



AUBURN, ALABAMA



City of Auburn

The City of Auburn
Comprehensive Annual Financial Report
Fiscal Year Ended September 30, 2012

The City of Auburn, Alabama
Comprehensive Annual Financial Report
For the Fiscal Year Ended
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City Council

Bill Ham, Jr., Mayor

Dick Phelan, Mayor Pro Tem

Ron Anders, Jr.

Arthur Dowdell

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	Christopher Warren	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	Eric A. Carson	Water Resource Mgt. Director

Prepared by

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City of Auburn

Home of Auburn University

Letter of Transmittal

March 29, 2013

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, 2012 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. During the next fiscal year, GASB Statement 61 becomes effective which amends the criteria of the reporting entity. The City will make any necessary adjustments to the reporting entity at this time.

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 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" addresses issues related to the measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. This statement became effective during the fiscal 2012 reporting period. Currently, the City does not participate in any agent multiple-employer plans.

GASB Statement 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies" provides direction for governments that have requested protection from creditors by filing for Chapter 9 bankruptcy. The effective date for this statement was fiscal year 2010. This is not applicable to the City of Auburn.

GASB Statement 59, "Financial Instruments Omnibus" updates and expands on existing standards for financial reporting of certain financial instruments and external investment pools. Currently, the City does not have any transactions of this nature.

GASB Statement 60, "Accounting and Financial Reporting for Service Concession Arrangements" addresses how to account for and report service concession arrangements (SCAs). SCAs are either public-private or public-public partnerships between a transferor (a government) and an operator (governmental or nongovernmental). Examples include long-term agreements where a government hires an entity to operate a key capital asset, like a hospital or toll road, in exchange for the right to collect fees from use of the asset. The requirements of this statement become effective during the fiscal 2013 reporting period. Currently the City does not have any transactions of this nature.

GASB Statement 61, "The Financial Reporting Entity: Omnibus (an amendment of GASB statements 14 and 34)" changes certain requirements for the inclusion of component units in the financial reporting entity. It also amends the criteria for blending component units. This statement becomes effective for the fiscal 2013 reporting period. The City is aware of this pronouncement and will evaluate its implications.

GASB Statement 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. This statement becomes effective during the fiscal 2013 reporting period. Management is aware of these requirements and plans for implementation in 2013.

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 2012, *Forbes.com* ranked Auburn as 17th on its list of "Best Small Places for Business and Careers." The top 25 cities were chosen out of 184 metropolitan statistical areas with populations under 245,000. *Forbes* considered several factors including employment, housing, education and quality of life. Auburn is one of three southern cities ranked in the top 25 places for business and careers.

CNNMoney.com named Auburn one of the top 100 "Best Places to Live" for 2012. Auburn is the only Alabama community to make the list, which focuses on "America's Best Small Cities." The article calls Auburn a "serious college town," with a downtown area that exudes a "surprising amount of variety and vibrancy."

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 numbers used throughout this report is obtained from the Census Population Estimates Program which is based on the 2010 census taken by the Federal government and issues estimates for non-census years. The latest figure released was 54,566 for the calendar year 2011. In 2007 the City contracted with a national planning firm that specializes in growth modeling. These experts along with our own specialists developed the City of Auburn’s Interactive Growth Model. This model was designed to help the City administration and Planning Department to model future growth in the City of Auburn and surrounding areas. This model, which we believe to be more accurate than the census, is updated biannually and has an estimated population for 2012 at 61,222. Since the difference between the growth model and the Census was relatively large and could change certain calculations used for State and Federal allocations, the City appealed the census population estimate. The appeal did not meet the City’s expectations, so the City will continue to use its growth model for internal planning purposes.

Auburn has been among the fastest growing communities in Alabama, since its humble beginnings in 1900 with a population of 1,831. Over the past four decades, the City has seen tremendous growth from 22,767 residents in 1970, with almost 169% population growth from 1970 to 2012. 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 456 regular, full-time employees staff these departments, producing high quality and cost-effective public services.

Major Initiatives

In fiscal 2012, the City continued its priority of school funding. The City contributed \$9.5 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 2012, the City issued debt to take advantage of favorable interest rates, acquire land for a new high school, construct an elementary school, sanitary sewer capital improvements, and various facilities and infrastructure improvements.

- On February 22, 2012, the City issued \$18.5 million in General Obligation Capital Improvement School Warrants to purchase land for a new high school and construct an elementary school on the north side of town.
- \$4.0 million in General Obligation Capital Improvement Warrants were issued May 1, 2012 for the construction of a senior center, expansion of the Frank Brown Recreation Center, public parking improvements, and various other capital and infrastructure improvements within the City.
- On August 1, 2012, \$36.08 million in debt was issued. \$18.08 million dollars in school warrants were refunded, along with \$7.97 million in capital improvement bonds. Sewer General Obligation Refunding and Capital Improvement warrants were also issued for \$10.03 million.
- \$1.83 million in General Obligation Refunding Warrants were issued September 7, 2012 to permanently finance a short term line of credit to construct the west phase of the Cary Creek Parkway project.

During the summer of 2012, Hamilton Road was resurfaced and bike lanes added from Moores Mill Road to Bent Creek Road. This project expands the City's bicycle network by 17,000 feet with the new four-foot bicycle lanes on both sides of Hamilton Road.

Several sidewalks were completed throughout the City with funding provided by the Safe Routes to Schools grant program from the Alabama Department of Transportation. The sidewalks are located at: Sanders Street from Ridgewood Court to Pinehill Avenue, Cary Drive from Sanders Street to Petrie Road, Petrie Road from North Cary Drive to Hollytree Lane, and Lunsford Drive from Davis Court to Bedell Avenue.

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 105 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. In 2001, the City and Lee County, Alabama initiated an agreement for the County to provide jail services for the City. The City pays the County a charge per inmate. The City also pays for medical care for prisoners who must be given care outside of the jail. In September 2004, an agreement between the City of Auburn, Lee County and the City of Opelika was executed for the expansion of the joint jail facility. The County's modern jail provides a better facility for inmates and a more efficient solution to the provision of jail services.

The Fire Division includes 43 regular, full-time firefighters and 63 student firefighters, operating five fire stations. The City currently has a 3/9 fire insurance rating. This is a good rating and equates to low insurance rates for our citizens. 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 60 traffic signalized intersections, along with over 250 City-owned street lights and 30 LED edge lit signs.

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 50 internet-connected public computer workstations available to the public. During fiscal 2012, there were 121,578 logins on these computers. Additionally, the Library offers wireless internet access for patrons bringing their own laptops, tablets, and other portable devices. During fiscal 2012, the Library checked out 240,787 items and had a total of 13,738 attendees at the many programs offered for children, teens, and adults. In fiscal 2012, the Library continued to expand its catalog of e-books and downloadable audiobooks and added databases for investment research information. With the use of grant funds, the Library continued to build the collection of materials in foreign languages and materials for people wishing to learn English.

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, 33 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 2012, the Parks and Recreation Department worked with local business to establish playgrounds at Town Creek Park and the Wire Road Soccer Complex. Also, during the summer of 2012 Parks and Recreation began using a large outdoor movie screen for family friendly events, like the Outdoor Summer Movie Series at Duck Samford Park and the Float-n-Movies at Samford Pool.

Education Services Auburn City Schools provide services to more than 7,300 students. The school system consistently experiences record enrollment growth each year as parents are drawn to the excellent teachers, facilities and programming it has to offer. Auburn City Schools broke ground this year on their newest elementary school on the north side of town and has purchased land for a new high school.

Currently, the Auburn City School system houses its students on ten separate campuses. These campuses include an early education center, six elementary schools, one middle school, one junior high school, and one high school. Excellent choral, drama, art, band, academic teams, sports, and other extracurricular programs are offered. All schools have a media center, art teacher, music teacher, and one or more full-time counselors. Also, the use of computers is integrated with classroom instruction for all grades, and the student-computer ratio is 3:1, with the national average being 5:1. The overall pupil to teacher ratio in academic classes is 23:1. For grades K-3, the pupil to teacher ratio is 18-1. Of its teachers and administrators, approximately 68% hold advanced degrees and 18 have earned doctorates. The City School system spends an average of \$8,774 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*). In 2010, *Newsweek* ranked Auburn High School 2nd in Alabama and 354th in the United States. Auburn High School consistently produces an average of seven National Merit finalist/semi-finalist each year from the senior class. Upon graduation, approximately 84% of the graduates move on to higher education. The graduation rate for Auburn High School is approximately 97% and each year seniors are awarded an average of \$6 million in scholarships.

Enrichment classes and programs are provided for all students throughout the system. Auburn High School offers 18 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.

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 2012, Auburn University was ranked 4th in the nation for the best quality of life by *Princeton Review*. Also, Auburn University was ranked 89th in the nation for providing a quality education at an exceptional value by *US News and World Report*. This is the 20th consecutive year that Auburn has been recognized in the top 100.

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 25,134 for fall semester of the 2012/2013 academic year. Included in the total enrollment are 3,881 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 2012 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 a wastewater treatment plant 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 September 2011, *WomenCertified.com* recognized EAMC as one of the top hospitals for patient experience. 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 384 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. 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. Construction of Phase II of this park is currently underway with plans for completion in early 2013.

The industrial sector showed strong growth in 2012 with a new medical supply company selecting Auburn as the location for its manufacturing operation as well as several other exiting industries expanding their operations in Auburn. The U.S. company, SiO2 Medical Products, Inc., a medical plastic manufacturer, began construction of its Auburn facility in 2012 with plans for operations to commence in 2013. The new SiO2 plant will supply the medical industry with innovative products for the biological drugs industry and also add a new bio-medical component to Auburn’s industrial portfolio, further diversifying the employment base in the City. Weidmann Plastics Technology North America, Inc., a Swiss plastic injection manufacturer for the automotive industry, expanded its operation in the Auburn Technology Park North in 2012 and Cumberland Plastics Solutions, LLC, an American automotive supplier, also expanded its operation in the Auburn Industrial Park in 2012. Both expansions are scheduled to be completed in early 2013.

In addition to the new industrial location and expansions described above, other existing manufacturers from the automotive supply industry also increased their capital investment in 2012, specifically Aluminum Technology Schmid North America, Inc. and Wuerz Precision Technologies, LLC. The new industry announcements and

expansions that occurred in 2012, including the Sio2 project, will produce a combined total of over 400 new manufacturing jobs for Auburn.



Construction of Sio2 Medical Products Inc. Facility in 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; GE Aviation.; 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, an industrial crane installation company, an automotive fuel delivery system company, an automotive conveyer systems and fixturing company, a small business consultant, two logistics companies, an IT consulting and installation company, a machining company, a consulting and staffing company, and a full motion flight training simulator.

Construction of a new grocery store, Publix, and the first phase of a retail center known as The Shoppes at Cary Creek was completed in 2012. Several out parcels at the site, located at the intersection of North College Street and East University Drive, were also developed in 2012 including a local credit union, a fueling station, and a Wendy's fast food restaurant. The new Publix, which is the second Auburn store, opened in February 2012. Approximately 85,000 square feet of commercial space is planned for the first phase of the Cary Creek development. There are a variety of future tenants anticipated including an urgent care center, other restaurants and various small shops.



The Shoppes at Cary Creek

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. The second building to locate in Phase I of the Auburn Research Park was the Auburn University MRI Research Center, a 45,000 square foot building that is the location of both a 3T and 7T scanner operated under contract by the East Alabama Medical Center (EAMC). In addition to the University's research activities, the Auburn Spine and Neurosurgery Center is located in the building. In late 2011, construction of the third building commenced via the University's receipt of a competitive grant from the U.S. National Institute for Standards and Testing (NIST) to build a Center for Advanced Science, Innovation and Commerce (CASIC). The 68,000 square foot Center is scheduled to open in 2013 and 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.



The CASIC Building at the Auburn Research Park

In fall 2012, The Edward Via College of Osteopathic Medicine, also known as VCOM, confirmed that it will open a branch campus at Auburn as part of the Auburn Research Park. VCOM intends to partner with the Auburn Research and Technology Foundation to collaborate on biomedical research and health care projects. According to John Rocovich, VCOM's chairman, "the goals for [the] new branch campus are to provide state-of-the-art medical education and research, and train students to practice medicine in areas with the most need". The new facility will have classrooms, small-group learning rooms, laboratories and a technology center. The first class of 150 students is proposed for fall 2015.

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. The partnership with Auburn University, the City of Auburn, and the Auburn Research and Technology Foundation for a full-service, mixed-use business incubator has been a successful effort. All groups work towards the overall mission of facilitating the commercialization of university and community derived technologies and promoting economic development by the establishment of small businesses, creating jobs, fostering entrepreneurialism, generating tax revenues, and attracting investment dollars.

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 II 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. Nineteen homes have been constructed and sold; construction is underway on five additional units.



Houses in the Northwest Village Subdivision

In an effort to leverage funds to finance economic development activities to create and retain jobs, the City of Auburn was approved for a Section 108 Loan sponsored by the U.S. Department of Housing and Urban Development (HUD). The City loaned \$1.5 million to the Auburn Housing Authority to redevelop the Moton public housing complex. Section 108 funds will also be used to fund business loans to provide financing for commercial and industrial loans for undertaking special economic development activities and to offer short-term loans for active small businesses and small business start-ups.

The physical boundaries of the City continue to expand with residential, commercial, and industrial growth. During fiscal 2012, the City's Planning Commission recommended annexing 123.22 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 five new subdivisions and two revisions with 205 single-family lots.

In fiscal 2012, building permits were issued for 248 new single-family residences valued at \$70.5 million. The average valuation for single-family homes was \$284,393. Also, seven new commercial and industrial facilities valued at \$10,206,401 were permitted during fiscal 2012.

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 \$74.5 million in identified projects over the next six years (FY13 through FY18). Infrastructure improvements, including road reconstruction, sidewalks, bikeways, streets, bridges, and intersections will require an estimated \$37.4 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 \$1 million will be funded by the General Fund. The Auburn Technology Park West project is estimated at \$5.5 million. Other projects, including leisure facilities renovations and expansion, downtown redevelopment, utility mapping, and public safety service improvements are included in the capital improvements program at an approximate cost of \$30.6 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.

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 2012, idle cash was invested in certificates of deposit with 12-24 month terms and rates ranging from .31% to 1.40%. The City's demand deposit operating account is currently earning .40%.

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 2012 period was 47.9%, exceeding management's informal goal. There is a planned reduction of this percentage in fiscal 2013.

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.

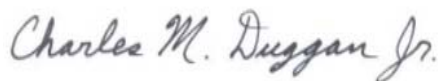
Information related to this Single Audit, including the schedule of federal financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, are generally meaningful only to oversight agencies and therefore 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, 2011. This was the twenty-fifth 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.

In addition, the City has also received a GFOA Award for Distinguished Budget Presentation for its biennium beginning October 1, 2012. 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, 2011

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.



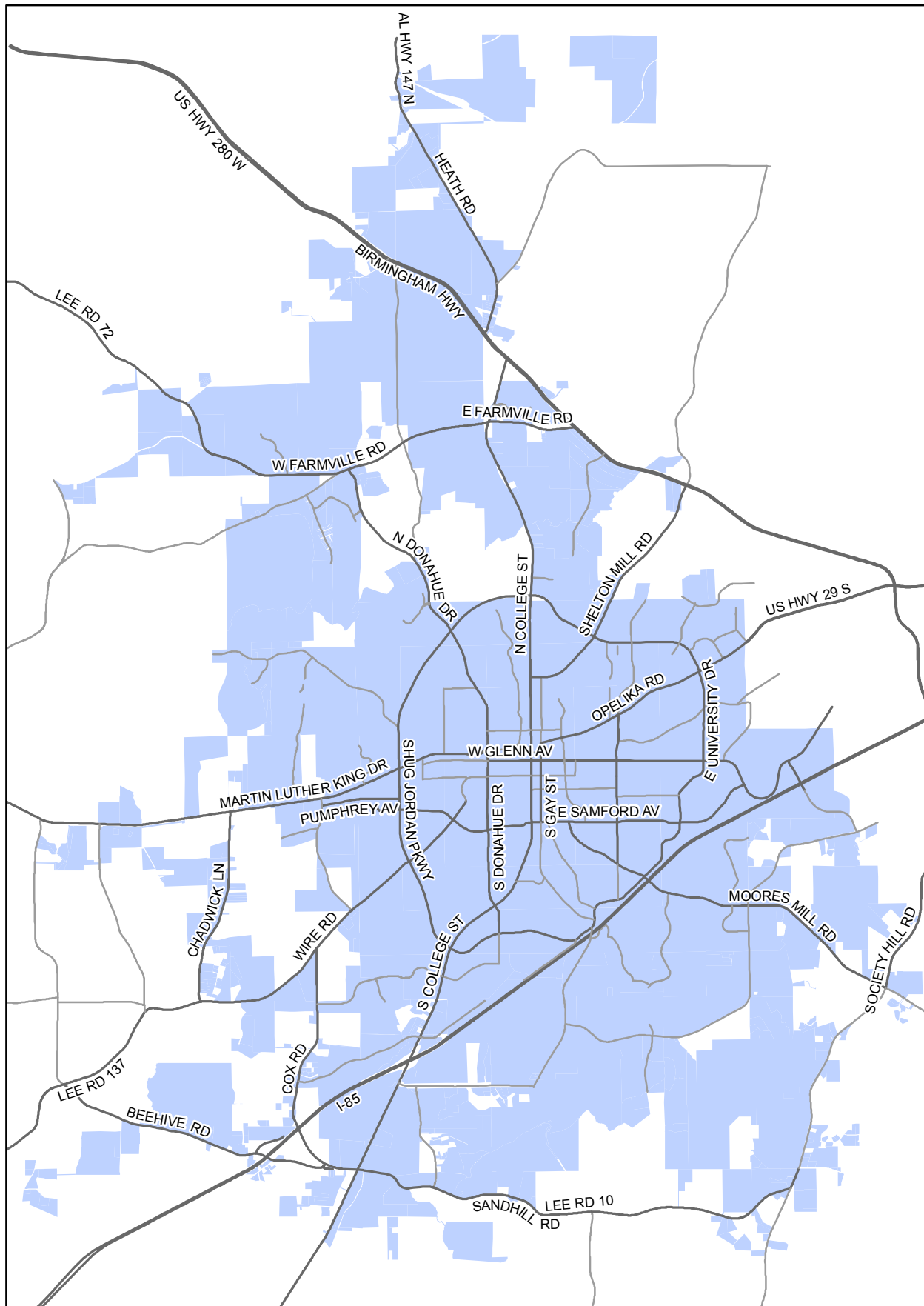
Christopher P. Moynell

President

Jeffrey R. Egan

Executive Director

City of Auburn as of September 30, 2012



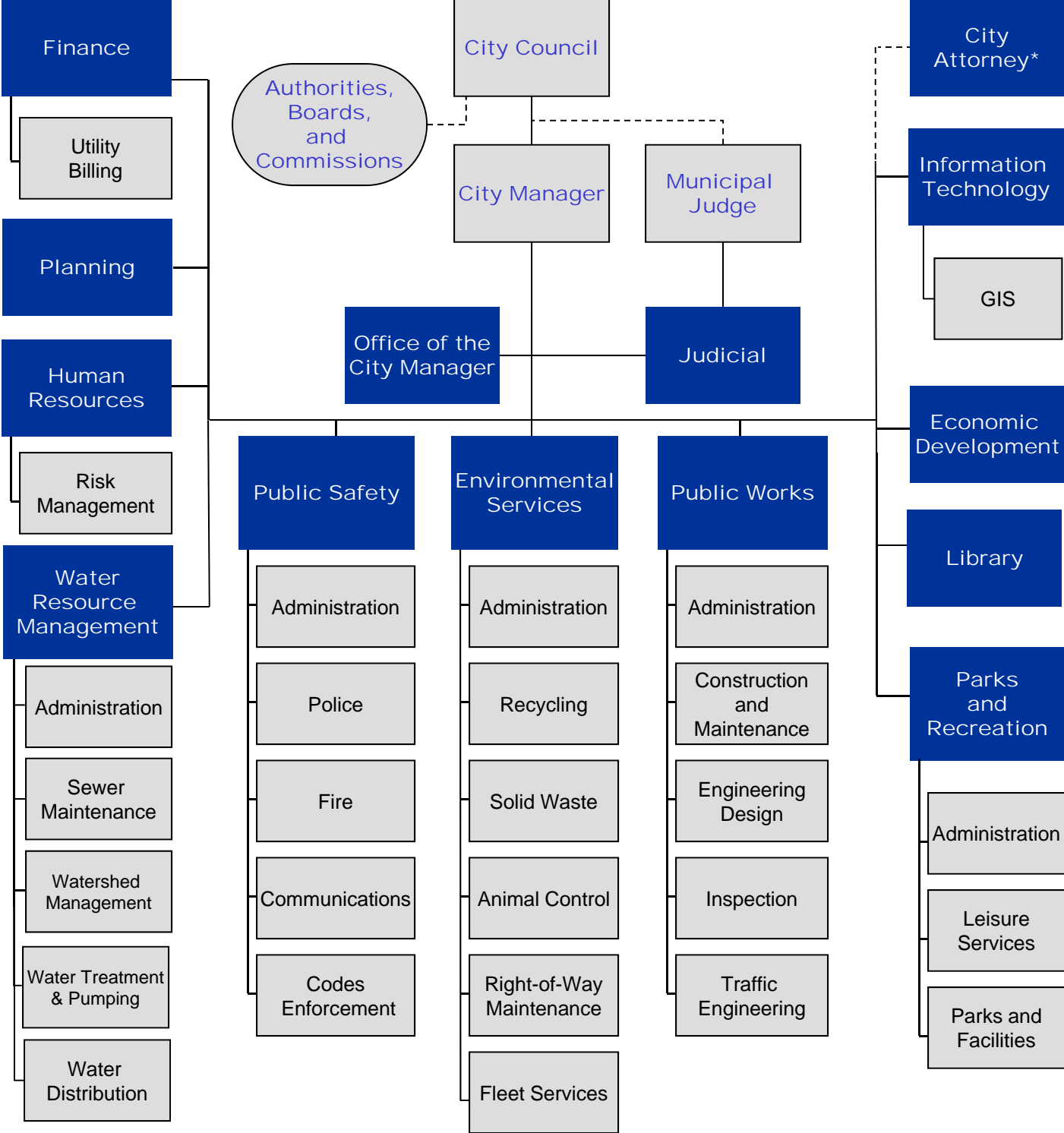
Produced by COA
GIS Division:
2/14/2013



The City of Auburn, Alabama does not guarantee this map to be free from errors or inaccuracies. The City of Auburn, Alabama disclaims any responsibility or liability for 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

Citizens of Auburn



* City Attorney services are contracted outside the organization

Legend:	Policy or Judicial Authority	Department	Division or Sub-Departmental Unit
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City of Auburn



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, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 19, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 43 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 nonmajor fund budgetary comparison schedules, the capital assets schedules, combining component unit financial statements, 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 nonmajor fund budgetary comparison schedules, the capital assets schedules, and the combining component unit financial statements 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 them.

Machen, McChesney + Chastain, LLP

Auburn, Alabama
March 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Auburn's Comprehensive Annual Financial Report (CAFR) presents City management's discussion and analysis (MD&A) of the City's financial performance during the fiscal year that ended on September 30, 2012. 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 \$63.1 million (net assets). Of this amount, the City had a deficit unrestricted net assets of \$69.2 million offset by \$13.7 million in restricted net assets and \$118.6 million in capital assets net of related debt.
- The primary government experienced a 4.9% increase in net assets from \$60.2 million at September 30, 2011 to \$63.1 million at September 30, 2012.
- At the close of the current fiscal year, the City's governmental funds reported a *combined* fund balance of \$46.3 million. This was an increase of \$6.7 million (16.9%) from the prior year.
- At the end of the current fiscal year, total fund balance for the General Fund was \$33.0 million or 47.9% of total General Fund expenditures and other financing uses; total fund balance increased by \$4.0 million (13.8%) from fiscal year 2011. Total ending fund balance in the General Fund comprised 49.3% of total revenues in 2012 and 51.2% in 2011.
- The unassigned fund balance for the General Fund was \$21.0 million, or 30.5% of total General Fund expenditures; this was an increase of \$4.5 million (27.2%) from fiscal 2011.
- Sales and use tax, the City's single largest revenue source, increased 34.4% (\$7.9 million) during the 2012 fiscal year, reflecting a slight improvement in the economy and an increase in the sales tax rate. The City's sales tax rate was increased in August 2011 by 1%, bringing the rate to 4%. The total rate for sales tax in Auburn is 9%, with 4% allocated to the State, 4% allocated to the City of Auburn, and 1% allocated to Lee County.
- Other significant changes in revenue during 2012: lodging taxes increased by 39.6% (\$542,652); licenses and permits increased by 15.4% (\$1.4 million); state shared taxes increased by 24.2% (\$197,927); and general property taxes increased by 7.1% (\$313,491).

