech Park Fund	Tennis Center/ AU Portion Fund	AU Research Park Capital Projects Fund	2009 Capital Projects Fund	Total	Total Nonmajor Governmental Funds
Revenues	\$	\$	\$	\$	\$	\$	\$	\$
General property taxes	-	-	-	-	-	-	-	3,657,712
State shared taxes	-	-	-	-	-	-	-	241,153
Contributions from the public	20,000	-	-	-	-	500,277	520,277	637,528
Grants	82,540	-	-	-	-	-	82,540	2,555,213
Program income	-	-	-	-	-	-	-	521,164
Interest	2,700	39	4,147	1,208	1,144	48,438	57,676	164,087
Miscellaneous	-	-	-	-	-	-	-	118
Total revenues	105,240	39	4,147	1,208	1,144	548,715	660,493	7,776,975
Expenditures								
General government and administration	-	-	-	-	-	-	-	47,761
Public works	186,195	-	-	-	-	34,755	220,950	220,950
Public safety	-	-	-	-	-	-	-	201,604
Library	-	-	-	-	-	-	-	12,500
Economic development	-	-	-	-	-	-	-	1,198,930
Total departmental	186,195	-	-	-	-	34,755	220,950	1,681,745
Non-departmental	-	-	-	-	-	-	-	126,441
Debt service:								
Principal retirement	-	-	-	-	-	-	-	2,545,000
Interest	-	-	-	-	-	-	-	1,092,369
Administrative charges	-	-	-	-	-	-	-	10,152
Capital outlay	240,800	322	11,588	-	64,665	4,005,266	4,311,053	6,083,861
Intergovernmental	-	-	3,790	17,435	-	-	11,588	209,197
Payments to component units	-	-	15,378	17,435	-	-	21,225	306,225
Total expenditures	426,995	322	15,378	17,435	64,665	4,040,021	4,564,816	12,054,990
Excess (deficiency) of revenues over expenditures	(321,755)	(283)	(11,231)	(16,227)	(63,521)	(3,491,306)	(3,904,323)	(4,278,015)
Other financing sources (uses)								
Transfers in	11,686	-	-	-	-	-	11,686	484,021
Transfers out	-	(11,686)	-	-	-	-	(11,686)	(654,021)
Total other financing sources (uses)	11,686	(11,686)	-	-	-	-	-	(170,000)
Net changes in fund balances	(310,069)	(11,969)	(11,231)	(16,227)	(63,521)	(3,491,306)	(3,904,323)	(4,448,015)
Fund balances, beginning of year	375,800	11,969	414,684	120,453	124,488	7,257,285	8,304,679	13,421,811
Fund balances, end of year	65,731	-	403,453	104,226	60,967	3,765,979	4,400,356	8,973,796

**CITY OF AUBURN, ALABAMA**  
**SEVEN-CENT GAS TAX SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues	\$	\$	\$	\$
State shared taxes	108,500	108,500	135,548	27,048
Interest	<u>1,000</u>	<u>1,000</u>	<u>1,286</u>	<u>286</u>
Total revenues	109,500	109,500	136,834	27,334
Other financing sources (uses)				
Transfers out	<u>(90,000)</u>	<u>(90,000)</u>	<u>(90,000)</u>	<u>-</u>
Net changes in fund balances	19,500	19,500	46,834	27,334
Fund balances, beginning of year	<u>112,848</u>	<u>112,848</u>	<u>112,848</u>	<u>-</u>
Fund balances, end of year	<u><u>132,348</u></u>	<u><u>132,348</u></u>	<u><u>159,682</u></u>	<u><u>27,334</u></u>

**CITY OF AUBURN, ALABAMA**  
**FOUR AND FIVE CENT GAS TAX SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues	\$	\$	\$	\$
State shared taxes	90,750	90,750	105,605	14,855
Interest	<u>1,000</u>	<u>1,000</u>	<u>1,005</u>	<u>5</u>
Total revenues	91,750	91,750	106,610	14,860
Other financing sources (uses)				
Transfers out	<u>(80,000)</u>	<u>(80,000)</u>	<u>(80,000)</u>	<u>-</u>
Net changes in fund balances	11,750	11,750	26,610	14,860
Fund balances, beginning of year	<u>92,913</u>	<u>92,913</u>	<u>92,913</u>	<u>-</u>
Fund balances, end of year	<u><u>104,663</u></u>	<u><u>104,663</u></u>	<u><u>119,523</u></u>	<u><u>14,860</u></u>

**CITY OF AUBURN, ALABAMA**  
**PUBLIC SAFETY SUBSTANCE ABUSE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues	\$	\$	\$	\$
Contributions from the public	500	76,895	107,704	30,809
Interest	<u>2,500</u>	<u>2,500</u>	<u>2,020</u>	<u>(480)</u>
Total revenues	<u>3,000</u>	<u>79,395</u>	<u>109,724</u>	<u>30,329</u>
Expenditures				
Public safety	3,000	21,800	23,973	(2,173)
Capital outlay	<u>25,000</u>	<u>229,868</u>	<u>185,343</u>	<u>44,525</u>
Total expenditures	<u>28,000</u>	<u>251,668</u>	<u>209,316</u>	<u>42,352</u>
Net changes in fund balances	(25,000)	(172,273)	(99,592)	72,681
Fund balances, beginning of year	<u>208,519</u>	<u>208,519</u>	<u>208,519</u>	<u>-</u>
Fund balances, end of year	<u><u>183,519</u></u>	<u><u>36,246</u></u>	<u><u>108,927</u></u>	<u><u>72,681</u></u>

**CITY OF AUBURN, ALABAMA**  
**SPECIAL 5-MILL TAX DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues	\$	\$	\$	\$
General property tax	3,325,000	3,645,000	3,657,712	12,712
Interest	<u>80,000</u>	<u>80,000</u>	<u>48,663</u>	<u>(31,337)</u>
Total revenues	<u>3,405,000</u>	<u>3,725,000</u>	<u>3,706,375</u>	<u>(18,625)</u>
Expenditures				
Non-departmental	110,000	135,000	126,441	8,559
Debt service:				
Principal retirement	2,312,678	2,545,000	2,545,000	-
Interest	1,230,853	1,111,235	1,092,369	18,866
Administrative charges	<u>240,000</u>	<u>8,026</u>	<u>10,152</u>	<u>(2,126)</u>
Total expenditures	<u>3,893,531</u>	<u>3,799,261</u>	<u>3,773,962</u>	<u>25,299</u>
Net changes in fund balances	(488,531)	(74,261)	(67,587)	6,674
Fund balances, beginning of year	<u>3,898,631</u>	<u>3,898,631</u>	<u>3,898,631</u>	<u>-</u>
Fund balances, end of year	<u><u>3,410,100</u></u>	<u><u>3,824,370</u></u>	<u><u>3,831,044</u></u>	<u><u>6,674</u></u>



City of Auburn



## Nonmajor Component Units

### **Public Park & Recreation Board**

In October of 1990, the Auburn City Council authorized the establishment of a park and recreation board, primarily to act as an advisor to the Council concerning proposed recreation projects and to acquire such recreation facilities as may be deemed to be in the public interest.

All three Board members are appointed by the City Council, which maintains a significant degree of control over the Board's officials. The City exercises total control over budgetary adoption requests and revisions and has responsibility for funding deficits and operating deficiencies of the Board. The Public Park and Recreation Board is a proprietary fund type or business-type activity.

This component unit currently accounts for the operation of the Yarbrough Tennis Center, which opened in July 2007.

### **Commercial Development Authority**

On August 12, 2004, the Commercial Development Authority of the City of Auburn was incorporated. The City Council appoints all members of the Authority; the Authority conducts the City's commercial development efforts on behalf of the City Council. The Authority acts as a financing conduit to facilitate the recruitment of commercial projects to the City. Daily commercial development activities are conducted by the City's Economic Development Department, and the Department acts as a liaison between the Commercial Development Authority and the City Council.