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.

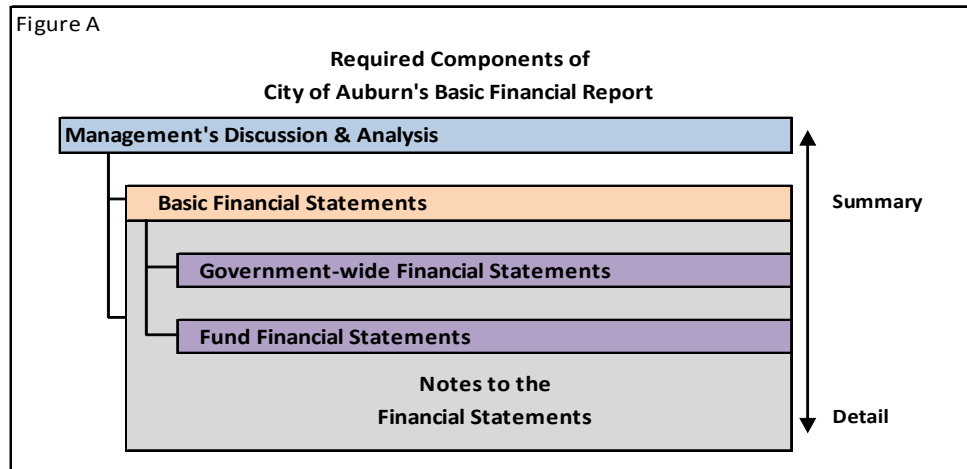


Figure B (on the following page) summarizes the major elements of the financial statements, explaining the portions of the City government included in each and the types of information contained therein. The remainder of this overview explains the structure and contents of each of the financial statements.

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
Scope	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 and Waste Management Fund	Instances in which the City is the trustee or agent for someone else's resources: Youth Athletic Funds
Required financial statements	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
Accounting basis & measurement focus	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
Type of asset/liability	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
Type of inflow/outflow	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 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 activities or objectives.

- 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. 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 funds account 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, 2012 totaled \$63.1 million (see Table 1). Governmental Activities' net assets decreased by \$1.5 million, while Business-type Activities' net assets increased \$4.5 million during fiscal 2012.

FINANCIAL ANALYSIS OF THE CITY (PRIMARY GOVERNMENT)

Table 1

City of Auburn's Net Assets
September 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$59,964,806	\$48,690,345	\$10,211,573	\$7,414,243	\$70,176,379	\$56,104,588
Capital assets	125,098,958	122,690,484	74,715,791	67,744,902	199,814,749	190,435,386
Total assets	<u>185,063,764</u>	<u>171,380,829</u>	<u>84,927,364</u>	<u>75,159,145</u>	<u>269,991,128</u>	<u>246,539,974</u>
Current liabilities	21,025,695	17,901,508	4,291,392	2,971,173	25,317,087	20,872,681
Long-Term debt and other liabilities	133,727,293	121,655,015	47,823,032	43,842,876	181,550,325	165,497,891
Total liabilities	<u>154,752,988</u>	<u>139,556,523</u>	<u>52,114,424</u>	<u>46,814,049</u>	<u>206,867,412</u>	<u>186,370,572</u>
Net assets:						
Invested in capital asset, net of related debt	91,886,384	87,677,067	26,690,464	25,570,257	118,576,848	113,247,324
Restricted	12,643,443	11,418,353	1,070,064	1,956,004	13,713,507	13,374,357
Unrestricted	<u>(74,219,051)</u>	<u>(67,271,114)</u>	<u>5,052,411</u>	<u>818,835</u>	<u>(69,166,640)</u>	<u>(66,452,279)</u>
Total net assets	<u>\$30,310,776</u>	<u>\$31,824,306</u>	<u>\$32,812,939</u>	<u>\$28,345,096</u>	<u>\$63,123,715</u>	<u>\$60,169,402</u>

Most of the Governmental Activities' net assets are invested in capital assets (buildings, equipment, roads, etc.). The investment in capital assets at September 30, 2012 was \$91.9 million. Debt outstanding related to the capital assets was \$146.9 million. The large negative unrestricted net assets in FY 2011 (\$67.3 million) and FY 2012 (\$74.2 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. Therefore, the City must report the debt in its financial statements. 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.

In fiscal 2006, the City formed a partnership with Auburn University and the State of Alabama to build a research park on the University campus. This innovative arrangement produced a similar result to the City's net assets. The City of Auburn committed \$5.0 million for project infrastructure and borrowed these funds in February of 2006. This research park infrastructure, however, is owned by Auburn University (a component unit of the State of Alabama). The debt issued by the City is included in the City's liabilities, while the related assets are included on the University's balance sheet.

Similarly, the City entered into an agreement with Auburn University to issue general obligation debt, enabling Auburn University to finance an expansion of the City's tennis complex. The City leases a portion of the complex to Auburn University. These lease payments are used to pay principal and interest on the City's debt. 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 \$2.9 million outstanding is included in the City's liabilities and the offsetting capital asset is included on the balance sheet 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, affecting the City's unrestricted net assets. Total City debt for the benefit of Auburn City Schools and outstanding at September 30, 2012, was \$80.1 million, an increase of \$15.9 million (24.8%) from the prior year. Debt outstanding in respect to agreements made with Auburn University was \$4.4 million, a decrease from the prior year of \$737,955. The increase in school related debt resulted from

the issuance of \$18.5 million in fiscal 2012, to be used for construction of a new elementary school and the purchase of land for a future secondary school. Decreases in debt issued for the benefit of Auburn University are attributable to the City's principal repayments.

Governmental Activities' other unrestricted net assets increased to \$10.3 million from \$2.1 million (eliminating the effect of other entities' debt) at the end of fiscal 2012. This increase has a number of components including: 1) An increase in cash and cash equivalents of \$9.3 million, 2) An increase in capital assets of \$2.4 million, and 3) A decrease in net assets resulting from expenses exceeding revenue for fiscal 2012.

The City's governmental activities' had overall positive net assets of \$30.3 million at the end of the 2012 fiscal year, a decrease of \$1.5 million (4.8%).

Table 2

Governmental Activities

Net Assets	<u>2012</u>	<u>2011</u>
Invested in capital assets, net	\$ 91,886,384	\$ 87,677,067
Restricted		
Capital Projects	1,357,984	1,372,083
Debt Service	3,540,271	3,723,922
Fed and State Grants	2,898,029	1,223,138
Special Rev, non-grant	4,847,159	5,099,210
Unrestricted (deficit)		
Governmental Activities	10,343,525	2,080,879
City School Debt	(80,145,828)	(64,197,290)
AU Debt	(4,416,748)	(5,154,703)
Total Net Assets-Governmental	<u>\$ 30,310,776</u>	<u>\$ 31,824,306</u>

The total net assets of the City's business-type activities increased by \$4.5 million to \$32.8 million in fiscal year 2012, from \$28.3 million in fiscal year 2011. The majority of this increase can be attributed to a positive change in net assets from combined business-type operations revenue over expenses of \$3.7 million. The restricted for capital projects category of net assets decreased by \$885,940; this decrease comes from the spending of bond proceeds for capital projects in the Sewer business-type activity. Additionally, a prior period adjustment related to customer receivables and liabilities for Sewer and Solid Waste activities increased net assets by \$794,659. More details on this adjustment are included in the *Proprietary Funds* section of this report.

Total assets for business-type activities increased by \$2.8 million in 2012. This change resulted from an increase in cash and cash equivalents of \$2.4 million and a change in customer receivables (increase of \$947,206) and due from component units (decrease of \$549,440) related to the prior period adjustment mentioned in the previous paragraph. In addition, capital assets increased by \$7.0 million.

Changes in net assets The primary government's net assets increased by \$3.0 million (4.9%) in fiscal year 2012. Total assets increased by \$23.5 million (9.5%), while total liabilities increased by \$20.5 million (11.0%). The large increase in liabilities resulted primarily from debt issued for Auburn City Schools in the amount of \$18.5 million. These funds are being used to construct a new elementary school and purchase land that will be used as the site of a future school.

The primary government's total net assets increase of \$3.0 million (4.9%) in fiscal 2012 include the following major changes: 1) an increase in the deficit in unrestricted net assets of \$2.7 million, 2) an increase in restricted net assets of \$339,150, and 3) an increase in investments in capital assets, net of related debt, of \$5.3 million.

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

Excerpt of Governmental Activities
from the
City of Auburn Statement of Activities for the Fiscal Years ended September 30, 2012 and 2011

Governmental Activities	Expenses		Program Revenues*		Net (Expense) Revenue	
	2012	2011	2012	2011	2012	2011
<i>Functions and programs</i>	\$	\$	\$	\$	\$	\$
General government	6,882,510	6,696,333	13,364,376	11,372,240	6,481,866	4,675,907
Public works	7,087,489	7,176,200	3,959,254	4,005,603	(3,128,235)	(3,170,597)
Environmental services	1,903,429	1,759,158	-	-	(1,903,429)	(1,759,158)
Public safety	17,966,335	17,484,211	3,506,894	3,914,257	(14,459,441)	(13,569,954)
Library	1,686,566	1,641,371	48,799	66,378	(1,637,767)	(1,574,993)
Parks and recreation	5,607,803	5,611,356	1,021,068	1,123,974	(4,586,735)	(4,487,382)
Social and economic development	5,235,985	3,302,021	1,918,592	1,007,471	(3,317,393)	(2,294,550)
Other functions	2,846,696	2,344,866	843,485	786,153	(2,003,211)	(1,558,713)
Education (payments to Board of Ed)	35,412,033	14,624,398	-	-	(35,412,033)	(14,624,398)
Interest on long-term debt	5,753,942	5,914,822	-	-	(5,753,942)	(5,914,822)
Total governmental activities	90,382,788	66,554,736	24,662,468	22,276,076	(65,720,320)	(44,278,660)

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

The cost of governmental activities this year was \$90.4 million. Program revenues provided \$24.7 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 \$65.7 million.

There are two items of note in the change in net expense of governmental activities. As mentioned on the previous page, the City issued debt on behalf of Auburn City Schools for construction of a new elementary school and purchase of future school land. The \$18.5 million borrowing was appropriated to the school board. This transfer, coupled with an increase of \$2.5 million in the annual appropriation to the schools by the City's General Fund, increased the education function by \$20.8 million (142.1%).

Another significant increase in net expense occurred in the social and economic development function. In January 2012, the City decided to pay off a line of credit of the Industrial Development Board, a component unit of the City. The funds from this line of credit were used to begin infrastructure construction on a second phase of the Auburn Technology Park West. The payoff of this debt increased the City's transfers to the Industrial Development Board by \$1.5 million, thus increasing the expenses of the social and economic development function.

Table 4

Excerpt of Governmental Activities
from the
Statement of Activities

Governmental Activities	Net (Expense) Revenue	
	2012	2011
Net expense of the total governmental activities	(65,720,320)	(44,278,660)
General revenues:		
Sales taxes	30,890,400	22,987,406
Property taxes	21,424,164	20,966,105
Occupational license fees	9,221,981	9,033,443
Rental and leasing taxes	515,164	473,732
Lodging taxes	1,914,441	1,371,789
Motor fuel taxes	311,846	293,425
Other taxes	219,655	210,972
Interest and investment earnings	241,936	362,808
Gain (loss) on asset disposals	64,005	33,639
Miscellaneous	29,967	31,441
<i>Total general revenues</i>	64,833,559	55,764,760
Transfers	(626,769)	(248,354)
<i>Change in net assets -</i>		
General revenues and transfers less net expenses	(1,513,530)	11,237,746
Beginning net assets (restated)	31,824,306	19,546,239
Prior period adjustment	-	1,040,321
Ending net assets	\$ 30,310,776	\$ 31,824,306

Total City program income exceeded expenses for only one function: general government produced an excess of \$6.5 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 2012 and 2011 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.

Program revenue by source:	Governmental Activities	
	2012	2011
	\$	\$
Charges for services	17,144,125	15,830,002
Operating grants and contributions	3,831,256	2,747,298
Capital grants and contributions	3,687,087	3,698,776
<i>Total Prgm Rev - Governmental Activities</i>	24,662,468	22,276,076

Some of the program costs of governmental activities in 2012 were paid by revenues collected from those who directly benefited from the programs (\$17.1 million). These revenue sources include:

- General business license fees, which generated \$5.7 million to pay the costs of providing general government services.

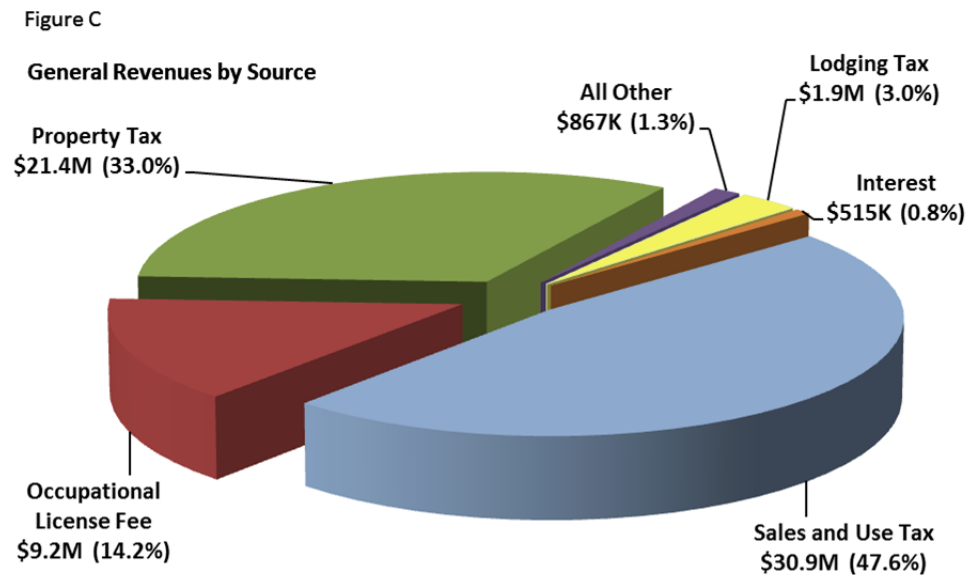
- Collection of court fines and tickets in the amount of \$1.1 million supports essential public safety and judicial services within the City.
- Auburn University pays for fire and police services on campus. This revenue of \$2.3 million offsets public safety expenses for the year ending 2012.

Program costs were also defrayed by operating and capital grants and contributions of \$7.5 million. These revenues were up by \$1.7 million or 16.6% from fiscal year 2011.

- A portion of this funding comes from the Community Development Block Grant (CDBG) program of the federal Department of Housing and Urban Development. Fiscal 2012 CDBG revenues of \$432,694 were used to rehabilitate inadequate housing, improve public facilities and provide utility assistance, temporary housing and food assistance programs to eligible citizens.
- In March 2012, the City began a program with the Department of Housing and Urban Development (HUD) pursuant to Section 108 of Title 1 of the Housing and Urban Development Act of 1974. Funding approval from HUD totaled \$3,312,000. Included in operating grants and contributions is \$1.5 million of these Section 108 funds. The funds were loaned to the Auburn Housing Authority to be used to refurbish a low-income housing complex.

The City financed net expenses of \$65.7 million 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 2012:



- 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 47.6% of total general revenues. In August 2011, the City increased its sales tax rate. The sales tax rate increased from 3% to 4%.
- The second largest source of general revenues is property taxes (33.0%). Of the total 26 mills the City receives in property taxes, 16 mills are legally dedicated to the City Board of Education.

- The third largest general revenue source is occupational license fees (14.2%). This fee is levied at 1% of gross wages earned within the City limits.

The City of Auburn made payments of \$38.5 million to component units of the primary government during fiscal 2012. Of this amount, \$35.4 (91.9%) was paid to the Board of Education, including \$7.3 million paid from education property taxes and \$18.5 million of borrowing proceeds for construction of a new elementary school and purchase of land for a future school. The \$9.6 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 October 2010, the City engaged a utility rate consultant to review and update a rate study that was originally conducted in late fiscal 2008. This study evaluated the City's ability to meet the current and projected operating and capital expenditure demands with existing revenues. The rate study consultant, in conjunction with staff, provided a recommendation of necessary sewer rate levels to meet revenue requirements for the next five consecutive fiscal years ending September 30, 2015. After reviewing the recommendations, the City Council adopted a three-year phased rate increase. This plan includes a 6.9% rate increase for three fiscal years with the first beginning on October 1, 2011, the second effective on October 1, 2012, and the last effective on October 1, 2013. The City expects to update this rate study before implementing additional rate increases after fiscal 2014.

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 \$1.3 million (13.0%). This increase in Sewer Fund program revenue reflects an increase in sewer service revenue of \$407,038 (4.8%), resulting from the 6.9% rate increase mentioned above. A major component of the increase in program revenue for the Sewer Fund resulted from a \$1.0 million (201.8%) increase in sewer access fee revenue. Two large multi-family developments added \$714,600 in access fee revenue in 2012. Sewer Fund expenses (operating plus interest expense) decreased by 1.7% to \$8.0 million. This decrease is explained by lower interest expense and a decrease in the professional services expenses.

Table 6

Business-Type Activities (Condensed)						
Fiscal Years ended September 30, 2012 and 2011						
	<i>Sewer Revenue Fund</i>		<i>Solid Waste Management Fund</i>		<i>Total Business-Type Activities</i>	
	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2011</u>
Functions and programs	\$	\$	\$	\$	\$	\$
Operating expenses	(6,054,175)	(6,084,309)	(3,757,885)	(3,522,953)	(9,812,060)	(9,607,262)
Interest expense	(1,983,951)	(2,089,603)	-	-	(1,983,951)	(2,089,603)
Program revenues						
Charges for services	10,938,292	9,493,840	3,590,771	2,961,625	14,529,063	12,455,465
Operating contributions and grants	3,119	-	16,250	21,595	19,369	21,595
Capital contributions and grants	205,628	373,520	39,025	-	244,653	373,520
Net Revenue	3,108,913	1,693,448	(111,839)	(539,733)	2,997,074	1,153,715
General revenues						
Interest and investment earnings	33,193	48,669	247	59	33,440	48,728
Gain (loss) on asset disposals	-	908	9,820	(1,662)	9,820	(754)
Miscellaneous	4,190	5,625	1,895	2,031	6,085	7,656
Special item - concession	-	-	-	-	-	-
Transfers to/from General Fund	(69,606)	(71,060)	696,375	319,414	626,769	248,354
Change in net assets	3,076,690	1,677,590	596,498	(219,891)	3,673,188	1,457,699
Beginning net assets	28,049,520	26,812,953	295,572	868,176	28,345,092	27,681,129
Prior period adjustment	569,483	(441,023)	225,175	(352,712)	794,658	(793,735)
Beginning net assets, restated	28,619,003	26,371,930	520,747	515,464	29,139,750	26,887,394
Ending net assets	31,695,693	28,049,520	1,117,245	295,573	32,812,938	28,345,093

The City's only other business-type activity, solid waste management, 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). Revenue and expenses related to this function are accounted for in the Solid Waste Management proprietary fund. Expenses include salaries and benefits of solid waste and recycling employees, 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 2012 is \$111,839. Although the fund is improving, it remains evident 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 provided management with the necessary information to make decisions on rate increases. The rate study consultant worked with staff to propose a recommendation to the City Council that includes rate increases that are phased in over a four-year period. Residential customers began paying \$20.00 per month for curbside service effective October 1, 2011. This was a 17.0% increase over the previous rate of \$17.00 per month. An additional rate increase of 7.5% became effective October 1, 2012, which will further improve the adequacy of revenue for providing these services. Future increases include 4.6% effective October 1, 2013, and 4.4% effective October 1, 2014. Residents who receive backdoor service currently pay \$10.00 per month more than the rate for curbside service.

At the end of 2012, the fund had an increase of net assets of \$596,498. In addition, a prior period adjustment related to revenue accruals from the prior year of \$225,175 increased net assets. Ending net assets for the solid waste management business-type activity was \$1.1 million. Solid Waste Management Fund expenses (operating plus interest expense) increased by \$234,932 (6.7%). The increase in operating expenses is a result of rising fuel costs and the cost of repairs and maintenance to

an aging vehicle fleet. Program revenues, including charges for services, operating contributions and grants, and capital contributions and grants increased by \$662,826 (22.2%). Charges for services increased by \$629,146 (21.2%). This increase is primarily a result of the 17.0% rate increase that began in October 2011.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As the City completed the 2012 fiscal year, its governmental funds reported a *combined* fund balance of \$46.3 million, a \$6.7 million (16.9%) increase from the prior year. The total increase in fund balance is comprised of a \$4.0 million increase in General Fund balance; a \$115,686 increase in special revenue funds' fund balances; the debt service fund's fund balance decreased by \$183,652 and capital projects funds' fund balances increased by \$3.2 million. The following narrative discusses the financial activities that comprise the major changes in governmental fund balances.

Governmental revenues and other financing sources

- Total revenues of the governmental funds showed growth of 13.3% or \$10.3 million over the prior year.
- Sales and use, the General Fund's single largest revenue source, increased 34.4% (\$7.9 million) during the 2012 fiscal year. The City raised its sales tax rate from 3% to 4% in August 2011. The increase resulted in approximately \$7 million in additional sales tax revenue for the City. A portion of this additional revenue was used to increase the General Fund appropriation to Auburn City Schools by \$2.5 million.
- General property tax revenues improved by 2.2%, contributing additional revenue of \$458,060 to the governmental funds. For the third year in a row, property taxes did not show double digit growth. Property taxes are a lagging economic indicator and as such showed a slowed, yet somewhat stable growth in 2012. 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 increased by 15.4% (\$1.4 million). This increase is in part due to an increase of \$492,956 in construction related permits. The valuation for construction permits of single family, detached homes increased by \$40.7 million (56.2%), while the valuation for permits of multi-family developments increased by \$62.7 million. In fiscal 2011, there were no permits issued for multi-family dwellings. The increase in building construction also caused an increase in construction percent, which is a license fee assessed to contractors and subcontractors. Revenue from construction percent increased by \$422,639 (8.9%).
- Lodging tax increased by 39.6% (\$542,652). This increase is a product of State audits conducted during 2012 that resulted in amounts due to the City.
- State shared taxes increased by 20.8%, or \$220,303. This increase can be primarily attributed to an increase in revenue from the Alabama Trust Fund of \$180,382. These revenues are received from the State of Alabama and are future revenues from sales of offshore drilling rights and royalties on the resulting gas production. Cities and counties receive 10% of the revenue, and it can vary greatly from year to year.
- Contributions from the public decreased by 63.0% (\$1.0 million). During fiscal 2011, Lee County contributed \$813,852 toward construction of a new bridge on North Donahue Drive. This

temporarily inflated the contributions from the public revenue for that year. Revenue in this category fell to a more normal level in fiscal 2012.

- Interest revenue continued to decline in fiscal 2012 to \$241,936 from \$362,808 in fiscal 2011. This represented a 33.3% decrease. The interest rate environment is expected to continue to decline with investment rates remaining at or below current levels until 2014. This rate environment makes it increasingly difficult to earn interest on idle funds that the City wishes to invest.
- Other financing sources increased by \$56.3 million in 2012 over 2011. The major components of this increase are related to debt issuances and refundings. The City issued \$18.5 million in General Obligation Warrants in February for the purpose of acquiring land and constructing a new elementary school. In May, the City issued \$4 million in General Obligation Warrants for the purpose of constructing a new senior center, renovating an existing recreation center, and improving public parking. In September, the City issued \$1.8 million to pay for the costs of constructing a new road, Cary Creek Parkway. In addition to these new issuances, the City refunded debt in governmental funds. This refunding increased other financing sources by \$32.0 million. More information on these debt issuances and refunding can be found in the *Long-term Debt* section of this MD&A.