The City is the Authority's primary source of operating funds. The City has responsibility for funding deficits and operating deficiencies of the Authority, and the Council exercises significant influence over the Authority's actions. The Commercial Development Authority of the City of Auburn is presented as a proprietary fund type or business-type activity.

**CITY OF AUBURN, ALABAMA**  
**DISCRETELY PRESENTED BUSINESS-TYPE NONMAJOR COMPONENT UNITS**  
**COMBINING STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2010**

	Public Park and Recreation Board	Commercial Development Authority	Total
	\$	\$	\$
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	150	-	150
Receivables, net	12,060	-	12,060
Total current assets	<u>12,210</u>	<u>-</u>	<u>12,210</u>
Noncurrent assets			
Capital assets, net of accumulated depreciator	6,349,179	-	6,349,179
Total assets	<u>6,361,389</u>	<u>-</u>	<u>6,361,389</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other accrued liabilities	50,576	100	50,676
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,349,179	-	6,349,179
Unrestricted (deficit)	<u>(38,366)</u>	<u>(100)</u>	<u>(38,466)</u>
Total net assets	<u>6,310,813</u>	<u>(100)</u>	<u>6,310,713</u>

**CITY OF AUBURN, ALABAMA**  
**DISCRETELY PRESENTED BUSINESS-TYPE NONMAJOR COMPONENT UNITS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER, 30 2010**

	Public Park and Recreation Board	Commercial Development Authority	Total
	\$	\$	\$
Operating revenues			
Tennis center revenue	73,741	-	73,741
Miscellaneous	63,479	-	63,479
Total operating revenues	<u>137,220</u>	<u>-</u>	<u>137,220</u>
Operating expenses			
Salaries and wages	144,886	-	144,886
Employee benefits	29,561	-	29,561
Repairs and maintenance	18,282	-	18,282
Utilities	97,226	-	97,226
Rentals and leasing	2,137	-	2,137
Insurance	3,375	-	3,375
Administrative costs and fees	-	3	3
Professional services	103	375	478
Agricultural and chemical supplies	140	-	140
Recreational supplies	7,368	-	7,368
Depreciation/amortization	299,302	662	299,964
Travel and training	282	-	282
Total operating expenses	<u>602,662</u>	<u>1,040</u>	<u>603,702</u>
Operating income (loss)	<u>(465,442)</u>	<u>(1,040)</u>	<u>(466,482)</u>
Non-operating revenues (expenses)			
Interest and investment earnings	5	-	5
Appropriations from the City of Auburn	149,946	375	150,321
Interest and fiscal charges	(946)	-	(946)
Total non-operating revenues (expenses)	<u>149,005</u>	<u>375</u>	<u>149,380</u>
Income (loss) before other revenues, expenses, gains, losses, and transfers	(316,437)	(665)	(317,102)
Capital contributions			
From the City of Auburn	<u>17,435</u>	<u>-</u>	<u>17,435</u>
Change in net assets	(299,002)	(665)	(299,667)
Net assets--beginning of year	<u>6,609,815</u>	<u>565</u>	<u>6,610,380</u>
Net assets--end of year	<u><u>6,310,813</u></u>	<u><u>(100)</u></u>	<u><u>6,310,713</u></u>

**CITY OF AUBURN, ALABAMA**  
**DISCRETELY PRESENTED BUSINESS-TYPE NONMAJOR COMPONENT UNITS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER, 30 2010**

	Public Park and Recreation Board	Commercial Development Authority	Total
	\$	\$	\$
Cash flows from operating activities			
Cash collected from customers	139,802	-	139,802
Payments to suppliers for goods and services	(89,083)	(378)	(89,461)
Payments to employees for services	(174,447)	-	(174,447)
	<u>(123,728)</u>	<u>(378)</u>	<u>(124,106)</u>
Net cash provided (consumed) by operating activities (A)			
Cash flows from noncapital financing activities			
Operating transfers in	149,946	375	150,321
	<u>149,946</u>	<u>375</u>	<u>150,321</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(42,712)	-	(42,712)
Interest and fiscal fees paid	(946)	-	(946)
Contributions from primary government	17,435	-	17,435
	<u>(26,223)</u>	<u>-</u>	<u>(26,223)</u>
Net cash provided (consumed) by capital and related financing activities			
Cash flows from investing activities			
Interest on investments	5	-	5
	<u>5</u>	<u>-</u>	<u>5</u>
Net increase (decrease) in cash	-	(3)	(3)
Cash and cash equivalents, beginning of year	150	3	153
Cash and cash equivalents, end of year	<u>150</u>	<u>-</u>	<u>150</u>
<b>Reconciliation of operating income (loss) to net cash provided (consumed) by operating activities (A):</b>			
Operating income (loss)	(465,443)	(1,040)	(466,483)
Add:			
Depreciation/amortization expense	299,302	662	299,964
Increase in account payable/accrued liabilities	39,830	-	39,830
Decrease in accounts receivable	2,582	-	2,582
	<u>(123,729)</u>	<u>(378)</u>	<u>(124,107)</u>
Net cash provided (consumed) by operating activities			

## **Capital Assets Used in the Operation of Governmental Funds**

These schedules present supplementary information on capital assets by source and by function and activity. In addition, the changes in capital assets from the prior fiscal year are presented by function and activity.

**CITY OF AUBURN, ALABAMA**  
**CAPITAL ASSETS USED IN OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY SOURCE**  
**SEPTEMBER 30, 2010**

Governmental funds capital assets	\$
Land, buildings and improvements	51,833,753
Construction in progress	4,042,192
Communication equipment	397,236
Heavy equipment	2,310,554
Office equipment	3,163,798
Small tools and equipment	1,052,100
Vehicles	6,881,170
Infrastructure	<u>119,212,105</u>
Total governmental funds capital assets	<u><u>188,892,908</u></u>
Investment in governmental funds capital assets by source	
General fund revenues	131,559,915
Capital projects funds	45,100,558
Federal grants	6,057,205
State grants	237,711
Special revenue fund revenues	2,616,928
Donations	1,315,663
Special assessments	27,800
Enterprise fund revenues	1,216,935
Unclassified	<u>760,193</u>
Total investment in governmental funds capital assets	<u><u>188,892,908</u></u>

**CITY OF AUBURN, ALABAMA**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION AND ACTIVITY**  
**SEPTEMBER 30, 2010**

Function and Activity	Total	Land Buildings & Improvements	Construction in Progress	Communication Equipment	Heavy Equipment	Office Equipment	Small Tools and Equipment	Vehicles	Infrastructure
General government and administration	\$ 1,972,825	\$ 27,021	\$ 21,817	\$ 5,600	\$ -	\$ 1,252,577	\$ 41,399	\$ 67,478	\$ 556,933
Information technology	190,773	-	-	-	-	190,773	-	-	-
Geographical information systems	20,734	12,400	-	-	-	8,334	-	-	-
Judicial	240,335	150,855	65,807	-	-	-	-	23,673	-
Administrative	780,204	-	-	-	-	762,024	-	18,180	-
Finance									
Total general government and administration	3,204,871	190,276	87,624	5,600	-	2,213,708	41,399	109,331	556,933
Public works administration	124,144,908	3,057,003	3,722,757	-	1,169,830	96,055	77,700	1,002,893	115,018,670
Environmental services	1,379,563	350,445	-	-	364,208	6,658	108,255	552,997	-
Public safety administration	5,455,476	4,686,196	-	239,836	-	365,956	-	22,162	141,326
Fire	3,035,547	197,191	37,236	-	279,762	-	157,608	2,363,750	-
Police and jail administration	2,716,184	130,593	-	151,800	-	109,230	411,341	1,913,220	-
Codes enforcement	95,327	-	-	-	-	7,421	-	87,906	-
Library	5,267,537	5,011,861	2,044	-	-	253,632	-	-	-
Parks and recreation	23,379,424	18,247,502	120,842	-	499,754	5,425	255,797	754,928	3,495,176
Planning	42,769	-	-	-	-	5,583	-	37,186	-
Human resource management	592,773	473,202	-	-	-	100,130	-	19,441	-
Economic development	260,965	171,920	71,689	-	-	-	-	17,356	-
Total departmental	169,575,344	32,516,189	4,042,192	397,236	2,310,554	3,163,798	1,052,100	6,881,170	119,212,105
Nondepartmental	19,317,564	19,317,564	-	-	-	-	-	-	-
Total governmental funds capital assets	188,892,908	51,833,753	4,042,192	397,236	2,310,554	3,163,798	1,052,100	6,881,170	119,212,105