Governmental expenditures and other financing uses

Total governmental expenditures increased by \$28.7 million (36.6%) in fiscal 2012 from fiscal 2011. The major components of this increase in governmental expenditures were an increase in payments to component units of \$22.8 million (144.7%), an increase in economic development expenditures of \$970,534 (47.7%), an increase in capital outlay expenditures of \$1.5 million (25.8%), and an increase in debt service expenditures of \$2.8 million (16.7%). To summarize the changes in governmental funds' expenditures:

- The City's payments to its component units in 2012 increased by \$22.8 million (144.7%) from fiscal year 2011, as shown in Table 7. This decrease has three key components. First, in 2012, the City borrowed \$18.5 million on behalf of Auburn City Schools. In addition to the appropriation of these borrowing proceeds, the City appropriated an additional \$2.5 million to the schools from its General Fund. These additional funds are used for operations of the school system. The last major component of the increase in payments to component units is a \$1.5 million increase in the transfer to the Industrial Development Board (IDB). During 2012, the City decided to pay off a line of credit of the IDB. Proceeds from this line of credit were used to begin Phase II of infrastructure improvements to the Auburn Technology Park West. An additional borrowing in fiscal 2013 will provide funding to complete these improvements.
- Departmental expenditures increased by \$1.6 million (4.2%). The most significant increases in spending were seen in Economic Development (\$970,534, 47.7%) and Public Safety (\$471,648, 2.8%). A large expenditure in Economic Development, totaling \$1.5 million, was proceeds from a new loan program, the Section 108 Loan Program, administered by the Department of Housing and Urban Development (HUD). These funds were loaned to the Auburn Housing Authority to be used to improve low income housing. This large expenditure was offset by a decrease in the level of funding of the Community Development Block Grant (CDBG), also administered by HUD. Expenditures for this program decreased by \$436,006. The increase in Public Safety expenditures is due primarily to a normal rise in personal services (salaries, overtime, and healthcare).
- Capital outlay expenditures of the governmental funds were up in 2012 by \$1.5 million (25.8%). This increase was two-fold. First, several major capital outlay expenditures, including street resurfacing (\$1.9 million) and construction of Cary Creek Parkway (\$1.7 million) occurred in

2012. In addition, the City expended \$1.6 million in 2011 on bridge improvements to the North Donahue Bridge. Capital expenditures in the capital projects fund used to account for this bridge construction decreased in fiscal 2012.

- The City's debt service payments in governmental funds in fiscal 2012 increased by \$2.8 million (16.7%) over 2011. There are two major components of this increase. In fiscal 2012, the City permanently financed a temporary line of credit used to construct the Cary Creek Parkway. This created \$1.8 million in debt service expenditure. In addition, the City issued \$18.5 million of new debt as mentioned in the *payments to component units* paragraph above. This debt issuance increased debt service expenditures by \$641,564 in 2012.
- In August 2012, the City refunded debt in the General Fund, the Special School Tax Fund, and the Five Mill Tax Fund, all governmental funds. This refunding increased other financing uses by \$29.3 million. More information on these debt issuances and refunding can be found in the *Long-term Debt* section of this MD&A.

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

Table 7

Governmental Funds - Expenditures Comparison

<u>Paid to component units:</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 12 > FY 11</u>
Auburn City Schools	\$	\$	\$
General revenues	9,550,759	7,050,759	2,500,000
Education property taxes	7,361,274	7,573,639	(212,365)
Debt issuance - Schools	18,500,000	-	18,500,000
Subtotal to Schools	35,412,033	14,624,398	20,787,635
Industrial Development Board			
Operating Costs	681,000	650,830	30,170
Debt Service	1,516,238	-	1,516,238
West Tech Park Improvements	736,434	6,138	730,296
Industrial Incentive Investment	-	186,600	(186,600)
Subtotal to IDB	2,933,672	843,568	2,090,104
Public Park & Rec Board	201,174	287,876	(86,702)
Total - Component Units	38,546,879	15,755,842	22,791,037

- The City appropriated over \$9.6 million out of its general revenue to the Auburn City Schools in fiscal year 2012.
- 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 principal and interest 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 payment of additional operating funds at \$7.4 million in fiscal 2012 is a \$212,365 (2.8%) decrease from 2011.
- Transfers for the operating costs of the Industrial Development Board increased slightly by \$30,170, or 4.6%, during fiscal 2012. The City increased funding to the Board to provide for continued recruitment efforts and Board operations. The Council continues to promote aggressive economic development as a long-term goal in providing jobs and expanding the City's revenue base.

- As described on the previous page, the City of Auburn transferred \$1.5 million to the Industrial Development Board to extinguish a short-term line of credit used to begin construction of Phase II of the Auburn Technology Park West. This increased transfers to component units.
- 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 2011: site preparation funds in the amount of \$65,000 for the expansion of CNJ, Inc.'s existing facilities and site preparation funds of \$121,600 for expansion of facilities in the Auburn Technology Park North owned by SCA, Inc. There were no industrial incentives transferred to the Industrial Development Board in fiscal 2012.
- 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 2012, the transfer decreased by \$86,702 to \$201,174.

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 combined increased by \$4.5 million (15.8%) from fiscal 2011 to fiscal 2012. This increase is after the effects of a prior period adjustment that increased net assets by \$794,658.

Historically, the Water Works Board of the City of Auburn, a component unit of the City, has accounted for customer receivables and related liabilities for the sewer and solid waste functions because the Water Board was responsible for the collection of these funds. During fiscal 2011, the Water Works Board ceased recording liabilities and receivables related to these functions. The Water Works Board continues to be a collection agent for the City's utilities by billing and collecting sewer and solid waste fees; however, the City now records all receivables and payables for these activities on its general ledger. Additionally, the City now records any allowance for doubtful accounts for these activities. Any responsibility for customer receivables and liabilities for sewer and solid waste functions is held by the City. During fiscal 2012, a review of this change was done, and it was discovered that the 2011 ending net assets did not include a revenue receivable accrual. The prior period adjustment made to correct this exclusion increased beginning net assets for the Sewer Revenue Fund and the Solid Waste Management Fund by \$569,483 and \$225,175, respectively.

Proprietary funds' revenues, other resources

Sewer Revenue Fund operating revenues increased by 15.2% (\$1.4 million) in 2012 as compared to 2011. Sewer service fees are based on water usage; water usage of single family residences in excess of

18,000 gallons per month will not be charged sewer fees. Because sewer fees are based on water usage, a portion of this increase can be attributed to an extended drought period that began in July 2010. Typically, a drought causes water sales to rise, in turn, increasing sewer revenue. This drought situation in combination with a 6.9% rate increase effective in October 2011 caused the increase to operating revenue. In addition to operating revenue, the Sewer Fund's net assets were increased by \$205,668 from developers' contributions in fiscal 2012, which is a 44.9% (\$167,892) decrease from contributions in 2011.

Operating revenues in the Solid Waste Management Fund increased by 20.9% (\$623,665) in 2012. In addition to operating revenue, this fund's net assets were increased by \$696,375 from a budgeted operating transfer from the General Fund. As mentioned in the *Business-type Activities* section above, the City contracted with a rate consultant in late 2010 to evaluate the adequacy of rates for funding current and future needs of the solid waste management system. The first increase of a four-year phased rate increase schedule became effective on October 1, 2011. Residential customers began paying \$20.00 per month for curbside service while customers receiving backdoor service began paying \$30.00 per month. This increase represented a 17.0% increase for residential garbage services. Additional rate increases will be phased in for the next three fiscal years. Staff reviews the rate study projections and compares these figures with actual results to evaluate the need for future rate increases.

Proprietary funds' expenses

In the Sewer Revenue Fund, operating expenses for fiscal 2012 decreased by \$30,134 (.5%). The largest component of this change was professional services, which decreased by \$319,141 (78.3%). In fiscal 2011, the City contracted with a vendor to perform aerobic digester and aeration basin cleaning improvements at the H.C. Morgan Water Pollution Control Facility. Professional services expenses fell to a more normal level in 2012. The most significant increase in expenses was an \$118,989 (9.6%) increase in salaries and benefits.

In the Solid Waste Management Fund, operating expenses increased by \$234,932 (6.7%) to \$3.8 million. Increases in fuel and maintenance costs of vehicles of \$79,294 contributed to this change. Salaries and benefits increased by \$84,230, bringing the total for employee services to \$2.0 million. Other significant expenses include professional services (tipping fees for landfills) of \$554,898 and management fees of \$172,090 paid to the City's General Fund for administrative services.

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 2012 fiscal year. The Sewer Revenue Fund has been a major fund since fiscal 2003.

The General Fund (Governmental)

At the end of fiscal 2012, the total fund balance of the City's General Fund increased \$4.0 million (13.8%) 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 2012 total ending fund balance was \$33.0 million, compared to \$29.0 million at the end of 2011.

As mentioned in the *Governmental Funds* section, the City implemented the Governmental Accounting Standards Board's statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions in fiscal 2011. Fund balance categories include the following: nonspendable, restricted, committed, assigned, and unassigned. Total nonspendable fund balance decreased by \$466,318 from 2011. These balances represent inventories, prepaid items, advances, and land held for resale. The restricted and assigned categories decreased marginally by \$14,905 (.3%). Unassigned fund balance increased by \$4.5 million (27.2%).

The General Fund's total assets increased by \$6.2 million (17.5%) during 2012. Several significant items contributed to this increase in assets.

- Cash and cash equivalents increased by \$4.4 million, mainly as a result of increased revenue during the year. The City increased its sales tax rate in August 2011. A full year of this increase is included in revenue for fiscal 2012.
- Accounts receivable increased by \$2.5 million over 2011. The major component of this increase is the addition of a receivable of \$1.8 million for the Cary Creek development agreement. As part of this agreement, the City issued debt for construction of Cary Creek Parkway. The developer of this commercial and residential area is responsible for payment of the debt service for this borrowing. As the developer makes semi-annual payments to the City, this receivable will be reduced.
- Prepaid items decreased by \$341,861 (91.7%). In fiscal 2011, the City prepaid for a fire truck in order to secure a lower price. Prepaid items returned to a more normal level in 2012.
- Total liabilities of the General Fund increased by \$2.2 million (33.8%) in 2012. The most significant component of this increase was an increase in deferred revenue of \$1.8 million (77.3%). This deferred revenue is related to the receivable mentioned above. The debt issued by the City for construction of Cary Creek Parkway will be paid by the developer. As the developer pays the City for debt service for this borrowing, deferred revenue will be reduced by the payment amount and recorded as revenue.
- Other financing sources and uses increased by \$3.1 million in fiscal 2012. As mentioned above, the City issued permanent debt to refinance a short-term borrowing used to construct Cary Creek Parkway. Because this debt was issued to permanently finance a line of credit that was drawn primarily in the same year, both the temporary financing and the permanent financing are reported in other financing sources. In addition, the City issued \$1.8 million in refunding debt to take advantage of very favorable interest rates. This refunding caused significant changes to other financing sources and uses in this fund. More information on these debt issuances and refunding can be found in the *Long-term Debt* section of this MD&A.

Special School Tax Fund (Governmental)

- The Special School Tax Fund, a special revenue fund, accounts for sixteen mills of education ad valorem tax revenue which is used to pay principal and interest on City bonds issued for Auburn City Schools. In addition to debt service payments, this fund provides additional funding for school operations. The school system drew \$7.4 million from this fund for operations in 2012. This is a \$212,365 (2.8%) decrease from 2011. This amount varies from year to year depending on property tax revenue collections, fund balance levels of this fund, and needs of the school system. In addition to this operations transfer, the fund transferred \$18.5 million in borrowing proceeds to Auburn City Schools to be used to build a new elementary school and secure land for a future school site. Revenues increased minimally by .7% (\$85,779) in this fund, and

expenses, including the transfers mentioned above and debt service on the new borrowing, increased by 147.6% (\$19.1 million). Furthermore, the City issued \$18.1 million in refunding debt to take advantage of very favorable interest rates. This refunding caused significant changes to other financing sources and uses in this fund. More information on these debt issuances and refunding can be found in the *Long-term Debt* section of this MD&A.

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. While the City owns the sewer collection, treatment and disposal facilities, they are operated by Veolia Water North America Operating Services, LLC, a Chicago, Illinois based engineering and contract services firm. Veolia also maintains the City's sewer pump stations.

The Sewer Fund's net assets increased by \$3.6 million (13.0%) in fiscal year 2012. The largest change in the components of net assets is an increase of \$3.9 million (330.1%) in unrestricted net assets. This increase is primarily the result of an increase in cash and cash equivalents of \$2.4 million (41.2%).

Total assets of the Sewer Fund increased by \$8.9 million (12.0%). The major factor in this increase is a \$7.5 million increase in capital assets not being depreciated. During 2012, the City issued \$6.1 million in General Obligation Warrants used to complete phase II of improvements to the H.C. Morgan Water Pollution Control Facility (WPCF). This \$6.3 million improvements project includes improvements required by the Saugahatchee Watershed Total Maximum Daily Load (TMDL) Implementation Plan approved by the Alabama Department of Environmental Management. Completion of the project will allow for the timely diversion of flow from the City's Northside WPCF to the H.C. Morgan facility. The Northside WPCF will become a pumping facility and will no longer treat sewage. A portion of the funds for this project were spent during 2012 and increased the construction in progress account in the Sewer Fund. The remaining funds are included in cash and cash equivalents, which increased by \$2.4 million (41.2%).

There was a \$5.3 million (11.3%) increase in Sewer Fund liabilities; the majority of this increase is the result of the new debt of \$6.1 million mentioned in the paragraph above. Long term debt increased by \$4.9 million (11.0%). In addition, the City refunded Sewer debt in an effort to save interest costs. \$4.7 million in General Obligation Warrants issued in 2001 were refunded. More details on Sewer Fund debt are included in the *Long-Term Debt* section.

The Sewer Fund generated operating income of \$4.9 million in 2012, an increase of \$1.5 million from 2011. Operating revenues increased by \$1.4 million (15.2%); this increase is primarily the result of an extended drought period that began in 2010. During fiscal year 2012, Auburn continued to experience weather conditions ranging from abnormally dry to severe drought. Since sewer service is based on water usage, drought periods cause an increase in sewer revenue. Also contributing to the increase in operating income is the sewer service rate increase of 6.9% in October 2011. Operating expenses decreased slightly by \$30,132 (.5%); major components of this decrease were professional services of \$319,141 (a result of a large professional services contract in fiscal 2011) and facility management fees of \$78,414. Management fees are paid to Veolia Water North America Operating Services, LLC for operation of the City's two wastewater treatment plants.

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 2012 *final* General Fund budget projected \$63.1 million in revenue and \$2.2 million in other financing sources; appropriations were approved for \$66.5 million in expenditures and \$1.2 million in other financing uses, producing a planned reduction of \$2.4 million in the General Fund's fund balance. Actual amounts for revenues (\$67.0 million), other financing sources (\$5.9 million), expenditures (\$66.2 million), and other financing uses (\$2.7 million) netted to a positive change in fund balance. As a result, the General Fund's fund balance increased by \$4.0 million in 2012.

The original revenue projections in the General Fund were \$1.9 million under the *final* budget. Budget adjustments resulted from varied growth/decline in many revenue sources, the largest increase found in licenses and permits (\$581,890 or 6.6%). Other increases from budget adjustments were seen in lodging taxes (\$438,000 or 31.2%), sales and use taxes (\$308,500 or 1.1%), and state shared taxes (\$210,008 or 33.8%). These changes indicate a more stable trend in General Fund revenue after several years of more challenging budgeting times. Should Auburn experience financial difficulty, alteration of spending can be made 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 \$1.8 million in fiscal 2012. All individual departments kept expenditures under final budget, with the exception of Environmental Services Development. This department is greatly impacted by the rising fuel costs and the costs of maintaining an aging vehicle fleet. These expenditures caused the department to be over budget by \$65,513. As more vehicles and equipment are replaced, the impact of these maintenance expenditures should be reduced over the next few years. Non-departmental expenditures were slightly under budget by \$23,327 and capital outlay expenditures exceeded budget by \$256,496. The capital outlay overage was the result of street construction and resurfacing that the City completed for developers who failed to meet subdivision completion requirements. These expenditures were offset by funds collected from performance bonds. Other financing sources and uses actual amounts compared favorably with the budget by \$2.3 million. Refunding of debt that was issued at a premium resulted in an increase in other financing sources during 2012. More information related to the 2012 refunding can be found in the *Financial Analysis of the City's Fund – Governmental Funds* section of this MD&A.

The total operating budget for all departments was increased by \$505,589 (1.3%). The two largest increases (\$320,999 and \$167,366) were in the amounts appropriated for the General Government and Public Safety departments. The adjustment to the General Government budget included a \$150,000 increase for the derived taxes that are paid to Cary Creek Parkway, LLC. In 2011, the City entered into a development agreement with Cary Creek Parkway, LLC pursuant to Amendment 772 to the Alabama Constitution of 1901. Under this agreement, the City issued warrants to finance construction of the West Phase of the parkway. The developer will reimburse the City for debt service payments for this debt. In return for enhanced standards in building facades in the development, the City agreed to remit certain sales and use taxes collected within the development area to Cary Creek Parkway, LLC for certain costs incurred by the developer. The City began remitting the sales and use taxes during fiscal 2012. The adjustment of the Public Safety budget reflected an increase in the amount of police overtime that resulted from various organizations requesting security for events. The City is reimbursed for this security work.

CAPITAL ASSET AND DEBT MANAGEMENT

Capital Assets

Capital assets are those assets that have a cost of \$5,000 or more and an expected useful life of more than two years. The City records capital assets at historical cost. If the historical cost is unknown, an estimated cost is developed as provided by Generally Accepted Accounting Principles. As of September 30, 2012, the City owned \$199.8 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 \$9.4 million (4.9%) over last year. The majority of the increase is made up of bridge and roadway improvements and sewer line and facilities upgrades.

Table 8 lists the largest capital asset additions to the City for fiscal year 2012. Some of these additions were multi-year projects that were completed in 2011 and reclassified from construction in progress.

Table 8		Largest Capital Asset Additions	
		Fiscal Year 2012	
		Total Cost	
<i>Wastewater system expansion and improvements</i>			
	Downtown sewer rehabilitation	\$	243,139
<i>Equipment</i>			
	Pumper fire truck		355,335
	Side loading solid waste truck (2)		437,094
<i>Bridge and roadway improvements</i>			
	Cary Creek Parkway road construction		1,781,835
	Glenn Avenue road widening		902,843
	Farmville Road resurfacing		545,768
	Total	\$	<u>4,266,014</u>

The City has committed, through existing and future borrowings and referendums, to continue or complete some major projects in fiscal year 2013 and 2014. These major projects include: Frank Brown Recreation Center expansion and new Senior Center totaling ~\$3.3 million, Auburn Technology Park West – Phase II improvements of ~\$5.5 million, and parking improvements of ~\$1.3 million. Note 10 of the narrative notes to the financial statements provide additional detail on capital assets.

Long-term Debt

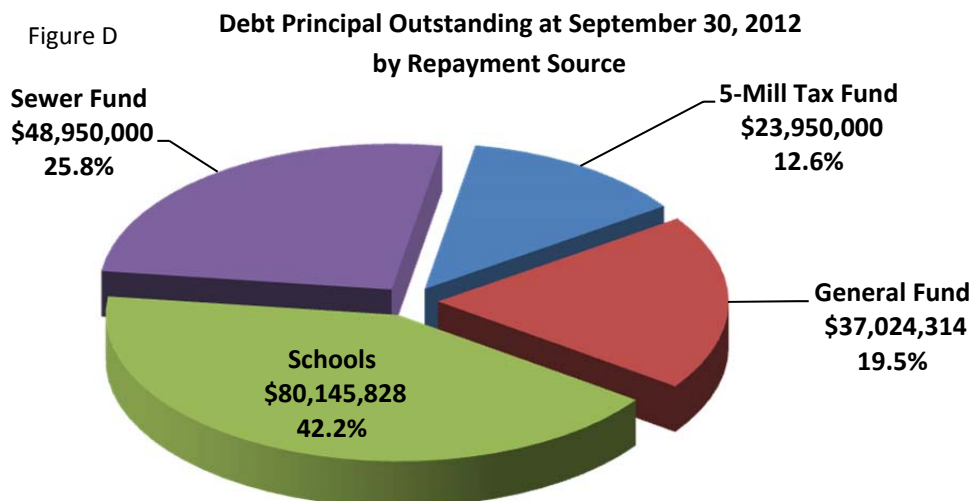
At 2012 fiscal year-end, the City owed \$196.6 million in long-term debt outstanding, of which \$15.3 million will mature during fiscal 2013. The fiscal 2012 net increase in long-term debt from the previous year was \$19.1 million or 10.8%. The City’s long-term debt is comprised of bonds and warrants.

As mentioned in the *Net Assets* section, the City issues debt for Auburn City Schools and for projects that result from partnerships with Auburn University. Of the \$196.6 million in debt outstanding, \$80.1 million is debt issued for assets that belong to Auburn City Schools, \$2.9 million is debt issued for assets that are owned by the City’s Public Park and Recreation Board, and \$1.5 million is debt issued for assets owned by Auburn University.

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. The City also issues debt for capital improvements related to development agreements. This debt is issued with the intent being that a developer will pay the debt service as required by the agreement.

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



Long-term debt with \$23.9 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 2012 and related General Obligation Bonds of \$4.0 million were issued in May of 2012. These bonds bear interest rates ranging from 2.0% to 5.0%. The approval rate for the referendum projects, which included expansion of the Frank Brown Recreation Center, construction of a new senior center, and public parking improvements within the City, was 86.7%. The next Special Five-Mill debt issuance is projected for fiscal 2015.

The City issues debt for the Auburn City Board of Education. The principal amount of currently outstanding school debt stands at \$80.1 million, which will be repaid from dedicated school ad valorem taxes. The City issued \$18.5 million during this fiscal year for acquiring land for and constructing a new elementary school and purchase of land for a future secondary school site. The City issued this debt through private placement at an interest rate of 2.78%.

The Sewer Revenue Fund (a business-type activity of the City) pays for long-term debt issues with total principal outstanding of \$48.9 million. The City issued \$6.1 million in General Obligation Warrants to complete phase II of improvements to the H.C. Morgan Water Pollution Control Facility. This issue was combined with a larger refunding issue which is discussed in more detail below.

The remaining \$37.0 million in outstanding principal will be repaid solely from the General Fund. In September 2012, the City issued a \$1.8 million General Obligation Warrant to permanently finance proceeds of a short-term borrowing used to pay for construction of Cary Creek Parkway.

In addition to the new debt issuances mentioned above, the City took advantage of very favorable interest rates by refunding several debt issuances. In August, the City issued \$36.1 million in General Obligation debt to refund various issues and obtain new funding for improvements to the City's sewer system. Details of the refunding include:

- \$6.2 million in General Obligation Bonds were issued to refund \$475,000 of outstanding 1998 Capital Improvement Bonds, \$825,000 of outstanding 1999 General Obligation Bonds, \$2.7 million of outstanding 2002 Capital Improvement Bonds, and \$2.5 million of 2005 General Obligation Bonds.

- \$29.9 million in General Obligation Warrants were issued to refund \$1.9 million of outstanding 1999 General Obligation Warrants (General Fund), \$4.7 million of outstanding 2001 General Obligation Warrants (Sewer Fund), and \$18.3 million of outstanding 2005 General Obligation Capital Improvement Warrants (Special School Tax Fund). This issuance also included \$6.1 million of new debt to be used for capital improvements to the City's sewer system.

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.

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 \$63.3 million, resulting in a legal debt margin (additional legal debt capacity) of \$97.0 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 2012 is 18.0%; the ratio for 2011 was 21.05%. City management assesses this ratio during the budgeting process and has established a goal of reducing the ratio to 10-12%.

Bond Ratings

In August 2012, in conjunction with the large refunding mentioned in the *Long-Term Debt* section, Moody's Investors Service affirmed the City's rating at Aa2. Also in August, Standard & Poor's confirmed the City's AA+ credit rating.

The Moody's rating report cited the City's "continued diversification and growth of the city's sizable tax base" and the City's "solid financial position, strong management team, and manageable debt burden" as among the factors considered in rating the City's credit. The S&P rating reflects "Auburn's stable economy, anchored by Auburn University; recent success in broadening the economy beyond opportunities presented by the university; historically strong finances, evidenced by very strong reserves, coupled with strong management; and revenue-raising flexibility from its three leading revenue streams."