**CITY OF AUBURN, ALABAMA**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**  
**SEPTEMBER 30, 2010**

	Governmental Funds Capital Assets September 30, 2009	Transfers/ Additions	Transfers/ Deductions	Governmental Funds Capital Assets September 30, 2010
General government and administration	\$	\$	\$	\$
Information technology	1,652,142	320,683	-	1,972,825
Geographical information systems	184,006	13,475	(6,708)	190,773
Judicial	20,734	-	-	20,734
Administrative	182,023	65,807	(7,495)	240,335
Finance	780,204	-	-	780,204
Total general government and administration	2,819,109	399,965	(14,203)	3,204,871
Public works administration	113,842,857	17,951,935	(7,649,884)	124,144,908
Environmental services	1,368,139	40,159	(28,735)	1,379,563
Public safety administration	5,223,162	628,198	(395,884)	5,455,476
Fire	2,861,412	386,677	(212,542)	3,035,547
Police and jail administration	2,630,894	321,499	(236,209)	2,716,184
Codes enforcement	96,850	14,271	(15,794)	95,327
Library	5,244,232	23,305	-	5,267,537
Parks and recreation	22,827,658	1,249,980	(698,214)	23,379,424
Planning	42,769	-	-	42,769
Human resource management	580,362	12,411	-	592,773
Economic development	218,259	46,460	(3,754)	260,965
Total departmental	157,755,703	21,074,860	(9,255,219)	169,575,344
Nondepartmental	19,317,564	-	-	19,317,564
Total governmental funds capital assets	177,073,267	21,074,860	(9,255,219)	188,892,908



# STATISTICAL SECTION

This part of the City of Auburn’s comprehensive annual financial report presents detailed information about the government’s economic condition. This section aids in understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

<b>Contents</b>	<b>Page</b>
<b>Financial Trends – Tables 1-5 .....</b>	<b>141</b>
<i>These schedules contain trend information to help the reader understand and assess how the government’s financial position has changed over time.</i>	
<b>Revenue Capacity – Tables 6-11 .....</b>	<b>148</b>
<i>These schedules contain information to help the reader assess the government’s most significant revenue source, sales tax. Supplementary information on property tax is also presented in tables 9-11.</i>	
<b>Debt Capacity – Tables 12-16 .....</b>	<b>152</b>
<i>These schedules contain information to help the reader assess the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.</i>	
<b>Demographic and Economic Information – Tables 17-18.....</b>	<b>156</b>
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i>	
<b>Operating Information – Tables 19-21 .....</b>	<b>158</b>
<i>These schedules contain information to help the reader understand the government’s operations and resources.</i>	

Sources: Unless otherwise noted, the information in this section is derived from the comprehensive annual financial reports for the relevant year.



City of Auburn

Table 1

**City of Auburn**  
**Net Assets by Activity Type**

Last Eight Fiscal Years\*

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Primary government - governmental activities</b>								
Invested in capital assets, net of related debt	17,249,619	23,976,799	28,158,145	27,697,793	57,850,766	74,502,152	75,764,472	81,866,977
Restricted	(26,814,317)	4,901,497	6,983,053	8,295,236	8,621,350	9,642,375	10,992,367	12,021,563
Unrestricted	13,771,290	(15,733,465)	(47,533,915)	(45,338,108)	(52,786,017)	(56,231,481)	(63,639,574)	(74,342,301)
<b>Total governmental activities net assets</b>	<b>4,206,592</b>	<b>13,144,831</b>	<b>(12,392,717)</b>	<b>(9,345,079)</b>	<b>13,686,099</b>	<b>27,913,046</b>	<b>23,117,265</b>	<b>19,546,239</b>
<b>Primary government - business-type activities</b>								
Invested in capital assets, net of related debt	12,466,156	11,725,340	12,376,420	14,868,116	22,279,811	24,755,968	25,486,581	25,830,053
Restricted	9,621,721	4,444,361	1,460,163	1,931,130	-	-	20,739,857	3,876,709
Unrestricted	(7,469,591)	339,141	4,510,401	3,535,503	1,747,051	(574,995)	(20,859,392)	(2,025,635)
<b>Total business-type activities net assets</b>	<b>14,618,286</b>	<b>16,508,842</b>	<b>18,346,984</b>	<b>20,334,749</b>	<b>24,026,862</b>	<b>24,180,973</b>	<b>25,367,046</b>	<b>27,681,127</b>
<b>Total primary government</b>								
Invested in capital assets, net of related debt	29,715,775	35,702,139	34,830,697	42,565,909	80,130,577	99,258,120	101,251,053	107,697,030
Restricted	(17,192,596)	9,345,858	8,443,216	10,226,366	8,621,350	9,642,375	31,732,224	15,898,272
Unrestricted	6,301,699	(15,394,324)	(37,319,646)	(41,802,605)	(51,038,966)	(56,806,476)	(84,498,966)	(76,367,956)
<b>Total primary government net assets</b>	<b>18,824,878</b>	<b>29,653,673</b>	<b>5,954,267</b>	<b>10,989,670</b>	<b>37,712,961</b>	<b>52,094,019</b>	<b>48,484,311</b>	<b>47,227,366</b>

\* Net assets information available starting in 2003 with the implementation of GASB Statement 34.

Table 2  
**City of Auburn**  
**Changes in Net Assets**  
 Last Eight Fiscal Years~