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 2012, the Auburn-Opelika area's unemployment rate was 5.7%. The State's unemployment rate in December 2012 was 6.8%; the national rate was 7.8% (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 in the last 25 years. The IDB targets small to medium-sized technology based companies that offer a high level of employment to citizens. 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 atmosphere 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 to locate in Phase I of the Auburn Research Park was built for a Magnetic Resonance Imaging (MRI) research center. This 45,000 square-foot facility houses both a 3T and 7T MRI scanner operated under contract by the East Alabama Medical Center. In addition to the University's research activities, the Auburn Spine and Neurosurgery Center is located in this building. Construction of the third building is underway and will be a 68,000 square-foot facility, complete with 21 research laboratories, for the Center for Advanced Science, Innovation and Commerce. This building is expected to open in 2013. In addition, to further the partnership with Auburn University and the City of Auburn, the Auburn Research and Technology Foundation has established a full-service, mixed-use business incubator with the overall mission of facilitating the commercialization of university and community derived technologies.

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 2001 (254 permits) to fiscal 2011 (251 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 in 2012 to 344 (37.0%) as compared to 2011; most other residential classifications increased (6.7%), as well.

Commercial/industrial/institutional building activity (including new construction and additions/renovations) increased significantly in fiscal year 2012 compared to the activity of 2011 in terms of valuation (201.6%). The City's size has grown from 45.49 square miles in 2001 to 58.87 square miles in 2012. Population growth has averaged about 3% per year.

The City's staff considered all of the factors described above in preparing the biennial budget for fiscal years 2013 and 2014. For the new biennium, revenues were projected conservatively, but realistically given the challenges in the economy that the City has faced in the past two biennial budget periods. A key component of management's strategy has been to rely on reserves to absorb any impacts of the recession in an effort to reduce any potential decreases in the level of City services enjoyed by citizens. Management's strategy has also been to continue to contain operating costs in the new biennium while maintaining this high level of service and investing in capital asset maintenance and replacement. Another component of management's strategy has been to shift capital expenditures out of the General Fund to be financed by the Special Five Mill Tax Fund's resources. The City Council conducted 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, 2012 stood at 47.9% of expenditures compared to 52.5% in 2011. The total fund balance includes \$4.7 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 \$4.7 million comprised 41.2% 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 49.3% and 51.2% at the end of fiscal 2012 and 2011, respectively, 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 2011, the City engaged a rate consultant to update a study of the Sewer Fund's rate and fee structure that was conducted in 2008. Following the completion of the sewer rate study update, the Council approved increases in both sewer service fees and sewer access fees, in a phased approach. Sewer rates increased by 6.9% on October 1, 2011 and October 1, 2012. The last of the three-year phased increase will occur on October 1, 2013. These rate increases will address many capital needs, regulatory requirements and necessary maintenance to an aging infrastructure system.

Water services are provided by the City's component unit, the Water Works Board of the City of Auburn. During fiscal year 2011, the Board also conducted a rate study. Based on the results of the study, a rate increase of 8% was effective October 1, 2012. An additional rate increase of 8% will be effective on October 1, 2013.

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 support continued in fiscal 2011 when the Council made a decision to increase the sales tax rate from 3% to 4%. This rate became

effective in August 2011. Revenue from this increase aids in supporting the school system and enables the City to improve its infrastructure. 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.



City of Auburn

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, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
	\$	\$	\$	\$
ASSETS				
Current assets:				
Cash and cash equivalents	27,071,223	8,145,249	35,216,472	22,426,398
Certificates of deposit	10,175,159	-	10,175,159	2,425,083
Receivables, net	8,629,153	1,498,941	10,128,094	792,569
Due from component units	266,105	3,289	269,394	-
Internal balances	351,985	-	351,985	-
Inventories	11,446	23,032	34,478	353,091
Current portion of assessments receivable	182,910	-	182,910	-
Current portion of mortgages and notes receivable	186,884	-	186,884	214,343
Current portion of net investment in capital leases	-	-	-	106,253
Property tax receivable	-	-	-	5,140,495
Due from other governments	-	-	-	774,174
Due from primary government	-	-	-	109
Other current assets	109,649	19,179	128,828	236,743
Restricted cash	261,056	31,873	292,929	119,057
Total current assets	47,245,570	9,721,563	56,967,133	32,588,315
Noncurrent assets:				
Restricted assets				
Cash and cash equivalents	-	-	-	12,940,308
Investments	-	-	-	1,603,125
Interest receivable	-	-	-	-
Assessments receivable, net of current portion	1,646,190	-	1,646,190	-
Mortgages and notes receivable, net of current portion	2,836,453	-	2,836,453	129,225
Net investment in capital leases, net of current portion	-	-	-	316,173
Advances to other funds	216,892	-	216,892	-
Advances to component units	2,361,853	-	2,361,853	-
Advances to other agencies	286,058	-	286,058	-
Property for resale	4,199,608	-	4,199,608	7,961,872
Bond issue costs, net	1,172,182	490,010	1,662,192	408,337
Deferred outflow of resources	-	-	-	1,635,377
Capital assets not being depreciated	18,039,827	8,184,960	26,224,787	27,278,164
Capital assets net of accumulated depreciation	107,059,131	66,530,830	173,589,961	168,813,063
Total noncurrent assets	137,818,194	75,205,800	213,023,994	221,085,644
Total assets	185,063,764	84,927,363	269,991,127	253,673,959
LIABILITIES				
Current liabilities:				
Liabilities payable from restricted assets:				
Accounts payable	-	-	-	3,150
Current portion of long-term debt	-	-	-	660,000
Accrued interest payable	-	-	-	186,762
Accounts payable and other accrued liabilities	2,321,096	880,857	3,201,953	4,664,539
Internal balances	351,985	-	351,985	-
Payable to other governments	1,683,273	-	1,683,273	-
Due to component units	-	109	109	-
Accrued interest payable	820,677	628,455	1,449,132	-
Salaries and benefits payable	484,977	-	484,977	3,381,599
Claims payable	141,406	-	141,406	-
Customer deposits	216,819	665,090	881,909	673,666
Unearned revenue	1,806,674	6,881	1,813,555	5,493,460
Current portion of long-term debt	13,198,788	2,120,910	15,319,698	220,000
Short term notes payable	-	-	-	10,466,247
Due to primary government	-	-	-	269,395
Obligations under capital leases	-	-	-	522,457
Total current liabilities	21,025,695	4,302,302	25,327,997	26,541,275
Noncurrent liabilities:				
Advances from other funds	-	216,892	216,892	-
Advances from primary government	-	-	-	2,361,853
Derivative instrument liability	-	-	-	1,635,377
Long-term debt and other liabilities	133,727,293	47,595,230	181,322,523	41,591,645
Total noncurrent liabilities	133,727,293	47,812,122	181,539,415	45,588,875
Total liabilities	154,752,988	52,114,424	206,867,412	72,130,150
NET ASSETS				
Invested in capital assets, net of related debt	91,886,384	26,690,464	118,576,848	140,739,209
Restricted for :				
Capital projects	1,357,984	1,070,064	2,428,048	12,635,036
Debt service	3,540,271	-	3,540,271	1,859,190
Federal and state grants	2,898,029	-	2,898,029	-
Restricted for other projects	-	-	-	2,021,307
Special revenues (gas tax and road projects)	222,457	-	222,457	-
Special revenues (ad valorem tax for schools)	4,537,163	-	4,537,163	-
Special revenues (public safety)	87,539	-	87,539	-
Unrestricted (deficit)	(74,219,051)	5,052,411	(69,166,640)	24,289,067
Total net assets	30,310,776	32,812,939	63,123,715	181,543,809

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, 2012

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		
	\$	\$	\$	\$	\$	\$	\$	
Primary government:								
Governmental activities:								
General government and administration	6,882,510	12,332,933	1,031,443	-	6,481,866	-	6,481,866	
Public works	7,087,489	250	622,859	3,336,145	(3,128,235)	-	(3,128,235)	
Environmental services	1,903,429	-	-	-	(1,903,429)	-	(1,903,429)	
Public safety	17,966,335	3,203,403	234,162	69,329	(14,459,441)	-	(14,459,441)	
Library	1,686,566	35,799	13,000	-	(1,637,767)	-	(1,637,767)	
Parks and recreation	5,607,803	729,455	10,000	281,613	(4,586,735)	-	(4,586,735)	
Planning	562,555	59,489	1,200	-	(501,866)	-	(501,866)	
Social and economic development	5,235,985	-	1,918,592	-	(3,317,393)	-	(3,317,393)	
Human resources	698,236	-	-	-	(698,236)	-	(698,236)	
Risk management	1,585,905	782,796	-	-	(803,109)	-	(803,109)	
Education (payments to Board of Education)	35,412,033	-	-	-	(35,412,033)	-	(35,412,033)	
Interest on long-term debt	5,753,942	-	-	-	(5,753,942)	-	(5,753,942)	
Total governmental activities	<u>90,382,788</u>	<u>17,144,125</u>	<u>3,831,256</u>	<u>3,687,087</u>	<u>(65,720,320)</u>	<u>-</u>	<u>(65,720,320)</u>	
Business-type activities:								
Sewer Fund	8,038,127	10,938,292	3,119	205,628	-	3,108,912	3,108,912	
Solid Waste Management Fund	3,757,884	3,590,771	16,250	39,025	-	(111,838)	(111,838)	
Total business-type activities	<u>11,796,011</u>	<u>14,529,063</u>	<u>19,369</u>	<u>244,653</u>	<u>-</u>	<u>2,997,074</u>	<u>2,997,074</u>	
Total primary government	<u>102,178,799</u>	<u>31,673,188</u>	<u>3,850,625</u>	<u>3,931,740</u>	<u>(65,720,320)</u>	<u>2,997,074</u>	<u>(62,723,246)</u>	
Component units:								
Board of Education	63,625,694	5,068,144	32,299,682	1,569,937	-	-	-	(24,687,931)
Water Works Board	8,827,587	8,989,214	-	1,525,225	-	-	-	1,686,852
Industrial Development Board	9,154,928	3,381,951	-	382,000	-	-	-	(5,390,977)
Public Park & Recreation Board	636,026	70,819	-	-	-	-	-	(565,207)
Total Component Units	<u>82,244,235</u>	<u>17,510,128</u>	<u>32,299,682</u>	<u>3,477,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,957,263)</u>
General revenues								
Taxes:								
Sales taxes					30,890,400	-	30,890,400	4,967,872
Occupational license fees					9,221,981	-	9,221,981	-
Property taxes					21,424,164	-	21,424,164	12,327,600
Motor fuel taxes					311,846	-	311,846	-
Lodgings taxes					1,914,441	-	1,914,441	-
Rental and leasing taxes					515,164	-	515,164	-
Cigarette taxes					77,145	-	77,145	-
Alcoholic beverage taxes					142,510	-	142,510	511,879
Other taxes					-	-	-	52,750
Appropriations from the City of Auburn					-	-	-	31,185,605
Federal and state aid not restricted					-	-	-	1,956
Interest and investment earnings					241,936	33,440	275,376	391,643
Gain on disposal of assets					64,005	9,820	73,825	2,556
Miscellaneous					29,967	6,085	36,052	1,470,228
Transfers					(626,769)	626,769	-	-
Total general revenues and transfers					<u>64,206,790</u>	<u>676,114</u>	<u>64,882,904</u>	<u>50,912,089</u>
Change in net assets					<u>(1,513,530)</u>	<u>3,673,188</u>	<u>2,159,658</u>	<u>21,954,826</u>
Net assets - beginning					31,824,306	28,345,093	60,169,399	159,588,983
Prior period adjustment					-	794,658	794,658	-
Net assets - beginning, as restated					<u>31,824,306</u>	<u>29,139,751</u>	<u>60,964,057</u>	<u>159,588,983</u>
Net assets - ending					<u>30,310,776</u>	<u>32,812,939</u>	<u>63,123,715</u>	<u>181,543,809</u>

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

CITY OF AUBURN, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Special School Tax Fund	Other Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$
ASSETS				
Cash and cash equivalents	24,028,967	4,375,506	8,841,910	37,246,383
Receivables, net	9,848,021	155,152	455,080	10,458,253
Due from other funds	351,985	-	-	351,985
Due from component units	266,105	-	-	266,105
Inventories	11,446	-	-	11,446
Prepaid items	30,811	-	-	30,811
Mortgages receivable	-	-	3,023,336	3,023,336
Advances to other funds	216,892	-	-	216,892
Advances to component units	2,361,853	-	-	2,361,853
Advances to other agencies	286,058	-	-	286,058
Restricted cash	240,815	6,505	13,736	261,056
Property for resale	4,131,127	-	68,481	4,199,608
Total assets	<u>41,774,080</u>	<u>4,537,163</u>	<u>12,402,543</u>	<u>58,713,786</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	2,625,189	-	280,349	2,905,538
Payables to other governments	1,683,273	-	-	1,683,273
Customer deposits	187,080	-	-	187,080
Claims payable	141,406	-	-	141,406
Due to other funds	-	-	351,985	351,985
Deferred revenue	4,108,815	-	-	4,108,815
Deferred program revenue	-	-	3,023,386	3,023,386
Total liabilities	<u>8,745,763</u>	<u>-</u>	<u>3,655,720</u>	<u>12,401,483</u>
Fund balances				
Nonspendable				
Inventories	11,446	-	-	11,446
Prepaid items	30,811	-	-	30,811
Advances	2,864,803	-	-	2,864,803
Property for resale	4,131,127	-	-	4,131,127
Restricted				
Roads, bridges and streets	-	-	222,457	222,457
Law enforcement	237,639	-	165,212	402,851
Education	-	4,537,163	-	4,537,163
General grants	-	-	168,756	168,756
Social and economic	-	-	127,071	127,071
Capital projects	-	-	4,870,421	4,870,421
Committed				
Debt service	-	-	3,540,270	3,540,270
Assigned				
Social and economic	114,928	-	-	114,928
General	4,663,927	-	-	4,663,927
Unassigned	20,973,636	-	(347,364)	20,626,272
Total fund balances	<u>33,028,317</u>	<u>4,537,163</u>	<u>8,746,823</u>	<u>46,312,303</u>
Total liabilities and fund balances	<u>41,774,080</u>	<u>4,537,163</u>	<u>12,402,543</u>	

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.	125,098,958
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the current period.	(145,753,900)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	5,325,527
Prepaid items accounted for using the purchases method are not reported in the funds.	78,838
Accrued revenues and expenses that do not meet recognition criteria under the modified accrual basis of accounting are not recorded in the governmental funds.	(750,950)
Net assets of governmental activities	<u>30,310,776</u>

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, 2012

	General Fund	Special School Tax Fund	Other Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$
Revenues				
Sales and use taxes	30,890,400	-	-	30,890,400
Occupational license fees	9,221,981	-	-	9,221,981
Motor fuel taxes	612,720	-	-	612,720
Lodging taxes	1,914,441	-	-	1,914,441
Rental and leasing taxes	515,164	-	-	515,164
Other taxes	219,648	-	-	219,648
Licenses and permits	10,222,535	-	-	10,222,535
General property taxes	4,737,217	12,874,786	3,812,162	21,424,165
Charges for services	5,484,334	-	-	5,484,334
Fines and forfeitures	1,432,086	-	20,867	1,452,953
State shared taxes	1,014,168	-	263,872	1,278,040
Contributions from the public	453,382	-	147,161	600,543
Grants	-	-	2,959,710	2,959,710
Program income	-	-	305,363	305,363
Interest	139,579	36,801	65,557	241,937
Miscellaneous	61,309	-	180	61,489
Total revenues	<u>66,918,964</u>	<u>12,911,587</u>	<u>7,574,872</u>	<u>87,405,423</u>
Expenditures				
General government and administration	4,849,205	-	51,427	4,900,632
Public works	3,418,805	-	110,123	3,528,928
Environmental services	1,806,656	-	-	1,806,656
Public safety	16,994,266	-	170,251	17,164,517
Library	1,490,734	-	13,000	1,503,734
Parks and recreation	4,788,245	-	-	4,788,245
Planning	561,014	-	1,200	562,214
Economic development	992,593	-	2,013,265	3,005,858
Employee services	642,122	-	-	642,122
Risk management	1,301,944	-	-	1,301,944
Total departmental	<u>36,845,584</u>	<u>-</u>	<u>2,359,266</u>	<u>39,204,850</u>
Non-Departmental	1,430,583	422,901	125,514	1,978,998
Debt service				
Administrative charges	49,176	185,858	183,769	418,803
Interest	1,696,932	3,166,209	974,830	5,837,971
Principal retirement	7,776,917	2,331,463	2,905,000	13,013,380
Capital outlay	5,568,271	-	1,693,245	7,261,516
Intergovernmental	879,997	-	41,571	921,568
Payments to component units	11,949,171	25,861,274	736,434	38,546,879
Total expenditures	<u>66,196,631</u>	<u>31,967,705</u>	<u>9,019,629</u>	<u>107,183,965</u>
Excess (deficiency) of revenues over expenditures	<u>722,333</u>	<u>(19,056,118)</u>	<u>(1,444,757)</u>	<u>(19,778,542)</u>
Other financing sources (uses)				
Debt issuance	1,825,835	18,500,000	4,000,000	24,325,835
Debt refunding	3,619,100	18,080,000	6,180,000	27,879,100
Premium on debt issued	169,586	2,851,307	1,126,265	4,147,158
Redemption of refunded bonds	(1,941,603)	-	(6,608,445)	(8,550,048)
Payment to refunded bond escrow agent	-	(20,749,649)	-	(20,749,649)
Sale of surplus assets	64,005	-	-	64,005
Transfers in	294,662	-	274,791	569,453
Transfers out	(751,375)	-	(444,847)	(1,196,222)
Total other financing sources (uses)	<u>3,280,210</u>	<u>18,681,658</u>	<u>4,527,764</u>	<u>26,489,633</u>
Net changes in fund balances	4,002,543	(374,460)	3,083,008	6,711,091
Fund balances, beginning of year	<u>29,025,774</u>	<u>4,911,623</u>	<u>5,663,815</u>	<u>39,601,212</u>
Fund balances, end of year	<u><u>33,028,317</u></u>	<u><u>4,537,163</u></u>	<u><u>8,746,823</u></u>	<u><u>46,312,303</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, 2012

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

Net change in fund balances - total governmental funds	\$ 6,711,091
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.	2,083,020
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	325,453
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.	(13,636,854)
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.	(254,760)
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>3,258,513</u>
Change in net assets - statement of activities	<u>\$ (1,513,537)</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, 2012

	<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				
Sales and use taxes	28,541,500	28,850,000	30,890,400	2,040,400
Occupational license fees	8,873,000	9,015,000	9,221,981	206,981
Motor fuel taxes	540,000	580,000	612,720	32,720
Lodging taxes	1,403,500	1,841,500	1,914,441	72,941
Rental and leasing taxes	446,000	445,000	515,164	70,164
Other taxes	196,700	209,000	219,648	10,648
Licenses and permits	8,807,210	9,389,100	10,222,535	833,435
General property taxes	4,278,067	4,445,000	4,737,217	292,217
Charges for services	5,882,401	5,858,222	5,544,334	(313,888)
Fines and forfeitures	1,108,640	1,212,000	1,432,086	220,086
State shared taxes	621,500	831,508	1,014,168	182,660
Contributions from the public	275,714	275,614	453,382	177,768
Interest	199,840	160,628	139,579	(21,049)
Miscellaneous	49,600	48,000	61,309	13,309
Total revenues	<u>61,223,672</u>	<u>63,160,572</u>	<u>66,978,964</u>	<u>3,818,392</u>
Expenditures				
General government and administration	4,756,661	5,077,660	4,849,205	228,455
Public works	3,577,659	3,583,080	3,418,805	164,275
Environmental services	1,759,035	1,741,143	1,806,656	(65,513)
Public safety	17,252,032	17,419,398	16,994,266	425,132
Library	1,514,252	1,514,252	1,490,734	23,519
Parks and recreation	5,081,954	5,100,008	4,788,245	311,763
Planning	686,196	686,196	561,014	125,182
Economic development	993,577	1,005,218	992,593	12,625
Employee services	697,481	697,481	642,122	55,359
Risk management	1,838,622	1,838,622	1,301,944	536,678
Total departmental	<u>38,157,469</u>	<u>38,663,058</u>	<u>36,845,584</u>	<u>1,817,474</u>
Non-departmental	1,518,910	1,453,910	1,430,583	23,327
Debt service:				
Administrative charges	10,000	10,000	49,176	(39,176)
Interest	1,935,505	1,935,505	1,696,932	238,573
Principal retirement	6,347,215	6,347,215	7,776,917	(1,429,702)
Capital outlay	4,388,500	5,311,775	5,568,271	(256,496)
Intergovernmental	890,389	890,389	879,997	10,392
Payments to component units	10,406,132	11,922,370	11,949,171	(26,801)
Total expenditures	<u>63,654,120</u>	<u>66,534,222</u>	<u>66,196,631</u>	<u>337,591</u>
Excess (deficiency) of revenues over expenditures	<u>(2,430,448)</u>	<u>(3,373,650)</u>	<u>782,333</u>	<u>4,155,983</u>
Other financing sources (uses)				
Debt issuance	-	1,516,238	1,825,835	309,597
Debt refunding	-	-	3,619,100	3,619,100
Premium on debt issued	-	-	169,586	169,586
Payment to refunded bond escrow agent	-	-	(1,941,603)	(1,941,603)
Sale of surplus assets	15,000	35,000	64,005	29,005
Transfers in	631,250	631,250	234,662	(396,588)
Transfers out	(1,090,000)	(1,230,772)	(751,375)	479,397
Total other financing sources (uses)	<u>(443,750)</u>	<u>951,716</u>	<u>3,220,210</u>	<u>2,268,494</u>
Net changes in fund balances	(2,874,198)	(2,421,934)	4,002,543	6,424,477
Fund balances, beginning of year	<u>29,025,774</u>	<u>29,025,774</u>	<u>29,025,774</u>	<u>-</u>
Fund balances, end of year	<u><u>26,151,576</u></u>	<u><u>26,603,840</u></u>	<u><u>33,028,317</u></u>	<u><u>6,424,477</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues	\$	\$	\$	\$
General property taxes	12,405,350	12,405,350	12,874,786	469,436
Interest	50,000	50,000	36,801	(13,199)
Total revenues	<u>12,455,350</u>	<u>12,455,350</u>	<u>12,911,587</u>	<u>456,237</u>
Expenditures				
Non-Departmental	467,600	467,600	422,901	44,699
Debt service				
Administrative charges	527,300	527,300	185,858	341,442
Interest	3,324,617	3,324,617	3,166,209	158,408
Principal retirement	2,193,959	2,193,959	2,331,463	(137,504)
Payments to component units	25,453,994	25,453,994	25,861,274	(407,280)
Total expenditures	<u>31,967,470</u>	<u>31,967,470</u>	<u>31,967,705</u>	<u>(235)</u>
Excess (deficiency) of revenues over expenditures	<u>(19,512,120)</u>	<u>(19,512,120)</u>	<u>(19,056,118)</u>	<u>456,002</u>
Other financing sources (uses)				
Debt issuance	18,025,000	18,025,000	18,500,000	475,000
Debt refunding	-	-	18,080,000	18,080,000
Premium on debt issued	-	-	2,851,307	2,851,307
Payment to refunded bond escrow agent	-	-	(20,749,649)	(20,749,649)
Total other financing sources (uses)	<u>18,025,000</u>	<u>18,025,000</u>	<u>18,681,658</u>	<u>656,658</u>
Net changes in fund balances	(1,487,120)	(1,487,120)	(374,460)	1,112,660
Fund balances, beginning of year	<u>4,911,623</u>	<u>4,911,623</u>	<u>4,911,623</u>	<u>-</u>
Fund balances, end of year	<u><u>3,424,503</u></u>	<u><u>3,424,503</u></u>	<u><u>4,537,163</u></u>	<u><u>1,112,660</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, 2012**

	Major Fund		Total
	Sewer Revenue Fund	Solid Waste Management Fund	
	\$	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	8,120,091	25,158	8,145,249
Receivables, net	1,100,513	398,428	1,498,941
Due from component units	3,289	-	3,289
Inventory	23,032	-	23,032
Other current assets	2,978	16,201	19,179
Restricted cash	31,873	-	31,873
Total current assets	9,281,776	439,787	9,721,563
Noncurrent assets			
Bond issue costs, net	490,010	-	490,010
Capital assets not being depreciated	8,119,395	65,565	8,184,960
Capital assets net of accumulated depreciation	65,392,028	1,138,802	66,530,830
Total noncurrent assets	74,001,433	1,204,367	75,205,800
Total assets	83,283,209	1,644,154	84,927,363
LIABILITIES			
Current liabilities			
Accounts payable	728,519	152,338	880,857
Due to component units	-	109	109
Accrued interest payable	628,455	-	628,455
Customer deposits	614,120	50,970	665,090
Deferred revenue	6,881	-	6,881
Current portion of long-term debt	2,110,000	-	2,110,000
Total current liabilities	4,087,975	203,417	4,291,392
Noncurrent liabilities			
Advances from other funds	-	216,892	216,892
Long-term debt and other liabilities	47,499,541	106,599	47,606,140
Total noncurrent liabilities	47,499,541	323,491	47,823,032
Total liabilities	51,587,516	526,908	52,114,424
NET ASSETS			
Invested in capital assets, net of related debt	25,486,097	1,204,367	26,690,464
Restricted for capital projects	1,070,064	-	1,070,064
Unrestricted (deficit)	5,139,532	(87,121)	5,052,411
Total net assets	31,695,693	1,117,246	32,812,939

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, 2012

	Major Fund	Solid Waste Management	Total
	Sewer Revenue Fund	Fund	
	\$	\$	\$
Operating revenues			
Charges for services	10,929,192	3,590,771	14,519,963
Sewer tapping fees	9,100	-	9,100
Grants	3,119	16,250	19,369
Miscellaneous	4,190	1,895	6,085
Total operating revenues	<u>10,945,601</u>	<u>3,608,916</u>	<u>14,554,517</u>
Operating expenses			
Salaries and wages	1,106,322	1,595,509	2,701,831
Employee benefits	256,676	444,457	701,133
Repairs and maintenance	30,061	51,644	81,705
Utilities	690,719	611	691,330
Professional services	88,508	554,898	643,406
Rentals and leasing	70,912	-	70,912
Insurance	6,386	16,201	22,587
Office supplies	16,927	-	16,927
Fuels and lubricants	42,324	267,924	310,248
Agricultural and chemical supplies	73,627	2,998	76,625
Minor equipment and tools	42,067	44,252	86,319
Repair parts and materials	66,046	262,546	328,592
Clothing and linens	9,584	1,705	11,289
Sewer service fees	212,682	-	212,682
Management fees	1,678,127	172,090	1,850,217
Bad Debt Expense	(19,178)	38,146	18,968
Depreciation/amortization	1,658,178	264,883	1,923,061
Travel and training	20,400	8,139	28,539
Miscellaneous	3,807	31,882	35,689
Total operating expenses	<u>6,054,175</u>	<u>3,757,885</u>	<u>9,812,060</u>
Operating Income (Loss)	<u>4,891,426</u>	<u>(148,969)</u>	<u>4,742,457</u>
Nonoperating revenues (expenses)			
Interest earned	33,193	247	33,440
Interest and fiscal charges	(1,983,951)	-	(1,983,951)
Gain (loss) on disposal of capital assets	-	9,820	9,820
Total nonoperating revenues (expenses)	<u>(1,950,758)</u>	<u>10,067</u>	<u>(1,940,691)</u>
Income (loss) before transfers and capital contributions	2,940,668	(138,902)	2,801,766
Transfers	(69,606)	696,375	626,769
Capital contributions - grants	-	39,025	39,025
Capital contributions - developers	205,628	-	205,628
Change in net assets	<u>3,076,690</u>	<u>596,498</u>	<u>3,673,188</u>
Net assets - beginning	28,049,521	295,572	28,345,093
Prior period adjustment	569,482	225,176	794,658
Net assets - beginning, as restated	<u>28,619,003</u>	<u>520,748</u>	<u>29,139,751</u>
Net assets - ending	<u>31,695,693</u>	<u>1,117,246</u>	<u>32,812,939</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, 2012

	Major Fund		
	Sewer Revenue Fund	Solid Waste Management Fund	Total
	\$	\$	\$
Cash flows from operating activities			
Cash collected from customers	11,392,236	3,525,230	14,917,466
Other cash collected	7,309	1,895	9,204
Customer deposits collected	(47,978)	50,760	2,782
Deferred grant revenue collected	6,881	-	6,881
Proceeds from operating grant	-	13,702	13,702
Payments to suppliers for goods and services	(2,620,123)	(1,463,560)	(4,083,683)
Payments to employees for services	(1,352,942)	(2,050,675)	(3,403,617)
Net cash provided (consumed) by operating activities (A)	<u>7,385,383</u>	<u>77,352</u>	<u>7,462,735</u>
Cash flows from noncapital financing activities			
Transfers in	-	751,375	751,375
Transfers out	(69,606)	(55,000)	(124,606)
Net cash provided (consumed) by noncapital financing activities	<u>(69,606)</u>	<u>696,375</u>	<u>626,769</u>
Cash flows from capital and related financing activities			
Principal repayments on borrowing	(5,855,000)	-	(5,855,000)
Proceeds from borrowing	10,030,000	-	10,030,000
Proceeds from sale of assets	-	9,820	9,820
Proceeds from capital grant	-	39,025	39,025
Acquisition and construction of capital assets	(7,742,527)	(797,661)	(8,540,188)
Interest and fiscal fees paid	(1,414,016)	-	(1,414,016)
Net cash provided (consumed) by capital and related financing activities	<u>(4,981,543)</u>	<u>(748,816)</u>	<u>(5,730,359)</u>
Cash flows from investing activities			
Interest on investments	44,230	247	44,477
Redemption of investments	2,025,315	-	2,025,315
Net cash provided (consumed) by investing activities	<u>2,069,545</u>	<u>247</u>	<u>2,069,792</u>
Net increase (decrease) in cash	4,403,779	25,158	4,428,937
Cash and cash equivalents, beginning of year	3,748,185	-	3,748,185
Cash and cash equivalents, end of year	<u>8,151,964</u>	<u>25,158</u>	<u>8,177,122</u>
Reconciliation of operating income to net cash provided by operating activities (A):			
Operating income	4,891,426	(148,969)	4,742,457
Add: Depreciation	1,658,178	264,883	1,923,061
Increase in accounts payable	506,993	5,480	512,473
Decrease in accounts receivable	453,943	-	453,943
Decrease in prepaid items	31,044	278	31,322
Increase in customer deposits	-	50,760	50,760
Increase in deferred revenue - grants	6,881	-	6,881
Increase in accrued leave	6,198	-	6,198
Increase in OPEB liability	3,859	7,791	11,650
Deduct: Increase in accounts receivable	-	(68,088)	(68,088)
Decrease in amounts due to other funds	-	(14,115)	(14,115)
Decrease in amounts due to component units	(125,161)	(2,167)	(127,328)
Decrease in accrued leave	-	(18,501)	(18,501)
Decrease in customer deposits	(47,978)	-	(47,978)
Net cash provided by operating activities	<u>7,385,383</u>	<u>77,352</u>	<u>7,462,735</u>
Noncash transactions:			
Estimated cost of sewer lines installed by and contributed to the City by developers	205,628	-	205,628
	<u>205,628</u>	<u>-</u>	<u>205,628</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, 2012

	Youth Athletic Associations' Private-purpose Trust Fund
	\$
ASSETS	
Current assets:	
Cash and cash equivalents	429,124
Total assets	429,124
 NET ASSETS	
Held in trust for:	
Auburn Dixie Baseball/Softball Association	100,639
Auburn Soccer Organization	285,042
Auburn Youth Football	16,096
Auburn Community Tennis Association	27,347
Total net assets	429,124

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, 2012

	Youth Athletic Associations' Private-purpose Trust Fund
	\$
ADDITIONS	
Program revenues:	
Baseball/Softball	182,816
Soccer	300,547
Football	25,450
Tennis	13,334
Total program revenues	522,147
Investment earnings:	
Baseball/Softball interest	975
Soccer interest	1,929
Football interest	5
Tennis interest	61
Total investment earnings	2,970
Total additions	525,117
DEDUCTIONS	
Program expenses:	
Baseball/Softball	178,590
Soccer	241,290
Football	22,961
Tennis	13,083
Total deductions	455,924
Change in net assets	69,193
Net assets - beginning	359,931
Net assets - ending	429,124

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

CITY OF AUBURN, ALABAMA
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Major Component Units				Total
	Board of Education	Water Works Board	Industrial Development Board	Nonmajor Component Units	
	\$	\$	\$	\$	\$
ASSETS					
Current assets:					
Cash and cash equivalents	16,546,493	4,181,982	1,697,773	150	22,426,398
Certificates of deposit	-	2,365,884	59,199	-	2,425,083
Receivables, net	266,112	445,089	41,390	39,978	792,569
Inventories	115,073	238,018	-	-	353,091
Current portion of mortgages and notes receivable	-	-	214,343	-	214,343
Current portion of net investment in capital leases	-	-	106,253	-	106,253
Property tax receivable	5,140,495	-	-	-	5,140,495
Due from other governments	774,174	-	-	-	774,174
Due from primary government	-	109	-	-	109
Other current assets	-	162,658	71,777	2,308	236,743
Restricted cash	-	-	119,057	-	119,057
Total current assets	22,842,347	7,393,740	2,309,792	42,436	32,588,315
Noncurrent assets					
Restricted assets					
Cash and cash equivalents	9,365,523	3,574,785	-	-	12,940,308
Investments	-	1,603,125	-	-	1,603,125
Mortgages and notes receivable, net of current portion	-	-	129,225	-	129,225
Net investment in capital leases, net of current portion	-	-	316,173	-	316,173
Property for resale	-	-	7,961,872	-	7,961,872
Bond issue costs, net	-	193,957	214,380	-	408,337
Deferred outflow of resources	-	-	1,635,377	-	1,635,377
Capital assets not being depreciated	16,040,445	2,123,654	9,114,065	-	27,278,164
Capital assets, net of accumulated depreciation	75,129,861	49,600,171	38,264,950	5,818,081	168,813,063
Total noncurrent assets	100,535,829	57,095,692	57,636,042	5,818,081	221,085,644
Total assets	123,378,176	64,489,432	59,945,834	5,860,517	253,673,959
LIABILITIES					
Current liabilities:					
Liabilities payable from restricted assets:					
Accounts payable	-	3,150	-	-	3,150
Current portion of long-term debt	-	660,000	-	-	660,000
Accrued interest payable	-	74,491	112,271	-	186,762
Accounts payable and other accrued liabilities	2,225,833	1,150,634	1,274,776	13,296	4,664,539
Salaries and benefits payable	3,381,599	-	-	-	3,381,599
Customer deposits	-	673,666	-	-	673,666
Deferred revenue	5,492,060	-	1,400	-	5,493,460
Current maturities of bonds payable	-	-	220,000	-	220,000
Current maturities of notes payable	-	-	10,466,247	-	10,466,247
Due to primary government	-	269,395	-	-	269,395
Obligations under capital leases	522,457	-	-	-	522,457
Total current liabilities	11,621,949	2,831,336	12,074,694	13,296	26,541,275
Noncurrent liabilities:					
Advances from primary government	-	-	2,361,853	-	2,361,853
Derivative instrument liability	-	-	1,635,377	-	1,635,377
Long-term debt and other liabilities	357,339	19,188,861	22,045,445	-	41,591,645
Total noncurrent liabilities	357,339	19,188,861	26,042,675	-	45,588,875
Total liabilities	11,979,288	22,020,197	38,117,369	13,296	72,130,150
NET ASSETS					
Invested in capital assets, net of related debt	90,290,510	29,354,840	15,275,778	5,818,081	140,739,209
Restricted for:					
Capital projects	7,459,289	5,175,747	-	-	12,635,036
Debt service	-	1,742,783	116,407	-	1,859,190
Other projects	2,021,307	-	-	-	2,021,307
Unrestricted	11,627,782	6,195,865	6,436,280	29,140	24,289,067
Total net assets	111,398,888	42,469,235	21,828,465	5,847,221	181,543,809

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, 2012**

	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	38,376,556	1,147,755	23,621,593	954,886	(12,652,322)	-	(12,652,322)
Instructional support	10,738,218	341,557	4,901,370	-	(5,495,291)	-	(5,495,291)
Operation and maintenance	5,264,814	135,756	1,155,120	327,401	(3,646,537)	-	(3,646,537)
Auxiliary services							
Student transportation services	2,820,509	122,377	1,882,536	287,650	(527,946)	-	(527,946)
Food services	3,088,529	2,631,971	136,063	-	(320,495)	-	(320,495)
General administrative services	2,262,114	1,620	318,201	-	(1,942,293)	-	(1,942,293)
Other	1,040,815	687,108	284,799	-	(68,908)	-	(68,908)
Interest and fiscal charges	34,139	-	-	-	(34,139)	-	(34,139)
Total governmental activities	<u>63,625,694</u>	<u>5,068,144</u>	<u>32,299,682</u>	<u>1,569,937</u>	<u>(24,687,931)</u>	<u>-</u>	<u>(24,687,931)</u>
Business-type activities:							
Water Works Board	8,827,587	8,989,214	-	1,525,225	-	1,686,852	1,686,852
Industrial Development Board	9,154,928	3,381,951	-	382,000	-	(5,390,977)	(5,390,977)
Public Park & Recreation Board	636,026	70,819	-	-	-	(565,207)	(565,207)
Total business-type activities	<u>18,618,541</u>	<u>12,441,984</u>	<u>-</u>	<u>1,907,225</u>	<u>-</u>	<u>(4,269,332)</u>	<u>(4,269,332)</u>
Total component units	<u>82,244,235</u>	<u>17,510,128</u>	<u>32,299,682</u>	<u>3,477,162</u>	<u>(24,687,931)</u>	<u>(4,269,332)</u>	<u>(28,957,263)</u>
General revenues:							
Taxes:							
Sales taxes					4,967,872	-	4,967,872
Property taxes					12,327,600	-	12,327,600
Alcoholic beverage taxes					511,879	-	511,879
Other taxes					52,750	-	52,750
Unrestricted appropriations from the City of Auburn					28,050,759	3,134,846	31,185,605
Federal/state aid not restricted					1,956	-	1,956
Interest and investment earnings					148,490	243,153	391,643
Gain on disposal of assets					-	2,556	2,556
Miscellaneous					845,605	624,623	1,470,228
Total general revenues, special items, and transfers					<u>46,906,911</u>	<u>4,005,178</u>	<u>50,912,089</u>
Change in net assets					<u>22,218,980</u>	<u>(264,154)</u>	<u>21,954,826</u>
Net assets - beginning					<u>89,179,908</u>	<u>70,409,075</u>	<u>159,588,983</u>
Net assets - ending					<u>111,398,888</u>	<u>70,144,921</u>	<u>181,543,809</u>

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, 2012

	Major Business-type Component Units			Total
	Water Works	Industrial	Nonmajor	
	Board	Development	Business-type	
	\$	\$	Component Units	
Operating revenues				
Lease income	-	3,381,951	-	3,381,951
Water sales and service	8,989,214	-	-	8,989,214
Tennis center revenue	-	-	70,819	70,819
Miscellaneous	443,243	106,017	75,363	624,623
Total operating revenues	<u>9,432,457</u>	<u>3,487,968</u>	<u>146,182</u>	<u>13,066,607</u>
Operating expenses				
Water treatment and pumping expense	2,338,808	-	-	2,338,808
Water distribution expense	881,899	-	-	881,899
Meter reading expense	440,956	-	-	440,956
Operations administration expense	264,325	-	-	264,325
Water revenue office expense	766,094	-	-	766,094
General operations expense	1,251,338	-	-	1,251,338
Salaries and wages	-	-	136,718	136,718
Employee benefits	-	-	29,161	29,161
Repairs and maintenance	-	108,003	27,038	135,041
Advertising	-	31,091	-	31,091
Utilities	-	91,633	87,018	178,651
Rentals and leasing	-	-	1,905	1,905
Insurance	-	-	2,308	2,308
Professional services	-	178,686	447	179,133
Office supplies	-	19,163	12	19,175
Recreational supplies	-	-	10,447	10,447
Depreciation/amortization	2,102,389	971,122	308,969	3,382,480
Industrial recruitment	-	318,915	-	318,915
Industrial incentives granted	-	4,571,809	-	4,571,809
Travel and training	-	12,014	542	12,556
Special events	-	48,963	-	48,963
Workforce development	-	4,933	-	4,933
Miscellaneous	-	7,971	512	8,483
Total operating expenses	<u>8,045,809</u>	<u>6,364,303</u>	<u>605,077</u>	<u>15,015,189</u>
Operating income (loss)	<u>1,386,648</u>	<u>(2,876,335)</u>	<u>(458,895)</u>	<u>(1,948,582)</u>
Non-operating revenues (expenses)				
Interest and investment earnings	67,799	175,353	1	243,153
Appropriations from the City of Auburn	-	2,933,672	201,174	3,134,846
Interest and fiscal charges	(781,778)	(2,208,115)	(826)	(2,990,719)
Gain (loss) on disposal of assets	2,556	(582,510)	(30,123)	(610,077)
Total non-operating revenues (expenses)	<u>(711,423)</u>	<u>318,400</u>	<u>170,226</u>	<u>(222,797)</u>
Income (loss) before other revenues, expenses, gains, losses, and transfers	<u>675,225</u>	<u>(2,557,935)</u>	<u>(288,669)</u>	<u>(2,171,379)</u>
Capital contributions				
From the City of Auburn	2,938	-	-	2,938
From developers	485,861	382,000	-	867,861
From access fees	1,036,426	-	-	1,036,426
Total capital contributions	<u>1,525,225</u>	<u>382,000</u>	<u>-</u>	<u>1,907,225</u>
Change in net assets	<u>2,200,450</u>	<u>(2,175,935)</u>	<u>(288,669)</u>	<u>(264,154)</u>
Net assets - beginning	<u>40,268,786</u>	<u>24,004,399</u>	<u>6,135,890</u>	<u>70,409,075</u>
Net assets - ending	<u>42,469,236</u>	<u>21,828,464</u>	<u>5,847,221</u>	<u>70,144,921</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, 2012

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City of Auburn, Alabama

Guide to Notes to the Financial Statements

September 30, 2012

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NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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, a function which the Board of Education cannot perform, and issue debt on behalf of the Board of Education. The Board of Education is presented as a governmental fund type or governmental-type activity.

Water Works Board of the City of Auburn

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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. The Commercial Development Authority had no activity for the year ending September 30, 2012 and no assets or liabilities as of September 30, 2012.

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:

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. The Authority had a note payable to the City with a balance of \$1,500,000 as of September 30, 2012 that was funded through the Department of Housing and Urban Development section 108 loan program.

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, 2012, 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Summary financial information for the Indian Pines Recreation Authority as of and for the year ended September 30, 2012, is as follows:

Total assets (net of accumulated depreciation on Capital assets)	\$ 1,462,564
Total liabilities	<u>(398,019)</u>
Total net assets	<u>\$ 1,064,545</u>
Total revenues	\$ 1,025,447
Total expenses	(1,037,035)
Other revenues	255
Other expenses	<u>(12,505)</u>
Net decrease in net assets	<u>\$ (23,838)</u>

The Authority had a note payable to the City with a balance of \$286,058 as of September 30, 2012. All other liabilities were current liabilities consisting of accounts payable, accrued payroll and payroll taxes, and deferred revenue and other accrued liabilities totaling \$111,961. 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Auburn-Opelika Tourism Bureau

The Mayor appoints one of the five board members of the Bureau. The City appropriates 1/7th 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 not accounted for or reported in another fund.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service and capital projects.

Debt Service Funds - The Debt Service Funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - The Capital Projects Funds are used to account for financial resources that are restricted, committed, or assigned to expenditure for capital projects.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 five mill advalorem tax revenues used to pay principal and interest on bonds issued for school purposes and eleven mill ad valorem tax revenues used in furtherance of education.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 current period." The details of this \$145,753,900 difference are as follows:

Bonds and warrants payable	\$ 141,120,141
Less: Deferred amount on refunding	(4,361,952)
Less: Deferred charge for issuance costs	(1,172,182)
Add: Issuance premium	6,945,954
Compensated absences	2,500,381
Claims and judgments	338,134
Landfill closure and post-closure care	161,000
Other postemployment benefits	<u>222,424</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive <i>at net assets - governmental activities</i>	<u>\$ 145,753,900</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. This is the amount by which capital outlays exceeded depreciation expense in the current period." The details of this \$2,083,020 difference are as follows:

Capital outlay	\$ 7,261,516
Depreciation expense	<u>(5,178,496)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive <i>at changes in net assets of governmental activities</i>	<u>\$ 2,083,020</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 \$325,453 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	\$ 350,296
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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:

Remaining cost basis of disposed assets	<u>(24,843)</u>
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Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*

<u>\$ 325,453</u>

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. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this \$13,636,854 difference are as follows:

Debt issued or incurred:

General obligation bonds	\$ (10,180,000)
General obligation warrants	(42,024,935)
Add: issue premium	(4,147,159)
Less: issue costs	402,163
Principal repayments	13,013,380
Payment to escrow agent for refunding	<u>29,299,697</u>

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

<u>\$ (13,636,854)</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 \$254,760 difference are as follows:

Compensated absences	\$ (46,871)
Accrued interest	(10,579)
Claims and judgments	(166,422)
Landfill closure and post-closure care	7,000
Other post employment benefits	(69,572)
Amortization of deferred amount on refunding	(170,132)
Amortization of issuance costs	(66,558)
Amortization of bond premiums	264,741
Amortization of prepaid expenses	<u>3,633</u>

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

<u>\$ (254,760)</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 2012 fiscal year for the General Fund, Seven-Cent Gas Tax Fund, Four and Five-Cent Gas Tax Fund, Special School Tax Fund, Public Safety Substance Abuse Fund, and the Special 5-Mill Tax 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.
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, environmental services expenditures of \$1,806,656 exceeded appropriations of \$1,741,143; debt service administrative charges of \$49,176 exceeded appropriations of \$10,000; debt service principal retirement of \$7,776,917 exceeded appropriations of \$6,347,215; capital outlay of \$5,568,271 exceeded appropriations of \$5,311,775; and payments to component units of \$11,949,171 exceeded appropriations of \$11,922,370.

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. Also included is restricted cash.

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.

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).

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 Revenue 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.

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.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 certified police officers and firefighters) 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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, 2012.

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, 2012. 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, 2012. 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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. Sick leave is earned at the rate of one day per month or in proportion to the number of hours they work per year, with 8 hours/2080 hours being the basis. 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.
- P. Fund Balance** - The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:
- **Nonspendable fund balance** - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
 - **Restricted fund balance** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
 - **Committed fund balance** - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund.
 - **Assigned fund balance** - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. The City Council has by resolution authorized the Finance Director to assign fund balance. Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).
 - **Unassigned fund balance** - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

The City Council has adopted a fund balance 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.

At September 30, 2012, the West Tech Park Phase II Capital Projects Fund, a nonmajor fund, had a deficit fund balance of \$347,364. The reason for the deficit is that the City expended funds on capital projects for the park in anticipation of a borrowing that occurred in early 2013.

- 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

- S. 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, 2012, 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 a certified qualified public depository, and as such, are deemed fully insured.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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. The pooled funds of the Industrial Development Board component unit consist of funds on deposit with the Auburn Center for Developing Industries. 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, 2012, is as follows:

	Equity in Pooled Funds	Nonpooled Funds		Total Cash and Cash Equivalents
		Unrestricted	Restricted	
Primary Government:				
Governmental activities:				
General Fund	\$ 13,460,225	\$ 2,893,583	\$ 240,815	\$ 16,594,623
Special School Tax Fund	1,875,506	-	6,505	1,882,011
Other Governmental Funds	8,841,909	-	13,736	8,855,645
Total governmental activities	<u>24,177,640</u>	<u>2,893,583</u>	<u>261,056</u>	<u>27,332,279</u>
Business-type activities:				
Sewer Revenue Fund	8,120,091	-	31,873	8,151,964
Waste Management Fund	25,158	-	-	25,158
Total business-type activities	<u>8,145,249</u>	<u>-</u>	<u>31,873</u>	<u>8,177,122</u>
Total primary government	<u>32,322,889</u>	<u>2,893,583</u>	<u>292,929</u>	<u>35,509,401</u>
Component Units:				
Board of Education	-	16,546,493	9,365,523	25,912,016
Water Works Board	-	4,181,982	3,574,785	7,756,767
Industrial Development Board	218,683	1,479,090	119,057	1,816,830
Public Park and Recreation Board	-	150	-	150
Total component units	<u>218,683</u>	<u>22,207,715</u>	<u>13,059,365</u>	<u>35,485,763</u>
Total reporting entity	<u>\$ 32,541,572</u>	<u>\$ 25,101,298</u>	<u>\$ 13,352,294</u>	<u>\$ 70,995,164</u>

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".