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses	\$	\$	\$	\$	\$	\$	\$	\$
<b>Governmental activities:</b>								
General government and administration	3,807,989	4,189,200	4,789,687	4,660,538	5,283,272	6,174,239	6,155,735	6,270,653
Public works	2,598,479	2,724,146	2,960,817	9,169,765	7,507,853	7,078,353	7,574,881	6,844,357
Environmental services	3,563,536	3,498,406	4,038,158	4,008,405	4,066,793	4,604,401	1,770,911	1,670,173
Public safety	9,428,411	10,699,162	12,634,612	12,887,286	13,516,129	15,143,318	16,288,317	16,904,689
Library	947,709	1,052,313	1,146,947	1,292,363	1,370,600	1,550,700	1,678,410	1,613,894
Parks and recreation	3,598,629	3,745,118	4,247,362	4,962,677	11,055,017	5,287,171	6,207,871	5,377,218
Planning	379,761	381,375	502,342	492,700	604,603	648,516	614,034	665,283
Social and economic development	1,454,453	1,559,427	3,894,096	5,765,202	12,049,201	10,794,553	5,353,639	17,864,393
Human resources	434,485	440,976	472,238	483,065	536,067	584,270	697,585	704,963
Risk management	254,694	426,002	506,603	1,018,109	933,550	768,281	1,297,761	1,289,942
Payments to component units	8,105,050	10,404,387	- *	-	-	-	-	-
Education (payments to Board of Education)	-	-	42,322,984	10,001,243	12,625,643	11,995,523	21,544,112	13,530,795
Interest on long-term debt	3,220,265	3,508,570	3,929,464	5,519,505	5,688,402	5,954,377	5,860,550	5,346,829
<b>Total governmental activities expenses</b>	<b>37,793,461</b>	<b>42,629,082</b>	<b>81,445,310</b>	<b>60,260,858</b>	<b>75,237,130</b>	<b>70,583,702</b>	<b>75,043,806</b>	<b>78,083,189</b>
<b>Business-type activities:</b>								
Sewer Fund	4,487,091	4,434,526	4,753,076	6,221,067	6,305,910	6,903,856	7,825,230	7,804,203
Solid Waste Management Fund	-	-	-	-	-	-	3,178,574	3,385,837
Industrial Parks	188	226	213	284	141,742	-	-	-
<b>Total business-type activities expenses</b>	<b>4,487,279</b>	<b>4,434,752</b>	<b>4,753,289</b>	<b>6,221,351</b>	<b>6,447,652</b>	<b>6,903,856</b>	<b>11,003,804</b>	<b>11,190,040</b>
<b>Total primary government expenses</b>	<b>42,280,740</b>	<b>47,063,834</b>	<b>86,198,599</b>	<b>66,482,209</b>	<b>81,684,782</b>	<b>77,487,558</b>	<b>86,047,610</b>	<b>89,273,229</b>
<b>Program Revenues</b>								
<b>Governmental activities:</b>								
<b>Charges for services:</b>								
General government and administration	6,239,721	6,997,753	7,455,522	8,109,059	9,018,591	9,203,949	11,254,130	10,890,570
Public works	800	1,906	-	-	-	-	-	-
Environmental services	2,147,653	2,304,068	2,459,025	2,571,865	2,686,555	2,789,426	-	-
Public safety	594,138	799,832	2,620,202	2,611,876	2,907,125	3,144,717	3,091,180	3,218,920
Library	11,300	12,427	16,125	30,226	29,236	32,435	37,558	42,893
Parks and recreation	249,791	231,676	413,535	690,660	715,521	670,682	807,267	785,095
Planning	50,233	58,427	60,323	59,962	61,459	43,379	30,002	38,322
Employee services	676,662	-	-	-	-	-	-	-
Risk management	-	144,095	187,407	457,318	361,578	415,381	716,141	741,130
Operating grants and contributions	1,251,871	2,093,912	1,678,375	2,051,801	1,841,713	2,112,431	2,975,232	2,378,429
Capital grants and contributions	857,782	548,829	306,081	861,585	1,337,648	14,639,704	1,898,595	4,238,477
<b>Total governmental activities program revenue</b>	<b>12,079,951</b>	<b>13,192,925</b>	<b>15,196,595</b>	<b>17,444,352</b>	<b>18,959,426</b>	<b>33,052,104</b>	<b>20,810,105</b>	<b>22,333,836</b>
<b>Business-type activities:</b>								
<b>Charges for services:</b>								
Sewer Fund	5,113,315	5,223,391	5,271,475	6,098,422	6,736,899	6,486,904	7,758,337	8,722,591
Solid Waste Management Fund	-	-	-	-	-	-	3,118,925	3,133,116
Operating grants and contributions	-	-	-	-	-	-	1,000	39,831
Capital grants and contributions	921,575	900,675	979,578	1,524,865	2,961,120	610,781	1,178,184	605,467
<b>Total business-type activities program revenues</b>	<b>6,034,890</b>	<b>6,124,066</b>	<b>6,251,053</b>	<b>7,623,287</b>	<b>9,698,019</b>	<b>7,097,685</b>	<b>12,056,446</b>	<b>12,501,005</b>
<b>Total primary government program revenues</b>	<b>18,114,841</b>	<b>19,316,991</b>	<b>21,447,648</b>	<b>25,067,639</b>	<b>28,657,445</b>	<b>40,149,789</b>	<b>32,866,551</b>	<b>34,834,841</b>
<b>Net (expense)/revenue</b>								
Governmental activities	(25,713,510)	(29,436,157)	(66,248,715)	(42,816,506)	(56,277,704)	(37,531,598)	(54,233,701)	(55,749,353)
Business-type activities	1,547,611	1,689,314	1,497,764	1,401,936	3,250,367	193,829	1,052,642	1,310,965
<b>Total primary government net expense</b>	<b>(24,165,899)</b>	<b>(27,746,843)</b>	<b>(64,750,951)</b>	<b>(41,414,570)</b>	<b>(53,027,337)</b>	<b>(37,337,769)</b>	<b>(53,181,059)</b>	<b>(54,438,388)</b>

~ Net assets information available starting in 2003 with the implementation of GASB Statement 34.

\*GFOA recommended that we not have the payments to component units. Starting with FY 2005, payments to the IDB are included in social and economic development. Payments to the school board are listed separately.

Table 2 Continued

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$
<b>General Revenues and Other Changes in Net Assets</b>								
Government activities:								
Taxes:								
Sales taxes	14,589,315	17,959,076	18,429,013	20,773,724	21,784,157	21,044,830	20,143,854	21,081,232
Occupational license fees	5,557,851	7,197,943	6,785,103	7,402,470	7,826,656	8,174,202	8,107,024	8,448,505
Property taxes	8,553,150	10,176,644	11,791,602	12,658,858	15,057,103	16,953,172	19,053,631	20,169,135
Motor fuel taxes	483,054	495,322	461,800	491,778	504,228	502,460	260,447	278,467
Lodging taxes	548,362	568,887	668,094	1,085,063	1,369,273	1,425,637	1,184,540	1,253,511
Rental and leasing taxes	1,121,061	1,463,934	1,456,463	1,591,682	1,501,112	538,541	451,563	420,201
Cigarette taxes	102,809	96,708	91,188	93,177	86,776	84,663	78,290	77,423
Alcoholic beverage taxes	25,790	27,051	29,473	30,551	34,984	83,521	119,781	121,710
Interest and investment earnings	887,885	854,188	981,502	1,884,183	1,996,272	1,255,843	827,049	512,963
Gain (loss) on disposal of assets	(1,074,742)	2,644	18,245	139,743	(23,936)	31,509	(166,665)	-
Miscellaneous	21,545	28,312	6,655	38,151	31,970	30,927	10,277	38,073
Special items	-	-	173,492	(453,119)	(1,624,916)	1,727,516	-	-
Extraordinary items	-	-	221,070	-	-	-	-	-
Transfers	111,910	120,424	(95,349)	127,883	(5,110)	106,111	(631,870)	(232,893)
Total governmental activities	30,927,990	38,991,133	41,018,351	45,864,144	48,538,569	51,958,932	49,437,921	52,168,327
Business-type activities:								
Interest and investment earnings	353,612	321,665	245,029	416,657	370,249	43,263	139,237	45,538
Gain (loss) on disposal of assets	(2,255)	-	-	18,895	66,128	22,625	28,748	12,598
Miscellaneous	-	-	-	278,160	258	504	3,999	37,087
Special items	-	-	-	-	-	-	-	675,000
Transfers	(111,910)	(120,424)	95,349	(127,883)	5,110	(106,111)	(38,553)	232,893
Total business-type activities	239,447	201,241	340,378	585,829	441,745	(39,719)	133,431	1,003,116
Total primary government	31,167,437	39,192,374	41,358,729	46,449,973	48,980,314	51,919,213	49,571,352	53,171,443
<b>Changes in Net Assets</b>								
Governmental activities	5,214,480	9,554,976	(25,230,364)	3,047,638	(7,739,135)	14,427,334	(4,795,780)	(3,581,026)
Business-type activities	1,787,058	1,890,555	1,838,142	1,987,765	3,692,112	154,110	1,186,073	2,314,081
Total primary government	7,001,538	11,445,531	(23,392,222)	5,035,403	(4,047,023)	14,581,444	(3,609,707)	(1,266,945)

**Table 3**  
**City of Auburn ~ Primary Government**  
**General Government Tax Revenues by Source <sup>(1)</sup>**

Last Ten Fiscal Years  
*Unaudited*

Fiscal Year	Sales & Use Tax	Cigarette & ABC* Tax	Motor Fuel Tax	Lodging and Rental Tax	Financial			Motor Vehicle Tax	General Property Tax	Totals
					Institution Tax	Tax	Tax			
2001	\$ 12,554,602	\$ 105,137	\$ 680,049	\$ 513,913	\$ 22,755	\$ 74,584	\$ 7,459,103	\$ 21,410,143		
2002	13,160,761	125,754	748,700	828,711	7,869	108,910	8,050,340	23,031,045		
2003	14,589,315 <sup>(2)</sup>	144,608	708,905	967,841	39,374	84,500	8,388,489	24,923,032		
2004	17,959,076	172,784	751,944	1,019,463	79,347	89,209	9,959,852	30,031,675		
2005	18,429,013	159,533	695,734	1,091,843	193,876	110,811	11,342,765	32,023,575		
2006	20,773,724	170,340	717,911	1,584,378 <sup>(3)</sup>	450,412	87,880	12,699,720	36,484,365		
2007	21,784,157	159,104	724,202	1,857,539	269,083	112,779	14,650,666	39,557,530		
2008	21,044,830	162,266	739,673	1,910,610	277,306	115,165	16,420,033	40,669,884		
2009	20,143,854	164,539	749,811	1,612,284	245,537	138,276	18,696,415	41,750,714		
<b>2010</b>	<b>21,081,231</b>	<b>146,915</b>	<b>788,560</b>	<b>1,662,229</b>	<b>-</b>	<b>108,006</b>	<b>19,739,993</b>	<b>43,526,934</b>		

\* State Alcoholic Beverage Control Board

<sup>(1)</sup> Includes state shared taxes.