NOTE 4. INVESTMENTS**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, 2012, the Board of Education's restricted cash and investments were composed of the following, all of which are insured by the SAFE Program:

	Carrying Value	Fair Value
Cash - Capital Projects Fund	\$ 7,459,289	\$ 7,459,289
Cash - Other Governmental Funds		
Child Nutrition Program	1,741,140	1,741,140
Dental Clinic	165,094	165,094
	<u>\$ 9,365,523</u>	<u>\$ 9,365,523</u>

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 4. INVESTMENTS – CONTINUED

Water Works Board

At September 30, 2012, 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)	\$ 1,497,180	\$ 1,497,180
JP Morgan U.S. Treasury Securities		
Money Market Fund	<u>2,077,605</u>	<u>2,077,605</u>
Total restricted cash	3,574,785	3,574,785
U.S. Treasury Bonds	<u>1,603,125</u>	<u>1,603,125</u>
Total restricted cash and investments	<u>\$ 5,177,910</u>	<u>\$ 5,177,910</u>

The JP Morgan U.S. Treasury Securities 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, 2012, 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	<u>\$ 119,057</u>	<u>\$ 119,057</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.

<u>Unrestricted investments</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Maturities</u>
Certificate of deposit	<u>\$ 59,199</u>	<u>\$ 59,199</u>	2013

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

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, 2012, and the change in its fair value for the year then ended as reported in the 2012 financial statements are as follows:

	<u>Changes in Fair Value</u>		<u>Fair Value at 9/30/12</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	<u>\$ (46,943)</u>	Long term liability	<u>\$ (1,635,377)</u>	<u>\$ 5,060,000</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 5. DERIVATIVE INSTRUMENTS - CONTINUED

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, 2012, 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, 2012 was \$5,060,000.
Effective Date of Derivative:	08/01/06
Maturity Date of Derivative:	07/01/22
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:	BB-/Ba2

Credit Risk – As of September 30, 2012, 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 positive 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.

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, 2012, the interest rate on the Board's hedged variable-rate debt was 0.21% and LIBOR was 0.2155%.

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 with five business days prior written notice. The Board or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination, the hedging derivative instrument is in a liability position, the Board would be liable to the counterparty for a payment equal to the liability.

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, 2012

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	\$ 8,925,464	\$ 110,603	\$ 59,035	\$ 1,132,647	\$ 449,919	\$ 809,817	\$ 11,487,485
Grants receivable	-	-	286,771	-	8,210	-	294,981
Receivable from other governmental units	793,091	-	107,673	-	-	-	900,764
Special assessments receivable	1,854,207	-	-	-	-	-	1,854,207
Other receivables	<u>1,043,787</u>	<u>44,549</u>	<u>1,601</u>	<u>23,421</u>	<u>671</u>	<u>55,559</u>	<u>1,169,588</u>
Gross receivables	12,616,549	155,152	455,080	1,156,068	458,800	865,376	15,707,025
Less: allowance for uncollectibles	<u>(2,768,528)</u>	<u>-</u>	<u>-</u>	<u>(55,555)</u>	<u>(60,371)</u>	<u>(72,807)</u>	<u>(2,957,261)</u>
Net receivables	<u>\$ 9,848,021</u>	<u>\$ 155,152</u>	<u>\$ 455,080</u>	<u>\$ 1,100,513</u>	<u>\$ 398,429</u>	<u>\$ 792,569</u>	<u>\$ 12,749,764</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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%. In March of 2012 the loan was refinanced at a fixed rate of 3.00%. Principal and interest payments totaling \$3,181 are due in 108 equal monthly installments beginning April 2012. The balance of the note receivable at September 30, 2012 was \$286,058 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
2013	\$ 29,997	\$ 8,172	\$ 38,169
2014	30,910	7,259	38,169
2015	31,850	6,319	38,169
2016	32,819	5,350	38,169
2017	33,817	4,352	38,169
2018	34,845	3,324	38,169
2019	35,905	2,264	38,169
2020	36,997	1,172	38,169
2021	18,918	166	19,084
	<u>\$ 286,058</u>	<u>\$ 38,378</u>	<u>\$ 324,436</u>

COMPONENT UNITS**Industrial Development Board**

Mortgages and notes receivable consist of the following as of September 30, 2012:

	Balance 10/01/2011	Additions	Reductions	Balance 09/30/2012	Due Within One Year
Mortgages receivable	\$ 155,568	\$ -	\$ (12,000)	\$ 143,568	\$ 14,343
Notes receivable - other	200,000	5,000,000	(5,000,000)	200,000	200,000
Total	<u>\$ 355,568</u>	<u>\$ 5,000,000</u>	<u>\$ (5,012,000)</u>	<u>\$ 343,568</u>	<u>\$ 214,343</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
2013	\$ 14,343	\$ 1,680	\$ 16,023
2014	18,027	3,630	21,657
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>\$ 143,568</u>	<u>\$ 15,024</u>	<u>\$ 158,592</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 7. MORTGAGES AND NOTES RECEIVABLE – CONTINUED

Notes Receivable

In July, 2011, the Board made a loan to a new company locating in Auburn. The principal amount of the loan was \$200,000, and the loan was secured by a personal guaranty from the owner of the company. Under the terms of the original note, principal was due in two annual installments of \$100,000 each, beginning on July 27, 2012. The note bears interest at 3.25%, and interest is paid monthly by the company. During fiscal year 2012, the terms of the note were modified to allow an extension of the first installment payment to January 31, 2013, and the remaining principal payment remains due on July 27, 2013.

In February, 2012, the Board borrowed \$5,000,000 from a local bank, and issued a short term loan to an industry locating in Auburn. The loan was repaid by the company in September, 2012, and the Board repaid the amount borrowed from the bank.

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.

In October 2011, the City purchased a home originally financed as part of the City's Affordable Housing Program, that was in foreclosure. The City used Urban Development Action Grant funds to pay off the indebtedness secured by the property, as well as expenses of foreclosure and intends to sell the home to a low to moderate-income household. The property was purchased for \$68,481.

COMPONENT UNITS

Industrial Development Board

The following is a schedule of changes in property for resale for the year ended September 30, 2012:

	Balance 10/01/11	Additions	Reclassi- fications	Disposals	Balance 09/30/12
Land	\$ 5,301,035	\$ -	\$ (102,433)	\$ (1,111,110)	\$ 4,087,492
Improvements in progress	<u>5,488,455</u>	<u>1,131,008</u>	<u>(382,964)</u>	<u>(2,362,119)</u>	<u>3,874,380</u>
Total property for resale	<u>\$ 10,789,490</u>	<u>\$ 1,131,008</u>	<u>\$ (485,397)</u>	<u>\$ (3,473,229)</u>	<u>\$ 7,961,872</u>

The net reclassification consists of an adjustment to land previously reclassified to land held for leasing by the Board in the amount of \$35,237 (caused by a change in estimated costs to complete certain improvements in progress), and a reclassification of property previously held for resale to land held for leasing in the amount of \$520,634. Disposals are classified as industrial incentives granted in the Statement of Revenues, Expenses and Changes in Net Assets.

NOTE 9. PROPERTY TAXES

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, \$.50 for school purposes and \$1.10 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, 2012

NOTE 10. CAPITAL ASSETS

CITY OF AUBURN PRIMARY GOVERNMENT

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance 10/1/2011	Transfers/ Additions	Transfers/ Deductions	Balance 9/30/2012
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 15,156,702	\$ 315,178	\$ (4,547)	\$ 15,467,333
Construction in progress	1,347,307	5,699,893	(4,474,706)	2,572,494
Total capital assets, not being depreciated	<u>16,504,009</u>	<u>6,015,071</u>	<u>(4,479,253)</u>	<u>18,039,827</u>
Capital assets, being depreciated:				
Buildings and improvements	38,709,657	345,665	(2,650)	39,052,672
Communication equipment	397,236	83,261	(110,419)	370,078
Heavy equipment	2,308,563	346,959	(145,887)	2,509,635
Office equipment	3,150,050	142,637	(100,291)	3,192,396
Small tools and equipment	1,065,293	51,084	(91,354)	1,025,023
Vehicles	7,184,608	820,211	(379,180)	7,625,639
Infrastructure	<u>126,984,057</u>	<u>4,281,632</u>	<u>-</u>	<u>131,265,689</u>
Total capital assets, being depreciated	<u>179,799,464</u>	<u>6,071,449</u>	<u>(829,781)</u>	<u>185,041,132</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,681,817)	(1,034,857)	1,075	(11,715,599)
Communication equipment	(308,657)	(55,010)	110,419	(253,248)
Heavy equipment	(1,652,332)	(144,814)	145,887	(1,651,259)
Office equipment	(2,303,972)	(302,006)	99,558	(2,506,420)
Small tools and equipment	(829,760)	(92,756)	87,027	(835,489)
Vehicles	(5,729,246)	(676,872)	365,520	(6,040,598)
Infrastructure	<u>(52,107,206)</u>	<u>(2,872,182)</u>	<u>-</u>	<u>(54,979,388)</u>
Total accumulated depreciation	<u>(73,612,990)</u>	<u>(5,178,497)</u>	<u>809,486</u>	<u>(77,982,001)</u>
Total capital assets, being depreciated, net	<u>106,186,474</u>	<u>892,952</u>	<u>(20,295)</u>	<u>107,059,131</u>
Governmental activities capital assets, net	<u>\$ 122,690,483</u>	<u>\$ 6,908,023</u>	<u>\$ (4,499,548)</u>	<u>\$ 125,098,958</u>

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 10. CAPITAL ASSETS - CONTINUED

Capital asset activity for the City's business-type activities for the year ended September 30, 2012, was as follows:

	Balance 10/01/11	Transfers/ Additions	Transfers/ Deductions	Balance 09/30/12
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 164,626	\$ -	\$ -	\$ 164,626
Construction in progress	494,902	7,903,923	(378,491)	8,020,334
Total capital assets, not being depreciated	<u>659,528</u>	<u>7,903,923</u>	<u>(378,491)</u>	<u>8,184,960</u>
Capital assets, being depreciated:				
Buildings and improvements	10,570,589	-	-	10,570,589
Sewage plants and lines	67,661,826	451,485	-	68,113,311
Machinery and equipment	1,284,400	223,950	-	1,508,350
Small tools and equipment	7,200	-	-	7,200
Vehicles	2,872,664	693,083	(227,664)	3,338,083
Total capital assets, being depreciated	<u>82,396,679</u>	<u>1,368,518</u>	<u>(227,664)</u>	<u>83,537,533</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,155,004)	(211,606)	-	(2,366,610)
Sewage plants and lines	(10,038,279)	(1,352,700)	-	(11,390,979)
Machinery and equipment	(845,338)	(86,641)	-	(931,979)
Small tools and equipment	(7,200)	-	-	(7,200)
Vehicles	(2,265,484)	(272,115)	227,664	(2,309,935)
Total accumulated depreciation	<u>(15,311,305)</u>	<u>(1,923,062)</u>	<u>227,664</u>	<u>(17,006,703)</u>
Total capital assets, being depreciated, net	<u>67,085,374</u>	<u>(554,544)</u>	<u>-</u>	<u>66,530,830</u>
Business-type activities capital assets, net	<u>\$ 67,744,902</u>	<u>\$ 7,349,379</u>	<u>\$ (378,491)</u>	<u>\$ 74,715,790</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, 2012, the City incurred interest costs of \$2,071,751; total interest expense was \$1,923,617, and interest cost of \$148,134 was capitalized in connection with the cost of construction in progress.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 10. CAPITAL ASSETS - CONTINUED

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

Governmental activities:	
General government and administration	\$ 304,714
Public works	3,088,123
Environmental services	98,465
Public safety	865,892
Library	178,400
Parks and recreation	597,024
Planning	185
Economic development	6,119
Employee services	<u>39,575</u>
Total depreciation expense - governmental activities	<u>\$ 5,178,497</u>
Business-type activities:	
Sewer revenue fund	\$ 1,658,178
Solid waste management fund	<u>264,883</u>
Total depreciation expense - business-type activities	<u>\$ 1,923,061</u>

COMPONENT UNITS**Board of Education**

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance 10/01/11	Transfers/ Additions	Transfers/ Deductions	Balance 09/30/12
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,003,353	\$ 4,855,862	\$ -	\$ 8,859,215
Construction in progress	<u>6,800</u>	<u>7,174,430</u>	<u>-</u>	<u>7,181,230</u>
Total capital assets, not being depreciated	<u>4,010,153</u>	<u>12,030,292</u>	<u>-</u>	<u>16,040,445</u>
Capital assets, being depreciated:				
Land improvements	3,521,335	-	-	3,521,335
Buildings and improvements	92,288,027	-	-	92,288,027
Furniture, equipment and vehicles	7,086,105	921,718	(21,322)	7,986,501
Equipment under capital lease	<u>1,477,527</u>	<u>399,052</u>	<u>-</u>	<u>1,876,579</u>
Total capital assets, being depreciated	<u>104,372,994</u>	<u>1,320,770</u>	<u>(21,322)</u>	<u>105,672,442</u>
Less accumulated depreciation for:				
Land improvements	(2,360,723)	(116,895)	-	(2,477,618)
Buildings and improvements	(20,502,977)	(2,314,526)	-	(22,817,503)
Furniture, equipment and vehicles	<u>(4,326,948)</u>	<u>(941,834)</u>	<u>21,322</u>	<u>(5,247,460)</u>
Total accumulated depreciation	<u>(27,190,648)</u>	<u>(3,373,255)</u>	<u>21,322</u>	<u>(30,542,581)</u>
Total capital assets, being depreciated, net	<u>77,182,346</u>	<u>(2,052,485)</u>	<u>-</u>	<u>75,129,861</u>
Total governmental activities capital assets, net	<u>\$ 81,192,499</u>	<u>\$ 9,977,807</u>	<u>\$ -</u>	<u>\$ 91,170,306</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 10. CAPITAL ASSETS - CONTINUED

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

Governmental activities:	
Instruction	\$ 2,871,576
Instructional support	1,135
Operation and maintenance	30,098
Auxiliary services	
Student transportation services	266,675
Food services	202,991
General administrative services	<u>780</u>
Total depreciation expense - Governmental activities	<u>\$ 3,373,255</u>

Water Works Board

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Balance</u> <u>10/01/11</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Deductions</u>	<u>Balance</u> <u>09/30/12</u>
Business-type activity:				
Capital assets, not being depreciated:				
Land and land clearing	\$ 1,401,875	\$ -	\$ -	\$ 1,401,875
Construction in progress	<u>1,150,375</u>	<u>3,356,245</u>	<u>(3,784,841)</u>	<u>721,779</u>
Total capital assets, not being depreciated	<u>2,552,250</u>	<u>3,356,245</u>	<u>(3,784,841)</u>	<u>2,123,654</u>
Capital assets, being depreciated:				
Utility system and plant	61,188,863	4,287,919	-	65,476,782
Buildings and improvements	5,632,783	32,806	-	5,665,589
Office equipment	610,013	-	-	610,013
Mobile equipment	851,981	55,769	-	907,750
Tools	319,594	-	-	319,594
Deferred water rights	<u>4,504,701</u>	<u>-</u>	<u>-</u>	<u>4,504,701</u>
Total capital assets, being depreciated	<u>73,107,935</u>	<u>4,376,494</u>	<u>-</u>	<u>77,484,429</u>
Less accumulated depreciation for:				
Utility system and plant	(19,252,747)	(1,312,824)	-	(20,565,571)
Buildings and improvements	(1,331,273)	(226,656)	-	(1,557,929)
Office equipment	(281,745)	(132,408)	-	(414,153)
Mobile equipment	(610,282)	(65,095)	-	(675,377)
Tools	(259,677)	(19,818)	-	(279,495)
Deferred water rights	<u>(4,222,277)</u>	<u>(169,456)</u>	<u>-</u>	<u>(4,391,733)</u>
Total accumulated depreciation	<u>(25,958,001)</u>	<u>(1,926,257)</u>	<u>-</u>	<u>(27,884,258)</u>
Total capital assets, being depreciated, net	<u>47,149,934</u>	<u>2,450,237</u>	<u>-</u>	<u>49,600,171</u>
Business-type activity capital assets, net	<u>\$ 49,702,184</u>	<u>\$ 5,806,482</u>	<u>\$ (3,784,841)</u>	<u>\$ 51,723,825</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, 2012, the Board incurred interest costs of \$844,032; total interest expense was \$779,558, and interest cost of \$64,474 was capitalized in connection with the cost of construction in progress.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 10. CAPITAL ASSETS - CONTINUED**Industrial Development Board**

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Balance 10/01/11</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance 09/30/12</u>
Capital assets, not being depreciated:				
Land	\$ 5,577,501	\$ -	\$ 104,384	\$ 5,681,885
Construction in progress	<u>3,322,831</u>	<u>5,265,592</u>	<u>(5,156,243)</u>	<u>3,432,180</u>
Total capital assets, not being depreciated	<u>8,900,332</u>	<u>5,265,592</u>	<u>(5,051,859)</u>	<u>9,114,065</u>
Capital assets, being depreciated:				
Buildings	40,525,557	-	(1,081,259)	39,444,298
Building improvements	3,392,544	107,671	(13,152)	3,487,063
Land improvements	1,580,874	1,290	-	1,582,164
Equipment	514,629	5,150	-	519,779
Vehicles	<u>92,623</u>	<u>-</u>	<u>-</u>	<u>92,623</u>
Total capital assets, being depreciated	<u>46,106,227</u>	<u>114,111</u>	<u>(1,094,411)</u>	<u>45,125,927</u>
Accumulated depreciation				
Buildings	(4,927,290)	(801,833)	283,166	(5,445,957)
Building improvements	(308,890)	(78,416)	9,206	(378,100)
Land improvements	(431,972)	(53,245)	-	(485,217)
Equipment	(429,065)	(30,011)	-	(459,076)
Vehicles	<u>(92,627)</u>	<u>-</u>	<u>-</u>	<u>(92,627)</u>
Total accumulated depreciation	<u>(6,189,844)</u>	<u>(963,505)</u>	<u>292,372</u>	<u>(6,860,977)</u>
Total capital assets, being depreciated, net	<u>39,916,383</u>	<u>(849,394)</u>	<u>(802,039)</u>	<u>38,264,950</u>
Total capital assets, net	<u>\$ 48,816,715</u>	<u>\$ 4,416,198</u>	<u>\$ (5,853,898)</u>	<u>\$ 47,379,015</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 10. CAPITAL ASSETS - CONTINUED**Public Park and Recreation Board**

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance 10/01/11	Transfers/ Additions	Transfers/ Deductions	Balance 09/30/12
Business-type activity:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 7,251,068	\$ 38,600	\$ (33,846)	\$ 7,255,822
Machinery and equipment	55,454	-	-	55,454
Vehicles	<u>46,103</u>	<u>-</u>	<u>-</u>	<u>46,103</u>
Total capital assets, being depreciated	<u>7,352,625</u>	<u>38,600</u>	<u>(33,846)</u>	<u>7,357,379</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,189,832)	(290,991)	3,723	(1,477,100)
Machinery and equipment	(16,559)	(8,757)	-	(25,316)
Vehicles	<u>(27,661)</u>	<u>(9,221)</u>	<u>-</u>	<u>(36,882)</u>
Total accumulated depreciation	<u>(1,234,052)</u>	<u>(308,969)</u>	<u>3,723</u>	<u>(1,539,298)</u>
Total capital assets, being depreciated, net	<u>6,118,573</u>	<u>(270,369)</u>	<u>(30,123)</u>	<u>5,818,081</u>
Business-type activity capital assets, net	<u>\$ 6,118,573</u>	<u>\$ (270,369)</u>	<u>\$ (30,123)</u>	<u>\$ 5,818,081</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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, 2012, was as follows:

	Balance 10/01/11	Additions	Reductions	Balance 09/30/12	Due Within One Year
Governmental activities:					
Bonds and warrants payable:					
General obligation bonds	\$ 23,200,000	\$ 10,180,000	\$ (9,430,000)	\$ 23,950,000	\$ 3,295,000
General obligation warrants	105,478,586	42,024,932	(30,333,379)	117,170,139	9,656,673
Add: deferred amounts for issuance premiums	3,063,536	4,147,159	(264,741)	6,945,954	-
Less: deferred amounts on refunding	<u>(1,982,387)</u>	<u>(2,549,697)</u>	<u>170,132</u>	<u>(4,361,952)</u>	<u>-</u>
Total bonds and warrants payable	129,759,735	53,802,394	(39,857,988)	143,704,141	12,951,673
Accumulated annual leave	2,453,510	153,284	(106,413)	2,500,381	170,389
Claims payable	146,906	344,170	(152,941)	338,135	69,726
Landfill closure and postclosure care liability	168,000	-	(7,000)	161,000	7,000
Other postemployment benefits liability	<u>152,852</u>	<u>69,572</u>	<u>-</u>	<u>222,424</u>	<u>-</u>
Governmental activity long-term liabilities	<u>132,681,003</u>	<u>54,369,420</u>	<u>(40,124,342)</u>	<u>146,926,081</u>	<u>13,198,788</u>
Business-type activities:					
General obligation					
warrants payable	44,775,000	10,030,000	(5,855,000)	48,950,000	2,110,000
Add: deferred amounts for issuance premiums	666,554	841,389	(58,616)	1,449,327	-
Less: deferred amounts on refunding	(730,690)	(138,010)	66,380	(802,320)	-
Less: deferred amounts for issuance discounts	<u>(103,354)</u>	<u>-</u>	<u>34,311</u>	<u>(69,043)</u>	<u>-</u>
Total warrants payable	44,607,510	10,733,379	(5,812,925)	49,527,964	2,110,000
Accumulated annual leave	168,161	25,752	(38,055)	155,858	10,910
Other postemployment benefits liability	<u>20,668</u>	<u>11,650</u>	<u>-</u>	<u>32,318</u>	<u>-</u>
Business-type activity long-term liabilities	<u>44,796,339</u>	<u>10,770,781</u>	<u>(5,850,980)</u>	<u>49,716,140</u>	<u>2,120,910</u>
Total primary government long-term liabilities	<u>\$ 177,477,342</u>	<u>\$ 65,140,201</u>	<u>\$ (45,975,322)</u>	<u>\$ 196,642,221</u>	<u>\$ 15,319,698</u>

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

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 11. LONG-TERM LIABILITIES – CONTINUED

Bonds and warrants payable of the City of Auburn at September 30, 2012, 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, 2012</u>	<u>Year of Final Principal Maturity</u>
Governmental activities:						
Bonds payable:						
General obligation bonds, Dated 03/01/05 (Refund 97 bonds, and fund '05 projects) ('97 Bonds - Baseball, Arts Ctr., Pools, Kiesel)	2.2%-5%	2/1-8/1	Special 5-Mill Tax Fund ad valorem taxes	\$ 9,905,000	\$ 3,040,000	2016
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	3,640,000	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	7,090,000	2021
General obligation bonds, Dated 5/1/12 ('12 Capital Projects)	2%-5%	2/1-8/1	Special 5-Mill Tax Fund ad valorem taxes	4,000,000	4,000,000	2024
General obligation refunding bonds, Dated 8/1/12 (Refund '98, '99, '02, and '05 bonds) ('98 bonds - S. College Imp.; '99 bonds - Library, Watson Complex; '02 bonds - Soccer, Town Creek; '05 bonds - '05 Projects)	2%-5%	2/1-8/1	Special 5-Mill Tax Fund ad valorem taxes	<u>6,180,000</u>	<u>6,180,000</u>	2021
Total bonds payable				<u>34,285,000</u>	<u>23,950,000</u>	

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 11. LONG-TERM LIABILITIES – CONTINUED

	Interest Rate	Interest Dates	Source of Payment	Principal Issued	Principal Outstanding September 30, 2012	Year of Final Principal Maturity
Warrants payable:						
General obligation warrants Dated 12/23/03 (Infrastructure improvements)	3.93%	Monthly	Full faith credit and taxing power of the City of Auburn	6,300,000	931,229	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	11,970,000	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	1,689,149	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	1,527,276	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	2,889,472	2026
General obligation warrants Dated 5/27/08 (Refund 2000 Wts, 2002 Wts & LOC; Land (2000 Wts - Salmon Prop; 2002 Wts - Drainage, streets, LOC - West Tech Park Improvements)	3.53%	Monthly	Full faith credit and taxing power of the City of Auburn	4,211,050	1,209,471	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	5,457,872	2018
General obligation warrants Dated 5/29/08 (Refund Aub. Bank LOC) (Aub. Bank LOC - Glenn Ave/Bent Creek)	4.62%	Monthly	Full faith credit and taxing power of the City of Auburn	8,800,000	5,547,995	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	932,059	2015
General obligation warrants Dated 12/19/08 (Auburn HS renovations)	4.76%	Monthly	Special School Tax Fund ad valorem taxes	8,500,000	7,413,331	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	24,620,000	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	2,453,500	2020

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 11. LONG-TERM LIABILITIES – CONTINUED

	Interest Rate	Interest Dates	Source of Payment	Principal Issued	Principal Outstanding September 30, 2012	Year of Final Principal Maturity
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	9,162,182	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	1,605,006	2022
General obligation school warrants Dated 2/22/12 (New elementary school and land)	2.78%	Monthly	Special School Tax Fund ad valorem taxes	18,500,000	18,062,497	2032
General obligation warrants Dated 9/7/12 (Cary Creek Perm. Financing)	1.86%	3/1-9/1	Full faith credit and taxing power of the City of Auburn	1,829,100	1,829,100	2022
General obligation warrants Dated 8/1/12 (refund '99 warrants) ('99 warrants - City Hall, streets, etc)	2% - 5%	2/1-8/1	Full faith credit and taxing power of the City of Auburn	1,790,000	1,790,000	2019
General obligation refunding school warrants Dated 8/1/12 (partially refund '05 warrants - school expansion)	2% - 5%	2/1-8/1	Special School Tax Fund ad valorem taxes	<u>18,080,000</u>	<u>18,080,000</u>	2030
Total warrants payable				<u>168,583,470</u>	<u>117,170,139</u>	
Total governmental activity bonds and warrants payable				<u>202,868,470</u>	<u>141,120,139</u>	
Business-type activities:						
Warrants payable:						
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	23,675,000	2034
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
General obligation warrants Dated 8/1/12 (Refund '01 warrants; Sewer capital projects) ('01 warrants - sewer plant and expansion)	2% - 5%	2/1-8/1	Sewer Fund	<u>10,030,000</u>	<u>10,030,000</u>	2032
Total business type activity warrants payable				<u>50,645,000</u>	<u>48,950,000</u>	
Total bonds and warrants payable				<u>\$ 253,513,470</u>	<u>\$ 190,070,139</u>	

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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, 2012:

Fiscal Year	Total Annual Requirements			Governmental Activity			Business-type Activity		
				Bonds and Warrants Payable			Warrants Payable		
	Principal	Interest	Total	Payable from		Total	Principal	Interest	Total
				General Governmental					
			Principal	Interest					
2013	\$ 15,061,670	\$ 7,906,306	\$ 22,967,976	\$ 12,951,670	\$ 5,704,413	\$ 18,656,083	\$ 2,110,000	\$ 2,201,893	\$ 4,311,893
2014	15,530,888	7,406,719	22,937,607	13,390,888	5,263,026	18,653,914	2,140,000	2,143,693	4,283,693
2015	14,365,450	6,883,228	21,248,678	12,160,450	4,802,410	16,962,860	2,205,000	2,080,818	4,285,818
2016	12,699,589	6,329,888	19,029,477	10,384,589	4,344,821	14,729,410	2,315,000	1,985,067	4,300,067
2017	11,908,095	5,735,288	17,643,383	9,428,095	3,862,964	13,291,059	2,480,000	1,872,324	4,352,324
2018	11,886,065	5,216,346	17,102,411	9,286,065	3,466,091	12,752,156	2,600,000	1,750,255	4,350,255
2019	10,732,630	4,742,026	15,474,656	8,002,630	3,122,671	11,125,301	2,730,000	1,619,355	4,349,355
2020	10,890,287	4,277,381	15,167,668	8,025,287	2,795,451	10,820,738	2,865,000	1,481,930	4,346,930
2021	10,998,647	3,806,143	14,804,790	8,008,647	2,455,276	10,463,923	2,990,000	1,350,867	4,340,867
2022	9,689,547	3,364,890	13,054,437	6,574,547	2,136,773	8,711,320	3,115,000	1,228,117	4,343,117
2023	9,718,239	2,966,649	12,684,888	6,473,239	1,870,375	8,343,614	3,245,000	1,096,274	4,341,274
2024	10,062,827	2,548,716	12,611,543	6,682,827	1,593,608	8,276,435	3,380,000	955,108	4,335,108
2025	6,952,299	2,184,082	9,136,381	5,567,299	1,337,471	6,904,770	1,385,000	846,611	2,231,611
2026	7,269,089	1,874,929	9,144,018	5,814,089	1,101,868	6,915,957	1,455,000	773,061	2,228,061
2027	4,829,964	1,551,617	6,381,581	3,299,964	855,756	4,155,720	1,530,000	695,861	2,225,861
2028	3,187,050	1,339,335	4,526,385	1,572,050	724,705	2,296,755	1,615,000	614,630	2,229,630
2029	2,809,872	1,136,913	3,946,785	1,109,872	609,739	1,719,611	1,700,000	527,174	2,227,174
2030	2,926,123	972,435	3,898,558	1,141,123	531,239	1,672,362	1,785,000	441,196	2,226,196
2031	4,803,254	800,227	5,603,481	2,928,254	450,508	3,378,762	1,875,000	349,719	2,224,719
2032	4,303,554	596,688	4,900,242	2,328,554	345,594	2,674,148	1,975,000	251,094	2,226,094
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
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
2035	2,085,000	91,219	2,176,219	2,085,000	91,219	2,176,219	-	-	-
Total	\$ 190,070,139	\$ 72,368,604	\$ 262,438,743	\$ 141,120,139	\$ 47,906,541	\$ 189,026,680	\$ 48,950,000	\$ 24,462,063	\$ 73,412,063

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 11. LONG-TERM LIABILITIES - CONTINUED

On February 22, 2012, the City issued its \$18,500,000 General Obligation Capital Improvement School Warrant for the purpose of acquiring land and constructing and acquiring various capital improvements for certain projects within the City including, without limitation, the construction and equipping of a new public elementary school located on North College Street and the purchase of land for the construction of a secondary public educational building. The Warrant bears interest at a rate of 2.78%, with principal and interest payable monthly beginning March 2012 and continuing through February 2032.

On May 1, 2012, the City issued its \$4,000,000 General Obligation Capital Improvement Bonds for the purpose of paying the costs of designing, acquiring, providing, equipping, constructing and financing an expansion of the Frank Brown Recreation Center, a new public senior center, public parking improvements within the City, and various other capital and infrastructure improvements, equipment and facilities within the City. The bonds bear interest at rates from 2.00% to 5.00%, payable semiannually beginning August 2012 and continuing through February 2024. Principal payments are due annually beginning February 2013 and continuing through February 2024.

On October 7, 2011, the City issued its \$2,600,126 General Obligation Road Construction Warrant, to pay the cost of certain public roadway improvements within the City known as the West Phase of Cary Creek Parkway. A promissory note, also dated October 7, 2011, signed by the developer, stated that the developer would pay the principal sum of \$2,600,126, or such lesser amount as shall be equal to the aggregate principal and interest sum due from the City under the General Obligation Road Construction Warrant, and such payment was due on July 3, 2012. On September 7, 2012, the City issued its \$1,829,100 General Obligation Refunding Warrant for the purpose of permanently financing and refunding the previously noted General Obligation Road Construction Warrant. The General Obligation Refunding Warrant bears interest at a rate of 1.86%, payable semiannually beginning March 2013 and continuing through September 2022. Principal payments are due annually beginning September 2013 and continuing through September 2022.

On August 1, 2012, the City issued its \$6,180,000 General Obligation Refunding Bonds with an average interest rate of 4.18% to refund \$475,000 of outstanding 1998 Capital Improvement Bonds with an average interest rate of 5.08%; to refund \$825,000 of outstanding 1999 General Obligation Bonds with an average interest rate of 5.39%; to refund \$2,695,000 of outstanding 2002 Capital Improvement Bonds with an average interest rate of 4.68%; and to refund 2,530,000 of 2005 General Obligation Bonds with an average interest rate of 4.05%. The net proceeds of \$6,648,513 (after payment of \$38,625 in underwriting fees, insurance, and other issuance costs and realization of a \$493,473 original issue premium) were used to fully redeem the 1998, 1999, 2002 and 2005 Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$83,445. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the straight-line method. The City completed the current refundings to reduce its total debt service payments over the next nine years by \$179,768 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$217,734.

On August 1, 2012, the City issued its \$29,900,000 General Obligation Refunding and Capital Improvement Warrants with an average interest rate of 3.99%; to refund \$1,925,000 of outstanding 1999 General Obligation Warrants with an average interest rate of 5.59%; to refund \$4,700,000 of outstanding 2001 General Obligation Warrants with an average interest rate of 4.77%; to refund \$18,300,000 of outstanding 2005 General Obligation Capital Improvement Warrants with an average interest rate of 4.95%; and to pay approximately \$6,131,000 toward the costs of capital improvements and equipment for the sanitary sewer system of the City. The net proceeds of \$33,443,831 (after payment of \$318,451 in underwriting fees, insurance, and other issuance costs and realization of a \$3,862,282 original issue premium) were used to fully redeem the 1999 and 2001 Warrants (current refunding) and 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 2005 Warrants (advance refunding). As a result the 2005 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 2005 Warrants was \$18,300,000 at September 30, 2012. The current and advance refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,518,832. This difference, reported in the accompanying financial statements as a deduction from warrants payable, is being charged to operations through the years 2019, 2016 and 2030, respectively, using the straight-line method. The City completed the refundings to reduce its total debt service payments over the next twenty years by \$2,978,281 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,675,098.

In prior years, the government defeased various general obligation bonds and warrants by placing the proceeds of the new bonds or warrants in an irrevocable trust account to provide for all future debt service payments on the old bonds and warrants. Accordingly, the trust account assets and the liabilities for the defeased bonds and warrants are not included in the government's financial statements. At September 30, 2012, \$44,485,000 of defeased bonds and warrants remain outstanding.

CITY OF AUBURN, ALABAMA
NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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, 2012, was as follows:

	Balance 10/01/11	Additions	Reductions	Balance 09/30/12	Due Within One Year
Business-type activities:					
Bonds payable:					
Bonds payable - 2010 issue	\$ 20,950,000	\$ -	\$ (650,000)	\$ 20,300,000	\$ 660,000
Add: deferred amounts for issuance premiums	1,119,979	-	(54,192)	1,065,787	-
Less: deferred amounts on refunding	<u>(1,801,240)</u>	-	<u>166,268</u>	<u>(1,634,972)</u>	-
	<u>20,268,739</u>	-	<u>(537,924)</u>	<u>19,730,815</u>	<u>660,000</u>
Accumulated annual leave	93,743	8,536	(4,511)	97,768	-
Other postemployment benefits liability	<u>13,778</u>	<u>6,500</u>	-	<u>20,278</u>	-
	<u>107,521</u>	<u>15,036</u>	<u>(4,511)</u>	<u>118,046</u>	-
Business-type activity long-term liabilities	<u>\$ 20,376,260</u>	<u>\$ 15,036</u>	<u>\$ (542,435)</u>	<u>\$ 19,848,861</u>	<u>\$ 660,000</u>

Bonds payable at September 30, 2012, are comprised of an original bond issue of \$21,595,000 dated June 1, 2010. 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. The 2010 bonds were issued at an average interest rate of 4.36%. The stated maturity dates of the 2010 bonds are September 1 beginning in 2011 and continuing through 2032.

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. The original agreement is set to expire in March of 2013. The Board approved the 20 year renewal in October of 2012.

Bonds payable of the Water Works Board of the City of Auburn at September 30, 2012, are comprised of the following individual issues:

	Interest Rate	Interest Dates	Source of Payment	Principal Issued	Principal Outstanding September 30, 2012	Year of Final Principal Maturity
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>\$ 20,300,000</u>	2032

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 11. LONG-TERM LIABILITIES – CONTINUED

The following schedule shows debt service to maturity for bonds payable of the Water Works Board of the City of Auburn at September 30, 2012:

Year ending September 30	Principal	Interest	Total
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	735,000	819,038	1,554,038
2017	770,000	782,288	1,552,288
2018-2022	4,450,000	3,310,049	7,760,049
2023-2027	5,430,000	2,324,087	7,754,087
2028-2032	6,870,000	887,199	7,757,199
Total	<u>\$ 20,300,000</u>	<u>\$ 10,730,975</u>	<u>\$ 31,030,975</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, 2012.

Industrial Development Board

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Balance 10/01/11	Additions	Reductions	Balance 09/30/12	Due Within One Year
Notes payable	\$ 25,615,146	\$ 13,423,045	\$ (13,619,309)	\$ 25,418,882	\$ 8,213,437
Short term					
construction loans	2,370,273	6,102,683	(6,220,146)	2,252,810	2,252,810
Bonds payable	5,265,000	-	(205,000)	5,060,000	220,000
Total	<u>\$ 33,250,419</u>	<u>\$ 19,525,728</u>	<u>\$ (20,044,455)</u>	<u>\$ 32,731,692</u>	<u>\$ 10,686,247</u>

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

Bonds payable

Bonds payable at September 30, 2012 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.

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 Aliant Bank. Under the agreement which was approved by City Council in July 2006 and amended in September 2011, 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, 2013. 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.

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 11. LONG-TERM LIABILITIES – CONTINUED

The bonds mature on July 1, 2026, and 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 10% per annum. This method was used beginning on September 22, 2011, the date the bonds were remarketed. The weighted average interest rate for fiscal year 2012 was .231%. Interest incurred for the fiscal year amounted to \$305,049.

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 Aliant 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. The letter of credit expires on September 22, 2013. If notice is not given by Aliant Bank within fifty days of the expiration of the letter of credit, it is automatically renewed in one-year periods until September 22, 2014. 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 3%. Principal maturities on the letter of credit in the event that all the bonds were tendered and not resold would be as follows:

<u>Fiscal Year</u>	
2013	\$ 220,000
2014	<u>4,840,000</u>
	<u>\$ 5,060,000</u>

The Board is required to pay to Aliant Bank annual fees for the letter of credit in the amount of 1.75% of the outstanding principal amount of the stated principal amount of the letter of credit. In addition, the remarketing agent is paid an annual fee of one-eighth of one percent of the weighted average daily principal amount of the bonds outstanding.

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:

<u>Fiscal Year</u>	<u>Series 2006-A</u>
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	<u>550,000</u>
Total	<u>\$ 5,060,000</u>

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 11. LONG-TERM LIABILITIES – CONTINUED

The following schedule shows debt service requirements to maturity for the bonds outstanding at September 30, 2012, using the variable interest rate in effect on the last day of the fiscal year (0.21%):

Fiscal Year	Series 2006-A		Total
	Principal	Interest	
2013	\$ 220,000	\$ 10,549	\$ 230,549
2014	235,000	10,082	245,082
2015	255,000	9,581	264,581
2016	270,000	9,040	279,040
2017	290,000	8,466	298,466
2018	315,000	7,848	322,848
2019	335,000	7,180	342,180
2020	360,000	6,468	366,468
2021	385,000	5,703	390,703
2022	415,000	4,884	419,884
2023	445,000	4,002	449,002
2024	475,000	3,057	478,057
2025	510,000	2,047	512,047
2026	550,000	962	550,962
Total	\$ 5,060,000	\$ 89,869	\$ 5,149,869

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 hedge the changes in cash flows on the variable-rate bonds (see Note 5). Using rates as of September 30, 2012, 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	Series 2006-A Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2013	\$ 220,000	\$ 10,549	\$ 284,039	\$ 514,588
2014	235,000	10,082	271,457	516,539
2015	255,000	9,581	257,980	522,561
2016	270,000	9,040	243,419	522,459
2017	290,000	8,466	227,963	526,429
2018	315,000	7,848	211,329	534,177
2019	335,000	7,180	193,328	535,508
2020	360,000	6,468	174,149	540,617
2021	385,000	5,703	153,557	544,260
2022	415,000	4,884	101,662	521,546
2023	445,000	4,002	-	449,002
2024	475,000	3,057	-	478,057
2025	510,000	2,047	-	512,047
2026	550,000	962	-	550,962
Total	\$ 5,060,000	\$ 89,869	\$ 2,118,883	\$ 7,268,752

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 11. LONG-TERM LIABILITIES – CONTINUED

Notes payable

Notes payable of the Board at September 30, 2012, are comprised of the following individual issues:

	Interest Rate	Interest Dates	Principal Issued	Principal Outstanding 9/30/12	Year of Final Principal Maturity
AuburnBank	6.000%	Monthly	\$ 8,670,000	\$ 6,599,505	2013
AuburnBank	6.000%	Monthly	1,556,795	1,515,865	2017
AuburnBank	6.470%	Monthly	300,000	263,069	2016
AuburnBank	6.000%	Monthly	1,079,500	892,968	2015
AuburnBank	5.670%	Monthly	3,143,807	3,143,807	2017
AuburnBank	6.000%	Monthly	2,146,000	2,101,146	2017
AuburnBank	6.000%	Monthly	1,290,000	1,114,041	2017
AuburnBank	4.500%	Monthly	1,100,000	929,788	2013
AuburnBank	4.500%	Monthly	2,274,000	2,220,959	2017
AuburnBank	6.470%	Monthly	1,025,000	878,032	2016
AuburnBank	6.000%	Monthly	1,955,000	1,916,665	2017
AuburnBank	6.000%	Monthly	2,380,000	2,190,106	2014
AuburnBank	6.470%	Monthly	491,000	478,885	2017
AuburnBank	6.470%	Monthly	825,000	759,970	2014
Compass Bank	6.250%	Monthly	644,692	414,076	2016
Total notes payable			<u>\$ 28,880,794</u>	<u>\$ 25,418,882</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, 2012:

Fiscal Year	Total Annual Requirements		
	Principal	Interest	Total
2013	\$ 8,213,437	\$ 1,447,914	\$ 9,661,351
2014	3,470,858	879,536	4,350,394
2015	1,417,512	771,776	2,189,288
2016	836,675	700,785	1,537,460
2017	8,811,713	336,668	9,148,381
2018	<u>2,668,687</u>	<u>25,596</u>	<u>2,694,283</u>
Total	<u>\$ 25,418,882</u>	<u>\$ 4,162,275</u>	<u>\$ 29,581,157</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, 2012, totaled \$294,340.

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, 2012, totaled \$1,228,996.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 12. DEFERRED PROGRAM REVENUE – CONTINUED

On March 27, 2012 the City entered into a \$1,500,000 Loan Guarantee Assistance contract with the Department of Housing and Urban Development (HUD) made pursuant to Section 108 of Title 1 of the Housing and Urban Development Act of 1974. This was the first contract under a funding approval with HUD totaling \$3,312,000 and signed on September 28, 2011. The remaining \$1,812,000 will be used for the following:

- \$300,000 for a Micro-Loan Program.
- \$1,220,000 for a Commercial and Industrial Loan Program.
- \$292,000 to fund a Debt Service Reserve fund that will be used to fund potential defaults on loans made and/or timing issues in regard to having enough cash on hand to make the City's payment to HUD.

Under the terms of the Loan Guarantee Assistance Contract the monies received from HUD were loaned to the Auburn Housing Authority for the purpose of refurbishing a public housing complex. When the City made this loan, deferred revenue equal to the principal amount of the mortgage was recorded in the governmental fund financial statements. The loan made under this program is for a period of 20 years and the Auburn Housing Authority will make annual principal payments of \$75,000 beginning in July of 2013. At that time, 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, 2012, totaled \$1,500,000.

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 fourteen years and the capital leases expire over the next twenty-three 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, 2012, was \$5,681,885 and \$39,444,298, respectively; accumulated depreciation on the buildings was \$5,445,957. Rents received during 2012 were \$3,282,240. The sixteen leases in effect at September 30, 2012, were noncancelable. 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. In September 2011, the lease was further amended to conform to the terms of the amended trust agreement related to the Series 2006-A bonds (see Note 11). Pursuant to the terms of an interest rate swap (see Note 5), rentals due under the lease were changed in 2009 to variable amounts equal to the 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, rental amounts included in the following schedule are calculated using rates in effect as of September 30, 2012.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 13. LEASE AGREEMENTS – CONTINUED

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, 2012:

Fiscal Year	
2013	\$ 3,542,497
2014	3,551,801
2015	3,494,010
2016	3,441,590
2017	3,142,674
2018	2,973,462
2019	1,972,125
2020	1,815,877
2021	1,812,159
2022	770,260
2023 and thereafter	<u>2,265,092</u>
Total	<u>\$ 28,781,547</u>

Capital leases

- A. The Board has leased, under capital leases, twelve 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 the leases provide for renewal terms. No lease payments were received in fiscal year 2012 and future amounts receivable under the leases consist solely of payments under the bargain-purchase options, which are minimal. See Note 31 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, 2012 are as follows:

Total minimum lease payments to be received	\$ 475,385
Less: unearned income	<u>(52,959)</u>
Net investment in capital lease	<u>\$ 422,426</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:

Fiscal Year	
2013	\$ 130,416
2015	130,416
2015	130,416
2016	<u>84,137</u>
Total	<u>\$ 475,385</u>

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 13. LEASE AGREEMENTS – CONTINUED

- C. 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 2012 were \$99,711. As of September 30, 2012, there were four leases in effect: three that expire within one year and one that expires in fiscal year 2014. Future minimum rentals due under the leases are as follows:

Fiscal Year		
2013	\$	51,753
2014		<u>8,333</u>
Total	\$	<u>60,086</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 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 7.25% 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, 2012, was 10.17% of covered payroll.

Annual Pension Cost. The City's annual pension cost of \$2,286,330 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)
9/30/09	\$ 1,987,347	100%	\$0
9/30/10	\$ 2,075,866	100%	\$0
9/30/11	\$ 2,328,028	100%	\$0

The required contribution was determined as part of the September 30, 2011, 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 3.75% to 7.25%, based on age, and c) no cost-of-living adjustments. Both a) and b) included an inflation component of 3.00%. 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, 2011, was 30 years. These assumptions were also used in the computation of actuarially determined contribution requirements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 14. DEFINED BENEFIT PENSION PLANS – CONTINUED

Funded Status and Funding Progress. As of September 30, 2011, the most recent actuarial valuation date, the plan was 60.0% funded. The actuarial accrued liability for benefits was \$74,581,329, and the actuarial value of assets was \$44,730,894, resulting in an unfunded actuarial accrued liability (UAAL) of \$29,850,435. The covered payroll (annual payroll of active employees covered by the plan) was \$23,034,488, and the ratio of the UAAL to the covered payroll was 129.6%.

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*	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)
9/30/09	\$ 44,206,959	\$ 67,126,111	\$ 22,919,152	65.9%	\$ 22,972,396	99.8%
9/30/10 ^a	\$ 44,619,638	\$ 72,941,848	\$ 28,322,210	61.2%	\$ 23,588,767	120.1%
9/30/10 ^{a,b}	\$ 44,619,638	\$ 73,290,093	\$ 28,670,455	60.9%	\$ 23,588,767	121.5%
9/30/11 ^c	\$ 44,730,894	\$ 74,290,173	\$ 29,559,279	60.2%	\$ 23,034,488	128.3%
9/30/11 ^{b,c}	\$ 44,730,894	\$ 74,581,329	\$ 29,850,435	60.0%	\$ 23,034,488	129.6%

* Market value of assets as of September 30, 2011: \$38,457,256

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

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

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

^c Reflects changes in actuarial assumptions.

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.

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.