<sup>(2)</sup> Sales tax rate increased from 2.5% to 3.0% effective 8/1/03.

<sup>(3)</sup> Lodging tax increased from 4% to 7% in FY2006.

Table 4  
**City of Auburn**  
**Fund Balances of Governmental Funds**  
 Last Ten Fiscal Years

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Reserved	2,114,199	1,463,210	5,559,675	8,697,744	7,820,742	9,305,314	8,701,444	12,967,664	8,844,309	7,451,985
Unreserved	7,663,595	12,635,576	13,480,580	21,426,238	19,488,460	18,451,274	19,436,335	15,882,269	19,983,950	19,649,481
Total general fund	9,777,794	14,098,786	19,040,255	30,123,982	27,309,202	27,756,588	28,137,779	28,849,933	28,828,259	27,101,466
All other governmental funds										
Reserved	3,294,305	3,702,320	1,423,641	4,520,843	2,991,480	4,190,300	1,888,965	2,166,922	2,135,901	4,075,582
Unreserved, reported in:										
Special revenue funds	2,626,707	1,687,538	1,213,631	2,526,426	4,634,413	3,898,499	4,924,456	5,072,970	5,692,659	4,766,559
Debt service funds	-	-	1,360,172	1,523,137	2,116,996	2,499,525	2,748,975	3,163,736	3,898,630	3,831,043
Capital projects funds	477,658	6,461,000	3,510,899	4,775,796	6,405,416	11,280,128	8,362,129	1,667,086	6,402,424	1,297,837
Total all other governmental funds	6,398,670	11,850,858	7,508,343	13,346,202	16,148,305	21,868,452	17,924,525	12,070,714	18,129,614	13,971,021

Table 5

## City of Auburn

## Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Sales and use taxes	12,554,602	13,160,761	14,589,315	17,959,076	18,429,013	20,773,724	21,784,157	21,044,830	20,143,854	21,081,232
Occupational license fees	5,063,472	4,981,415	5,557,851	7,197,943	6,785,103	7,402,470	7,826,656	8,174,202	8,107,024	8,448,505
Motor fuel taxes	488,775	525,146	483,053	495,322	456,302	485,810	498,404	496,966	511,874	547,407
Lodging taxes	380,479	485,260	548,361	568,887	668,094	1,085,063	1,369,273	1,425,637	1,184,540	1,253,511
Rental and leasing taxes	936,397	1,172,031	1,121,061	1,463,934	1,456,463	819,682	1,473,112	538,541	451,563	420,201
Other taxes	124,832	129,467	128,599	123,759	120,661	123,728	121,760	168,183	198,072	199,133
Licenses and permits	4,339,969	4,406,442	4,886,027	5,597,240	6,001,452	6,518,522	7,311,513	8,266,168	9,350,937	9,002,598
General property tax	7,868,281	8,451,821	8,830,021	10,470,043	12,111,245	13,088,499	15,057,103	16,953,172	19,053,632	20,169,134
Charges for services	3,219,656	4,078,189	4,307,277	4,197,384	6,371,963	6,901,624	7,087,603	7,440,776	5,231,625	5,286,945
Fines and forfeitures	816,976	750,521	829,147	876,748	1,013,374	1,083,225	1,335,798	1,267,362	1,201,777	1,323,548
State shared taxes	571,516	676,609	735,804	838,939	1,021,092	1,285,313	1,165,920	1,178,766	1,390,567	881,140
Contributions from the public	219,279	667,344	327,407	1,371,735	194,769	320,747	494,010	606,144	2,329,064	868,428
Grants	1,169,960	1,202,656	1,237,731	2,011,292	793,940	1,284,695	1,475,458	1,699,127	2,125,631	2,555,213
Program income	201,009	320,624	467,518	481,957	549,327	127,229	1,206,632	350,544	836,384	521,164
Interest	980,948	871,934	855,743	855,952	985,974	1,883,720	2,011,961	1,240,177	851,855	512,963
Miscellaneous	259,158	335,117	105,879	108,811	75,695	95,972	122,150	117,144	60,020	89,280
Total revenues	39,195,309	42,215,337	45,010,794	54,619,022	57,034,467	63,280,023	70,341,510	70,967,739	73,028,419	73,160,462
<b>Expenditures</b>										
General government and administration	2,236,196	2,451,706	2,839,946	3,404,365	3,594,853	3,940,430	3,893,452	4,017,923	4,127,351	4,417,596
Public works	1,686,608	1,623,529	2,065,180	2,236,624	2,433,580	2,849,130	3,008,617	2,981,356	4,343,137	3,530,072
Environmental services	2,974,879	2,840,590	3,113,710	3,673,472	3,630,390	3,870,974	3,963,063	4,298,499	1,636,517	1,609,168
Public safety	7,765,481	7,931,330	8,448,024	10,162,166	11,757,986	12,527,380	12,860,510	14,366,534	15,318,545	15,953,686
Library	600,934	712,307	782,875	975,302	1,049,762	1,180,137	1,254,012	1,416,673	1,450,815	1,425,399
Parks and recreation	2,840,715	2,897,477	3,032,220	3,370,517	3,799,044	4,190,163	4,252,011	4,575,572	4,358,992	4,580,462
Housing rehab	4,838	72,850	-	-	-	-	-	-	-	-
Planning	315,014	355,626	346,760	373,985	507,098	486,927	600,553	643,259	609,721	664,088
Economic development	357,028	927,599	880,402	653,010	757,920	1,639,314	1,433,446	1,674,592	2,126,883	2,187,721
Employee services	339,936	352,443	399,949	427,345	459,278	472,691	504,822	550,107	637,204	656,148
Risk management	351,926	311,404	294,934	431,210	511,523	246,881	929,627	941,221	1,231,524	1,313,917
Non-departmental	1,005,195	2,441,539	2,739,900	1,403,798	1,422,240	1,867,443	1,495,410	2,213,532	1,906,387	1,937,902
Debt service										
Principal	5,648,624	4,727,943	3,105,726	5,499,994	19,570,595 *	6,183,601	6,836,554	28,354,631	10,060,309	9,989,029
Interest	2,567,056	3,028,691	3,747,321	3,503,675	4,318,811	5,519,505	5,840,756	6,042,452	6,018,665	5,622,881
Capital Outlay	10,899,385	4,617,953	7,347,636	6,530,914	12,983,719	7,328,307	8,359,823	6,939,861	5,702,327	10,521,541
Intergovernmental	4,914,630	4,867,674	796,317	809,166	1,177,306	6,742,832	3,141,812	2,515,343	2,198,727	1,022,118
Payments to component units	3,925,869	15,794,285	8,105,050	10,404,387	44,097,771	13,098,738	27,895,701	19,939,274	24,919,475	28,818,541
Total expenditures	48,434,314	55,954,946	48,045,950	53,859,930	112,071,876	72,144,453	86,270,169	101,470,829	86,646,579	94,250,269
Excess of revenues over (under) expenditures	(9,239,005)	(13,739,609)	(3,035,156)	759,092	(55,037,409)	(8,864,430)	(15,928,659)	(30,503,090)	(13,618,160)	(21,089,867)



Table 5 Continued

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Other financing sources (uses)</b>										
Debt issuance	5,149,620	36,062,829	5,196,627	16,356,598	58,835,646	14,740,290	12,200,000	13,927,516	19,590,794	15,155,000
Refunding	-	-	-	-	-	-	-	11,268,100	-	27,020,000
Sale of surplus assets	-	-	-	-	-	177,942	61,597	50,134	16,919	33,355
Transfers in	2,256,830	4,217,365	4,328,628	4,281,419	9,148,733	7,071,256	6,761,798	6,960,429	8,707,117	725,271
Transfers out	(2,186,580)	(4,207,115)	(4,216,718)	(4,160,995)	(9,252,339)	(6,957,522)	(6,762,544)	(6,844,749)	(8,659,444)	(958,164)
Premium on debt issued	-	-	-	-	1,120,859	-	105,076	-	-	2,313,257
Payment to refunded bond escrow	-	(14,086,055)	-	-	(5,026,414)	-	-	-	-	(29,084,241)
Total other financing sources (uses)	5,219,870	21,987,024	5,308,537	16,477,022	54,826,485	15,031,966	12,365,927	25,361,430	19,655,386	15,204,478
Extraordinary item	-	-	-	-	-	-	-	-	-	-
Insurance proceeds - fire in building	-	-	-	-	255,000	-	-	-	-	-
Net changes in fund balances	(4,019,135)	8,247,415	2,273,381	17,236,114	44,076	6,167,536	(3,562,732)	(5,141,660)	6,037,226	(5,885,389)
Debt service as a percentage of non-capital expenditures <sup>(1)</sup>	23.5%	16.2%	17.8%	19.3%	24.6%	18.2%	16.3%	36.4%	19.9%	18.6%

\*This increase was due to the payoff of two lines of credit and permanently refinancing one.

<sup>(1)</sup> Non-capital expenditures equals total expenditures less capital outlay.

**Table 6**  
**City of Auburn ~ Primary Government**  
**Components of Sales Tax Revenue**

Last Ten Fiscal Years  
(amounts expressed in thousands)  
*Unaudited*

	2001	2002	2003 <sup>A</sup>	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Apparel Stores	24,427	24,133	25,743	30,979	38,138	74,473	71,846	66,699	57,276	60,201
Grocery Stores	57,469	55,523	56,877	57,269	59,929	53,307	60,280	51,372	51,435	55,799
Eating & Drinking Establishments	60,960	65,441	68,641	70,983	75,052	101,287	111,409	120,987	120,462	127,753
Mass General Merchandise Stores	100,374	98,117	95,854	98,680	97,799	86,922	88,571	110,116	115,686	114,644
Auto Dealers & Supplies	156,944	100,730	134,933	151,290	160,833	103,690	116,070	40,203	33,484	39,021
Building Materials	15,521	21,080	57,692	28,674	32,569	49,464	55,721	34,454	32,257	31,794
Home Furnishing & Appliances	3,359	4,327	4,543	4,503	2,471	9,240	15,468	14,823	11,085	9,733
All Other Retail Sales	83,146	157,089	106,209	155,255	146,209	211,555	271,889	258,296	244,863	254,509
Totals	<u>502,200</u>	<u>526,440</u>	<u>550,492</u>	<u>597,633</u>	<u>613,000</u>	<u>689,938</u>	<u>791,254</u>	<u>696,950</u>	<u>666,548</u>	<u>693,454</u>

<sup>A</sup> City sales tax rate increased from 2.5% to 3.0% effective August 1, 2003.

**Table 7**  
**City of Auburn ~ Primary Government**  
**Revenue Rates for General Sales Tax**

Last Ten Fiscal Years  
*Unaudited*

Fiscal Year	City		County		State		Total	
	Sales Tax Rate	Sales Tax Rate	Sales Tax Rate	Sales Tax Rate	Sales Tax Rate	Sales Tax Rate	Sales Tax Rate	
2001	2.5%	1.0%	4.0%	7.5%				
2002	2.5%	1.0%	4.0%	7.5%				
2003	* 3.0%	1.0%	4.0%	8.0%				
2004	3.0%	1.0%	4.0%	8.0%				
2005	3.0%	1.0%	4.0%	8.0%				
2006	3.0%	1.0%	4.0%	8.0%				
2007	3.0%	1.0%	4.0%	8.0%				
2008	3.0%	1.0%	4.0%	8.0%				
2009	3.0%	1.0%	4.0%	8.0%				
<b>2010</b>	<b>3.0%</b>	<b>1.0%</b>	<b>4.0%</b>	<b>8.0%</b>				

Source: State of Alabama Department of Revenue

\* City sales tax rate increased from 2.5% to 3.0% effective August 1, 2003.

**Table 8**  
**City of Auburn ~ Primary Government**  
**Principal Revenue Remitters of Sales and Use Tax<sup>1</sup>**

Current Year and Nine Years Ago  
*Unaudited*

Employer	2001		2010	
	Rank	Rank	Rank	Rank
Wal-Mart	1	1		
Sam's Club		2		
Auburn University Financial Reporting	2	3		
Kroger	3	4		
Academy Sports		5		
Dillard's (formerly Gayfers)	4	6		
Chartwells		7		
Winn Dixie (Store 579)	7	8		
Builders First Source SE (formerly Waid True Value)	8	9		
Belk		10		
Winn Dixie (Store 470)	6			
K-Mart	5			
Sears	9			
J C Penney	10			

<sup>1</sup> State law prohibits the disclosure of the amount of sales tax remitted and any information that could enable the disclosure or calculation of confidential taxpayer information

**Table 9**  
**City of Auburn ~ Primary Government**  
**Assessed Value of All Taxable Property**

Last Ten Fiscal Years  
*Unaudited*

Assessment Date	Real Property	Personal Property	Utilities Property	Automobiles	Total Assessed Value
October 1	\$	\$	\$	\$	\$
2001	233,076,640	38,495,000	12,957,680	30,955,800	315,485,120
2002	250,274,360	40,803,880	14,426,140	38,786,580	344,290,960
2003	263,267,960	42,304,440	14,797,460	38,786,580	359,156,440
2004	330,195,380	42,342,320	16,221,300	43,490,476	432,249,476
2005	376,125,300	45,247,100	18,820,420	45,751,680	485,944,500
2006	419,812,060	56,529,600	18,528,360	51,496,920	546,366,940
2007	498,960,300	60,717,200	19,189,060	55,800,060	634,666,620
2008	561,064,220	70,291,960	19,484,380	57,778,420	708,618,980
2009	580,386,360	78,024,980	20,778,660	57,148,020	736,338,020
<b>2010</b>	<b>597,793,360</b>	<b>79,243,140</b>	<b>21,537,060</b>	<b>52,835,980</b>	<b>751,409,540</b>

Source: Lee County Revenue Commissioner

Note: Property taxes are assessed and levied one year in arrears, on the following bases: residential - 10%, commercial - 20%, public utilities - 30%, automobiles - 15%.

**Table 10**  
**City of Auburn ~ Primary Government**  
**Principal Remitters of Property Tax**

*Unaudited*

Taxpayers	Total Assessed Value - Property in City Limits <sup>1</sup>	Property Taxes Paid <sup>2</sup>	Taxes Paid as Total of City's Property Tax
	\$	\$	
Alabama Power Company (public utility)	15,221,720	780,400	3.87%
HSRE Preiss Auburn, LLC (real estate management)	6,353,200	344,303	1.71%
Marelda University Village Mall (commercial retail)	5,668,440	306,096	1.52%
Briggs & Stratton (industrial)	4,982,340	269,046	1.33%
University Commons Auburn Acquisitions (real estate development)	4,645,320	250,847	1.24%
Harbor Pointe, LLC (real estate development)	4,084,220	220,548	1.09%
Cleveland Brothers, Inc. (real estate development)	4,004,800	218,049	1.08%
GEIM Auburn, LLC/ Schenk Auburn, LLC (real estate management)	4,032,500	217,755	1.08%
BellSouth Telecommunications, Inc	3,939,500	212,733	1.05%
H A & S, LLC	3,685,480	200,615	0.99%

Source: Lee County Revenue Commissioner

<sup>1</sup> Assessed 2007; collected October 2007 through September 2008

<sup>2</sup> 26-mill City levy only

**Table 11**  
**City of Auburn ~ Primary Government**  
**Property Tax Rates ~ Direct and Overlapping Governments**  
(per \$1,000 of assessed value\*)  
Last Ten Fiscal Years

Fiscal Year	City of Auburn										Overlapping Rates							Total Direct & Overlapping Rates
	Operating Millage	Debt Service	Education	Total City Millage	Roads and Bridges			Lee County		Auburn District Schools	Dependent Children	Total County Millage	State of Alabama			Total State Millage		
					Operating Millage	Education	Education	County Hospital	County				Operating Millage	Education	Veterans			
2001	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2002	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2003	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2004	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2005	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2006	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2007	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2008	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2009	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	
2010	5.0	5.0	16.0	26.0	3.0	3.0	3.0	2.5	2.5	3.0	1.5	21.5	2.5	3.0	1.0	6.5	54.0	

\* Property is assessed at the following rates, applied to its value as appraised by the Lee County Revenue Commissioner's Office: public utilities - 30%, commercial - 20%, residential - 10%, and motor vehicles 15%.

**Table 12**  
**City of Auburn ~ Primary Government**  
**Ratios of Outstanding Debt by Type <sup>(1)</sup>**

Last Ten Fiscal Years

(dollar amounts expressed in thousands, except per capita amount)

*Unaudited*

Fiscal Year	Governmental Activities			Business-Type Activities			Total Debt as Percentage of Personal Income	Total Debt Per Capita
	General Obligation Bonds	Capital Leases	General Obligation Bonds <sup>(2)</sup>	Capital Leases	Total Debt Primary Government			
2001	\$ 46,765	\$ 1,443	\$ 30,048	\$ 110	\$ 78,366	10.56%	\$ 1,774	
2002	65,805	952	30,330	74	97,161	12.04%	2,168	
2003	67,872	530	30,253	38	98,693	11.33%	2,144	
2004	79,058	199	30,253	38	109,548	12.04%	2,278	
2005	113,591	68	30,111	-	143,770	12.58%	2,974	
2006	122,272	-	30,054	-	152,326	12.91%	3,051	
2007	127,635	-	28,263	-	155,898	10.41%	3,003	
2008	124,476	-	34,220	-	158,696	10.58%	2,920	
2009	133,947	-	62,240	-	196,187	13.01%	3,498	
<b>2010</b>	<b>139,143</b>	<b>-</b>	<b>45,880</b>	<b>-</b>	<b>185,023</b>	<b>12.32%</b>	<b>3,212</b>	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

<sup>(1)</sup> The City does not have any special assessment bonds.

<sup>(2)</sup> The City has issued General Obligation Bonds/Warrants for the Sewer Revenue Fund. It is the intention of the Council that the Bonds/Warrants be repaid from Sewer Fund revenue.

**Table 13**  
**City of Auburn ~ Primary Government**  
**Ratios of General Bonded Debt Outstanding**  
 Last Ten Fiscal Years  
 Unaudited

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Net Bonded Debt <sup>(1)</sup>	Net Bonded Debt as Percent of Estimated Actual Taxable Value of Property	Net Bonded Debt Per Capita
	\$	\$	\$		\$
2001	78,366,373	1,894,330	76,472,043	24.24%	1,731
2002	97,160,213 <sup>(2)</sup>	1,894,330	95,265,883	27.67%	2,125
2003	98,692,366	1,360,172	97,332,194	27.10%	2,114
2004	78,912,853	1,523,137	77,389,716	17.90%	1,609
2005	113,590,812 <sup>(3)</sup>	2,116,996	111,473,816	22.94%	2,304
2006	122,272,012	2,499,525	119,772,487	21.92%	2,399
2007	127,635,458	2,748,975	124,886,483	19.68%	2,406
2008	124,476,443	3,163,736	121,312,707	17.12%	2,232
2009	133,947,403	3,898,630	130,048,773	17.66%	2,319
<b>2010</b>	<b>139,143,374 <sup>(4)</sup></b>	<b>3,831,044</b>	<b>135,312,330</b>	<b>18.00%</b>	<b>2,349</b>

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

<sup>(1)</sup> Net bonded debt equals: G.O. bonds, notes, and warrants outstanding, less Debt Service funds' equity. Calculations exclude the G.O. debt intended to be repaid from sewer fund revenues.

<sup>(2)</sup> City issued \$27 million of G.O. Warrants to refund outstanding debt and to pay the costs of constructing schools under the jurisdiction of the Board of Education.

<sup>(3)</sup> City issued \$33 million of G.O. Warrants to pay the costs of major additions to current schools and new school construction under the jurisdiction of the Board of Education.

<sup>(4)</sup> City issued \$27 million of G.O. Warrants to refund outstanding debt.

**Table 14**  
**City of Auburn ~ Primary Government**  
**Direct and Overlapping Governmental Activities Debt**  
 Fiscal Year 2010  
 Unaudited

	Debt Outstanding	Estimated Percentage Applicable <sup>1</sup>	Estimated Share of Overlapping Debt
<b>City of Auburn Direct Debt</b>			
General Bonded Debt and Warrants	\$ 139,143,374		
Less: Debt Service Funds Equity	3,831,044		
Net Direct Debt	135,312,330	100%	\$ 135,312,330
<b>Overlapping Debt</b>			
Lee County General Bonded Debt and Warrants	\$ 23,510,336	39%	9,169,031
Total Direct and Overlapping Debt			\$ 144,481,361

Sources: General bonded debt and warrants provided by the Lee County Administrator.

<sup>(1)</sup>The percentage of overlapping debt applicable is estimated based on population of the City of Auburn as compared to overall population in Lee County. Census Bureau Year 2000.

**Table 15**  
**City of Auburn ~ Primary Government**  
**Legal Debt Margin Information**

Last Ten Fiscal Years  
(amounts expressed in thousands)  
*Unaudited*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 67,830	\$ 71,831	\$ 100,557	\$ 96,665	\$ 98,146	\$ 98,974	\$ 110,789	\$ 141,724	\$ 147,267	\$ 150,282
Total net debt applicable to limit	28,652	34,379	35,994	33,844	45,617	55,364	54,764	62,451	65,355	73,116
Legal debt margin	39,179	37,453	64,563	62,821	52,529	43,610	56,025	79,273	81,912	77,166
Total net debt applicable to limit as a percentage of debt limit	42.24%	47.86%	35.79%	35.01%	46.48%	55.94%	49.43%	44.07%	44.38%	48.65%

**Legal Debt Margin Calculation for Fiscal Year 2010**

Assessed value	\$ 751,409,540
Debt limit (20% of total assessed value)	\$ 150,281,908
Debt applicable to limit:	
General obligation bonds	\$ 185,023,374
Less: Exempt Debt	111,906,915
Total net debt applicable to limit	73,116,459
Legal debt margin	\$ 77,165,449



**Table 16**  
**City of Auburn ~ Primary Government**  
**Pledged Revenue Coverage <sup>(1)</sup>**

Last Ten Fiscal Years  
*Unaudited*

Fiscal Year	Sewer G.O. Warrants <sup>(2)</sup>					Coverage
	Sewer Charges and Other <sup>(3)</sup>	Less: Operating Expenses <sup>(4)</sup>	Net Available Revenue	Principal	Interest	
	\$	\$	\$	\$	\$	
2001	4,564,277	4,175,312	388,965	31,678	7,387	9.96
2002	5,241,693	2,135,104	3,106,589	-	1,492,907	2.08
2003	5,464,467	2,302,491	3,161,976	400,000	2,620,899	1.05
2004	5,543,200	2,312,004	3,231,196	415,000	2,524,900	1.10
2005	5,514,085	2,721,465	2,792,620	430,000	1,261,288	1.65
2006	6,601,081	3,823,649	2,777,432	440,000	1,121,013	1.78
2007	7,169,367	3,993,778	3,175,589	460,000	1,432,052	1.68
2008	6,553,296	4,569,543	1,983,753	475,000	1,236,928	1.16
2009	7,912,095	4,641,814	3,270,281	495,000	1,890,914	1.37
<b>2010</b>	<b>8,803,453</b>	<b>4,548,588</b>	<b>4,254,865</b>	<b>1,060,000</b>	<b>1,788,254</b>	<b>1.49</b>

<sup>(1)</sup> The City does not have any Special Assessment Bonds.

<sup>(2)</sup> General Obligation warrants issued but paid by Sewer Service Fee revenue.

<sup>(3)</sup> Includes sewer service charges, tapping fees, sewer access fees, gains on property disposals and other non-operating revenues.

<sup>(4)</sup> Includes operating expenses and operating transfers out less depreciation expense.

**Table 17**  
**City of Auburn ~ Primary Government**  
**Demographic and Economic Statistics**

Last Ten Fiscal Years  
*Unaudited*

Fiscal Year	Population <sup>(1)</sup>	Personal Income		Unemployment Rate <sup>(3)</sup>
		(expressed in thousands) <sup>(2)</sup>	(Per Capita Personal Income (Lee County)) <sup>(2)</sup>	
2001	44,179	\$ 916,670	\$ 20,749	3.6%
2002	44,822	961,925	21,461	4.2%
2003	46,032	1,025,731	22,283	4.0%
2004	48,096	1,136,605	23,632	4.2%
2005	48,348	1,142,560	23,632	3.0%
2006	49,928	1,179,898	23,632	2.8%
2007	51,906	1,498,267	24,804	3.5%
2008	54,348	1,499,487	25,399	4.5%
2009	56,088	1,499,913	25,943	4.1%
<b>2010</b>	<b>57,608</b>	<b>1,501,560</b>	<b>26,065</b>	<b>7.6%</b>

<sup>(1)</sup> U. S. Census

<sup>(2)</sup> U. S. Department of Commerce, Bureau of Economic Analysis

<sup>(3)</sup> State of Alabama, Department of Industrial Relations

**Table 18**  
**City of Auburn ~ Primary Government**  
**Principal Employers**  
 Current Year and Nine Years Ago  
*Unaudited*

Employer	2001			2010		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Auburn University	5,224	1	16.22%	5,500	1	15.71%
Auburn City Schools	576	2	1.79%	885	2	2.53%
City of Auburn and Auburn Water Works Board	380	4	1.18%	800	3	2.29%
Briggs & Stratton Corporation	475	3	1.48%	500	4	1.43%
Wal-Mart Supercenter	-	-	-	350	5	1.00%
Masterbrand Cabinets	294	5	0.91%	330	6	0.94%
CV Holdings, LLC	-	-	0.00%	325	7	0.93%
SCA, Inc.	-	-	0.00%	250	8 (tie)	0.71%
Borbet Alabama, Inc. (formerly ATS Wheels)	-	-	-	250	8 (tie)	0.71%
Donaldson Company, Inc.	-	-	-	225	10	0.64%
<b>Total</b>	<b>6,949</b>		<b>21.58%</b>	<b>9,415</b>		<b>26.26%</b>

Source: City of Auburn Economic Development Department, Alabama Department of Industrial Relations

**Table 19**  
**City of Auburn ~ Primary Government**  
**Regular Full-Time Employees by Function/Program**

Last Ten Fiscal Years  
*Unaudited*

<b>Function</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
General Government	63	70	75	75	73	73	74	76	77	77
Economic Development	7	8	9	11	13	14	14	13	13	13
Public Safety										
Police	79	83	78	107	110	109	112	113	115	113
Fire	31	32	30	29	30	43	43	43	43	43
Communications	6	6	6	6	6	7	9	11	11	11
Codes	4	4	6	7	8	9	9	9	9	9
Public Works										
Engineering	9	8	10	10	10	11	11	11	11	11
Construction & Maintenance	12	12	14	15	18	18	18	18	18	18
Inspection	4	4	4	4	4	6	6	6	6	6
Traffic Engineering	3	3	3	3	3	3	3	3	3	3
Environmental Services										
Recycling	16	16	16	16	16	16	16	16	16	16
Solid Waste	15	15	14	14	15	16	16	16	16	16
Animal Control	2	2	2	2	2	2	2	2	2	2
ROW	7	7	7	7	6	7	7	7	7	7
Fleet Services	9	9	9	9	10	10	10	10	10	10
Parks and Recreation										
Leisure Services	16	17	15	15	14	14	15	15	15	15
Parks & Facilities	24	24	24	24	26	26	26	27	26	26
Library	11	11	13	15	14	15	15	16	16	16
Sewer	12	11	11	11	13	19	15	15	16	16
<b>Total</b>	<b>330</b>	<b>342</b>	<b>346</b>	<b>380</b>	<b>391</b>	<b>418</b>	<b>421</b>	<b>427</b>	<b>430</b>	<b>428</b>

Source: City of Auburn Human Resources Department

**Table 20**  
**City of Auburn ~ Primary Government**  
**Operating Indicators by Function/Program**  
 Last Ten Fiscal Years  
*Unaudited*

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police										
Physical arrests	3,246	2,595	2,135	2,339	2,921	2,574	2,978	3,143	2,480	2,643
Traffic violations	7,642	7,058	6,535	7,892	9,490	10,435	14,077	14,516	19,556	20,618
Fire										
Number of calls answered	981	1,119	1,167	1,149	1,147	1,342	2,258	2,330	2,523	4,025
Inspections <sup>^</sup>	6,148	6,208	6,314	6,256	6,324	1,860	1,857	1,792	1,752	1,575
Public Works										
Potholes repaired	1,798	939	805	403	414	347	230	210	273	750
Environmental Services										
Refuse collected (tons/day)*	57	67	68	72	85	85	86	86	88	91
Recyclable collected (tons/day)*	2.72	3.49	3.46	3.38	3.52	3.89	3.38	4.21	4.39	4.36
Parks and Recreation										
Athletic participants	4,791	4,824	4,501	5,391	4,956	4,623	5,154	5,648	5,031	4,959
Community center admissions	92,092	87,033	81,659	75,001	83,374	114,484	96,106	92,291	111,960	138,751
Sewer										
Average daily sewage treatment (millions of gallons)	5.40	5.14	6.60	6.15	6.86	6.10	5.90	5.60	6.70	6.69

\*Each year consists of 251 work days.  
<sup>^</sup>A change in software lowered the number of inspections performed in 2006.

Source: City departments

**Table 21**  
**City of Auburn ~ Primary Government**  
**Capital Asset Statistics by Function/Program**  
 Last Ten Fiscal Years  
*Unaudited*

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public Safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	59	59	59	77	86	88	89	91	91	98
Fire stations	4	4	4	4	4	4	4	5	5	5
Environmental Services										
Collection trucks	8	8	8	8	8	8	8	8	8	8
Public Works										
Streets (lane miles)	196	286	313	565	597	650	658	696	3	693
Signaled Intersections	45	47	48	49	50	50	55	56	58	59
Parks and Recreation										
Parks acreage	1,838	1,838	1,914	1,914	1,914	1,914	1,914	1,944	1,944	1,944
Swimming pools	2	2	2	2	2	2	2	2	2	2
Tennis courts	14	14	14	14	10	10	44	44	44	44
Community centers	3	3	3	3	3	3	3	3	3	4
Sewer										
Sanitary sewers (miles)	170	176	183	195	201	210	235	240	245	248
Maximum daily treatment capacity (millions of gallons)	7	7	7	7	7	7	8	8	11	11

Sources: City departments

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