Effective January 1, 2013, new members are classified as Tier 2 participants. Benefits for Tier 2 participants vest after 10 years of creditable service. A member is eligible to retire at age 62 with 10 years of creditable service. Under the retirement benefit formula, retirees are allowed 1.65% of their average final salary (best five of the last ten years) for each year of service. The retirement benefit cannot exceed 80% of the average final salary. Disability retirement benefits and pre-retirement death benefits are calculated in the same manner at Tier 1 participants.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 14. DEFINED BENEFIT PENSION PLANS – CONTINUED

Funding Policy. Employees are required by statute to contribute 7.25 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,	2012	2011	2010
Total percentage of covered payroll	17.25%	17.51%	17.51%
Contributions:			
Percentage contributed by the Board	10.00%	12.51%	12.51%
Percentage contributed by the employees	7.25%	5.00%	5.00%
Contributed by the Board	\$ 3,547,315	\$ 4,349,691	\$ 4,226,839
Contributed by the employees	2,571,824	1,738,777	1,689,545
Total contributions	\$ 6,119,139	\$ 6,088,468	\$ 5,916,384

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, 2012, was 5.64% of annual covered payroll; and the Board's annual pension cost of \$83,754 was equal to its required and actual contributions. The remaining amortization period at September 30, 2011, was 30 years.

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)
9/30/09	\$ 73,355	100%	\$0
9/30/10	\$ 60,926	100%	\$0
9/30/11	\$ 75,672	100%	\$0

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)
9/30/09	\$ 2,411,739	\$ 2,776,252	\$ 364,513	86.9%	\$ 1,510,875	24.1%
9/30/10 ^a	\$ 2,390,038	\$ 3,142,820	\$ 752,782	76.0%	\$ 1,572,780	47.9%
9/30/10 ^{a,b}	\$ 2,390,038	\$ 3,161,262	\$ 771,224	75.6%	\$ 1,572,780	49.0%
9/30/11 ^c	\$ 2,371,888	\$ 3,166,667	\$ 794,779	74.9%	\$ 1,561,583	50.9%
9/30/11 ^{b,c}	\$ 2,371,888	\$ 3,182,157	\$ 810,269	74.5%	\$ 1,561,583	51.9%

* Market value of Assets as of September 30, 2011: \$2,035,136.

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

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

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

^c Reflects changes in actuarial assumptions.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 year when it will be 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, 2012 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal cost as of beginning of year	\$ 108,750	\$ 103,571	\$ 18,713
Amortization of the unfunded AAL (UAAL) for 30 years	<u>132,934</u>	<u>126,547</u>	<u>40,858</u>
Total normal cost and amortization payment	241,684	230,118	59,571
Interest to end of year	<u>9,667</u>	<u>9,205</u>	-
Annual required contribution (ARC)	<u><u>\$ 251,351</u></u>	<u><u>\$ 239,323</u></u>	<u><u>\$ 59,571</u></u>

CITY OF AUBURN, ALABAMA
NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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, 2012:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 251,351	\$ 239,323	\$ 59,571
Interest on net OPEB obligation (NOO) to end of year	7,492	4,787	-
NOO amortization adjustment to the ARC	<u>(10,832)</u>	<u>(6,921)</u>	<u>-</u>
Annual OPEB cost	248,011	237,189	59,571
Actual annual employer contribution - pay-go cost	<u>(160,290)</u>	<u>(169,573)</u>	<u>(22,942)</u>
Change in net OPEB obligation	87,721	67,616	36,629
Beginning net OPEB obligation	<u>187,298</u>	<u>119,682</u>	<u>83,053</u>
Ending net OPEB obligation	<u><u>\$ 275,019</u></u>	<u><u>\$ 187,298</u></u>	<u><u>\$ 119,682</u></u>
Percentage of annual OPEB cost contributed	63.8%	70.9%	38.5%
Ending net OPEB obligation by employer			
City of Auburn General Fund	\$ 222,424	\$ 152,852	\$ 100,161
Sewer Revenue Fund of City of Auburn	12,040	8,181	3,951
Solid Waste Management Fund of City of Auburn	20,278	12,487	7,204
Water Works Board of City of Auburn	<u>20,278</u>	<u>13,778</u>	<u>8,366</u>
Total	<u><u>\$ 275,020</u></u>	<u><u>\$ 187,298</u></u>	<u><u>\$ 119,682</u></u>

Funded status and funding progress

In the fiscal year ending September 30, 2012, the City contributed \$160,290 to its postemployment benefits plan. This represents 63.8% of the ARC. The plan has no assets and therefore has a funded ratio of zero. As of September 30, 2011, the most recent actuarial valuation, the actuarial accrued liability was \$2,390,640, which is defined as that portion, as determined by a particular actuarial cost method, of the actuarial present value of postemployment plan benefits and expenses which is not provided for by the future normal cost. Since the plan is not funded, the entire actuarial accrued liability was unfunded. The schedule of funding progress is included in the table below.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage o Covered P/R ((b - a)/c)
09/30/09	\$ -	\$ 1,533,348	\$ 1,533,348	0%	\$ 22,572,357	6.8%
09/30/10	-	2,275,792	2,275,792	0%	23,129,637	9.8%
09/30/11	-	2,390,640	2,390,640	0%	23,668,496	10.1%

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. After age 65, Medicare becomes primary, but retirees are allowed to remain on this plan with the same contribution amount. The unfunded actuarial accrued liability is being amortized over 30 years.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 15. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED

Turnover rates are based on a standard actuarial termination table adjusted for the City's historical turnover experience. These rates approximate to an 8% average turnover annually. It is also assumed that 50% of retirees elect not to have retiree medical coverage because of the employee premium required.

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, 2012, actuarial valuation, the liabilities were computed using the projected unit credit cost method with linear proration to decrement and level dollar amortization over 30 years based on an open group. The actuarial assumptions utilized a 4% discount rate and a 3% inflation rate. The expected rate of increase in medical cost is based on the plans actual experience initially with subsequent years based on a combination of employer history, national trend surveys, and professional judgement. The valuation assumes an 7.5% healthcare cost trend increase for fiscal year 2013, graded down to an ultimate annual rate of 5% for 2018 and later.

COMPONENT UNITSBoard 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 \$10 per month for coverage while those not eligible for Medicare must pay \$151 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 2012 rate paid by the Board was \$714 per active participant per month; \$228.85, or approximately 32.05% 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, 2012 and 2011 were approximately \$2,354,379 and \$1,969,150 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, 2012 and 2011 were approximately \$284,109 and \$240,726, 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, 2012

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

The City has retained risk of loss for 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:

	Fiscal Year	
	2012	2011
Unpaid claims, beginning of year	<u>\$ 80,472</u>	<u>\$ 203,190</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	245,469	35,986
Increases (decreases) in provision for prior year's events where the City has retained risk of loss	<u>(13,532)</u>	<u>(76,082)</u>
Total incurred claims	<u>231,937</u>	<u>(40,096)</u>
Payments:		
Claims attributable to current year events where the City has retained risk of loss	(80,818)	(39,423)
Claims attributable to prior years' events where the City has retained risk of loss	<u>(1,356)</u>	<u>(43,199)</u>
Total payments	<u>(82,174)</u>	<u>(82,622)</u>
Unpaid claims, end of year	<u>\$ 230,235</u>	<u>\$ 80,472</u>

Total general liability for uninsured risks and workmen's compensation claims liability at September 30, 2012, is recorded as follows: \$69,726 is recorded as a current liability in the General Fund's current portion of long-term debt, unrestricted, and the long-term portion, \$160,509, along with the estimated liability for insured risks of \$107,899, 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, 2012

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	
	2012	2011
Unpaid claims, beginning of year	\$ 74,767	\$ 117,017
Incurred claims (including claims incurred but not reported at September 30):		
Provision for current year events where the City has retained risk of loss	2,623,390	2,471,918
Increases (decreases) in provision for prior years' events where the City has retained risk of loss	<u>61,914</u>	<u>47,859</u>
Total incurred claims	<u>2,685,304</u>	<u>2,519,777</u>
Payments:		
Claims attributable to current year events where the City has retained risk of loss	(2,550,325)	(2,397,152)
Claims attributable to prior years' events where the City has retained risk of loss	<u>(68,340)</u>	<u>(164,875)</u>
Total payments	<u>(2,618,665)</u>	<u>(2,562,027)</u>
Unpaid claims, end of year (includes claims incurred but not reported)	<u>\$ 141,406</u>	<u>\$ 74,767</u>

The unpaid claims as of September 30, 2012, 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, 2012, by the State (\$30,920) 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, 2012:

Funds	Millage	Taxes Collected	Collection Fee	Reappraisal Costs	Net Received by the City
General Fund	5	\$ 3,816,917 *	\$ 85,902	\$ 39,612	\$ 3,691,403
Special 5-Mill Tax Fund	5	3,812,162 **	85,902	39,612	3,686,648
Special School Tax Fund	<u>16</u>	<u>12,874,786</u>	<u>288,416</u>	<u>134,459</u>	<u>12,451,911</u>
Property tax totals	<u>26</u>	<u>\$ 20,503,865</u>	<u>\$ 460,220</u>	<u>\$ 213,683</u>	<u>\$ 19,829,962</u>

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

** Reduced by industrial tax exemptions.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 20. INTERFUND RECEIVABLES AND PAYABLES

Primary Government interfund receivables and payables for the year ended September 30, 2012 consist of the following:

<u>Amount</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Purpose</u>
<u>\$ 351,985</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, 2012:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
General Fund	\$ 294,662	\$ 751,375
Nonmajor Governmental Funds	<u>274,791</u>	<u>444,847</u>
Total governmental activities	<u>569,453</u>	<u>1,196,222</u>
Major Proprietary Fund		
Sewer Revenue Fund	-	69,606
Nonmajor proprietary fund	<u>751,375</u>	<u>55,000</u>
Total business-type activities	<u>751,375</u>	<u>124,606</u>
Total primary government	<u>\$ 1,320,828</u>	<u>\$ 1,320,828</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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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		
Water Works Board	\$ 269,394	\$ 109
Primary Government		
General Fund	-	266,105
Sewer Revenue Fund	-	3,289
Nonmajor proprietary fund	<u>109</u>	<u>-</u>
Total	<u>\$ 269,503</u>	<u>\$ 269,503</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	\$ 2,361,853	\$ -
Component Units		
Industrial Development Board	<u>-</u>	<u>2,361,853</u>
Total	<u>\$ 2,361,853</u>	<u>\$ 2,361,853</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.

C. Payments between the City and Component Units

	<u>Appropriations From Primary Government</u>	<u>Payments to Component Units</u>
Primary Government		
General Fund	\$ -	\$ 11,949,171
Special School Tax Fund	-	25,861,274
Nonmajor governmental funds	-	736,434
Component Units		
Auburn City Board of Education	35,412,033	-
Industrial Development Board	2,933,672	-
Public Parks and Recreation Board	<u>201,174</u>	<u>-</u>
Total	<u>\$ 38,546,879</u>	<u>\$ 38,546,879</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 22. INTRA-ENTITY TRANSACTIONS – CONTINUED

C. Payments between the City and Component Units – Continued

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 \$5,556,409. 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.

During fiscal year 2012, the City issued \$18,500,000 in bonds on behalf of the Board of Education and appropriated the funds to the school board. The funds will be used for the construction of a new elementary school.

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 grant incentives to private entities and individuals for further housing and business development activities. As described in Note 12, during fiscal year 2012, the City entered into a \$1,500,000 Loan Guarantee Assistance contract with the Department of Housing and Urban Development (HUD). This initial \$1,500,000 loan will ultimately be paid back to HUD by the City as it collects principal payments from the Auburn Housing Authority, however, loans made under future contracts for the Micro-Loan Program and the Commercial and Industrial Loan Program will produce repayments which the City will use in the same manner as described above. 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, the CDBG RLF Affordable Housing Loan Program Fund and the Section 108 Loan Program Fund.

CITY OF AUBURN, ALABAMA
NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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

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*	Section 108 Loan Program*	Total
Assets							
Cash and cash equivalents	\$ 21	\$ 55,878	\$ 1,780	\$ -	\$ 205	\$ -	\$ 57,884
Receivables, net	-	685	-	-	-	1,601	2,286
Mortgages receivable	115,785	106,159	72,397	863,113	365,882	1,500,000	3,023,336
Buildings held for resale	-	-	68,481	-	-	-	68,481
Restricted cash	-	-	-	-	-	71	71
Total assets	<u>\$ 115,806</u>	<u>\$ 162,722</u>	<u>\$ 142,658</u>	<u>\$ 863,113</u>	<u>\$ 366,087</u>	<u>\$ 1,501,672</u>	<u>\$ 3,152,058</u>
Liabilities and Fund Balance							
Liabilities:							
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,601	\$ 1,601
Deferred program revenue	<u>115,785</u>	<u>106,159</u>	<u>72,446</u>	<u>863,113</u>	<u>365,882</u>	<u>1,500,000</u>	<u>3,023,385</u>
Total liabilities	<u>115,785</u>	<u>106,159</u>	<u>72,446</u>	<u>863,113</u>	<u>365,882</u>	<u>1,501,601</u>	<u>3,024,986</u>
Fund balance:							
Restricted - social & economic	<u>27,930</u>	<u>81,211</u>	<u>17,655</u>	-	205	71	<u>127,072</u>
Total fund balance	<u>27,930</u>	<u>81,211</u>	<u>17,655</u>	<u>-</u>	<u>205</u>	<u>71</u>	<u>127,072</u>
Total liabilities and fund balance	<u>\$ 143,715</u>	<u>\$ 187,370</u>	<u>\$ 90,101</u>	<u>\$ 863,113</u>	<u>\$ 366,087</u>	<u>\$ 1,501,672</u>	<u>\$ 3,152,058</u>
Revenues							
Program income	\$ -	\$ 71,000	\$ 12,681	\$ 7,801	\$ 213,881	\$ -	\$ 305,363
Grant income	-	-	-	-	-	1,500,000	1,500,000
Miscellaneous	-	-	51	3	126	-	180
Other interest	<u>1</u>	<u>4,064</u>	<u>2,346</u>	<u>1,329</u>	<u>8,551</u>	<u>5,050</u>	<u>21,341</u>
Total revenues	<u>1</u>	<u>75,064</u>	<u>15,078</u>	<u>9,133</u>	<u>222,558</u>	<u>1,505,050</u>	<u>1,826,884</u>
Expenditures							
Economic development	-	22,679	22,932	-	19,585	1,500,082	1,565,278
Debt service - interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,899</u>	<u>4,899</u>
Total expenditures	<u>-</u>	<u>22,679</u>	<u>22,932</u>	<u>-</u>	<u>19,585</u>	<u>1,504,981</u>	<u>1,570,177</u>
Excess (deficiency) of revenues over expenditures	1	52,385	(7,854)	9,133	202,973	69	256,707
Other financing sources (uses)							
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,225)</u>	<u>(265,566)</u>	<u>-</u>	<u>(274,791)</u>
Net changes in fund equity	1	52,385	(7,854)	(92)	(62,593)	69	(18,084)
Fund balance, beginning of year	<u>27,929</u>	<u>28,826</u>	<u>25,509</u>	<u>92</u>	<u>62,799</u>	<u>-</u>	<u>145,155</u>
Fund balance, end of year	<u>\$ 27,930</u>	<u>\$ 81,211</u>	<u>\$ 17,655</u>	<u>\$ -</u>	<u>\$ 206</u>	<u>\$ 69</u>	<u>\$ 127,071</u>

*Net of interfund eliminations.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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
Assets			
Cash and cash equivalents	\$ <u>77,673</u>	\$ <u>72,483</u>	\$ <u>150,156</u>
Liabilities and fund equity			
Fund equity			
Restricted - law enforcement	\$ <u>77,673</u>	\$ <u>72,483</u>	\$ <u>150,156</u>
Revenues			
Contributions from the public	\$ 16,029	\$ 23,459	\$ 39,488
Interest	<u>549</u>	<u>381</u>	<u>930</u>
Total revenues	<u>16,578</u>	<u>23,840</u>	<u>40,418</u>
Expenditures			
Public safety	11,902	5,245	17,147
Capital outlay	<u>-</u>	<u>6,058</u>	<u>6,058</u>
Total expenditures	<u>11,902</u>	<u>11,303</u>	<u>23,205</u>
Excess (deficiency) of revenues over expenditures	<u>4,676</u>	<u>12,537</u>	<u>17,213</u>
Net changes in fund balances	4,676	12,537	17,213
Fund equity, beginning of year	<u>72,997</u>	<u>59,946</u>	<u>132,943</u>
Fund equity, end of year	<u>\$ 77,673</u>	<u>\$ 72,483</u>	<u>\$ 150,156</u>

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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:

	General Government Operations	Special Improvement Projects	Employee Benefit Risk Financing	General Liability Risk Financing	Total (Net of Eliminations)
Assets					
Cash	\$ 2,893,583	\$ -	\$ -	\$ -	\$ 2,893,583
Equity in pooled cash and cash equivalents	7,818,432	1,610,891	2,593,129	1,437,773	13,460,225
Restricted cash and investments	<u>240,815</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240,815</u>
Total cash and cash equivalents	10,952,830	1,610,891	2,593,129	1,437,773	16,594,623
Certificate of deposit	7,675,159	-	-	-	7,675,159
Receivables					
Revenues	6,156,935	-	-	-	6,156,935
Other governmental units	793,091	-	-	-	793,091
Special assessments	25,107	1,829,100	-	-	1,854,207
Other	1,023,668	2,520	17,600	-	1,043,788
Due from other funds	351,985	-	-	-	351,985
Due from component units	266,105	-	-	-	266,105
Inventories, at cost	11,446	-	-	-	11,446
Prepaid expenses	30,811	-	-	-	30,811
Advances to other funds	216,892	-	-	-	216,892
Advances to component units	2,361,853	-	-	-	2,361,853
Advances to other agencies	286,058	-	-	-	286,058
Property for resale	<u>4,131,127</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,131,127</u>
Total assets	<u>\$ 34,283,067</u>	<u>\$ 3,442,511</u>	<u>\$ 2,610,729</u>	<u>\$ 1,437,773</u>	<u>\$ 41,774,080</u>
Liabilities, fund balance and other credits					
Liabilities					
Accounts payable and accrued liabilities	\$ 4,232,238	\$ 5,553	\$ 945	\$ 69,726	\$ 4,308,462
Customer deposits	187,080	-	-	-	187,080
Deferred revenue	685,869	3,422,946	-	-	4,108,815
Claims payable	<u>-</u>	<u>-</u>	<u>141,406</u>	<u>-</u>	<u>141,406</u>
Total liabilities	<u>5,105,187</u>	<u>3,428,499</u>	<u>142,351</u>	<u>69,726</u>	<u>8,745,763</u>
Fund balances and other credits					
Fund balances					
Nonspendable					
Inventories and prepaids	42,257	-	-	-	42,257
Property for resale	4,131,127	-	-	-	4,131,127
Advances	2,864,803	-	-	-	2,864,803
Restricted					
Law enforcement	237,639	-	-	-	237,639
Assigned					
General	4,249,667	414,260	-	-	4,663,927
Social and economic	114,928	-	-	-	114,928
Unassigned	<u>17,958,360</u>	<u>(400,248)</u>	<u>2,318,622</u>	<u>1,096,902</u>	<u>19,876,734</u>
Total fund balance and other credits	<u>29,598,781</u>	<u>14,012</u>	<u>2,318,622</u>	<u>1,096,902</u>	<u>33,028,317</u>
Total liabilities, fund balance and other credits	<u>\$ 34,703,968</u>	<u>\$ 3,442,511</u>	<u>\$ 2,460,973</u>	<u>\$ 1,166,628</u>	<u>\$ 41,774,080</u>

CITY OF AUBURN, ALABAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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)
Revenues					
Sales and use taxes	\$ 30,890,400	\$ -	\$ -	\$ -	\$ 30,890,400
Occupational license fees	9,221,981	-	-	-	9,221,981
Motor fuel taxes	612,720	-	-	-	612,720
Lodging taxes	1,914,441	-	-	-	1,914,441
Rental and leasing taxes	515,164	-	-	-	515,164
Other taxes	219,648	-	-	-	219,648
Licenses and permits	10,222,535	-	-	-	10,222,535
General property tax	4,737,217	-	-	-	4,737,217
Charges for services	4,701,540	-	782,794	-	5,484,334
Fines and forfeitures	1,432,086	-	-	-	1,432,086
State shared taxes	1,014,168	-	-	-	1,014,168
Contributions from the public	320,281	133,101	-	-	453,382
Interest	112,963	2,240	16,433	7,943	139,579
Miscellaneous	61,309	-	-	-	61,309
Total revenues	<u>65,976,453</u>	<u>135,341</u>	<u>799,227</u>	<u>7,943</u>	<u>66,918,964</u>
Expenditures					
General government and administration	4,849,205	-	-	-	4,849,205
Public works	3,418,805	-	-	-	3,418,805
Environmental services	1,806,656	-	-	-	1,806,656
Public safety	16,994,266	-	-	-	16,994,266
Library	1,490,734	-	-	-	1,490,734
Parks and recreation	4,788,245	-	-	-	4,788,245
Planning	561,014	-	-	-	561,014
Economic development	992,593	-	-	-	992,593
Employee services	642,122	-	-	-	642,122
Risk management	203,909	-	943,161	154,874	1,301,944
Total departmental	35,747,549	-	943,161	154,874	36,845,584
Non-departmental	1,430,583	-	-	-	1,430,583
Debt service:					
Administrative charges	16,426	32,750	-	-	49,176
Interest	1,685,892	11,040	-	-	1,696,932
Principal retirement	5,951,082	1,825,835	-	-	7,776,917
Capital outlay	3,814,665	1,753,606	-	-	5,568,271
Intergovernmental	879,997	-	-	-	879,997
Payments to component units	11,949,171	-	-	-	11,949,171
Total expenditures	<u>61,475,365</u>	<u>3,623,231</u>	<u>943,161</u>	<u>154,874</u>	<u>66,196,631</u>
Excess (deficiency) of revenues over expenditures	<u>4,501,088</u>	<u>(3,487,890)</u>	<u>(143,934)</u>	<u>(146,931)</u>	<u>722,333</u>
Other financing sources (uses)					
Debt issuance	-	1,825,835	-	-	1,825,835
Debt refunding	1,790,000	1,829,100	-	-	3,619,100
Premium on debt issued	169,586	-	-	-	169,586
Payment to refunded bond escrow agent	(1,941,603)	-	-	-	(1,941,603)
Sale of surplus assets	64,005	-	-	-	64,005
Transfers in	234,662	-	-	60,000	294,662
Transfers out	(751,375)	-	-	-	(751,375)
Total other financing sources (uses)	<u>(434,725)</u>	<u>3,654,935</u>	<u>-</u>	<u>60,000</u>	<u>3,280,210</u>
Net changes in fund balances	4,066,363	167,045	(143,934)	(86,931)	4,002,543
Fund balances, beginning of year	<u>25,532,420</u>	<u>(153,033)</u>	<u>2,462,553</u>	<u>1,183,834</u>	<u>29,025,774</u>
Fund balances, end of year	<u>\$ 29,598,783</u>	<u>\$ 14,012</u>	<u>\$ 2,318,619</u>	<u>\$ 1,096,903</u>	<u>\$ 33,028,317</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 or payment of construction costs 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 cash 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, 2012, follows:

Deferred water rights, beginning of year	\$ 282,424
Amortization of deferred water rights	<u>(169,456)</u>
Deferred water rights, end of year	<u>\$ 112,968</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:

- 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.

CITY OF AUBURN, ALABAMA
NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 28. DEPRIVATIZATION OF SEWER PLANTS – CONTINUED

- 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.

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 (\$1,678,127, 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. 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 \$5,344,901 as of September 30, 2012.

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>
2013	\$ 357,952
2014	360,513
2015	359,039
2016	360,706
2017	361,574
2018	359,214
2019	361,630
2020	357,512
2021	357,858
2022	358,835
2023	356,706
2024	357,875
2025	<u>358,818</u>
Total	<u>\$ 4,668,232</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 an Auburn University tennis facility. 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, 2012, the City had been named defendant in four pending lawsuits. One of the suits claims damages of \$10,000, the other three do not specify a dollar amount of damages claimed. City management intends to vigorously defend these suits, and estimates that the City's potential loss in these actions will not exceed \$67,400.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 29. COMMITMENTS, LITIGATION AND CONTINGENCIES – CONTINUED

In fiscal year 2012, the City expended \$143,273 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****Commitments**

The board has remaining commitments on uncompleted contracts for the construction or renovation of various facilities to be funded with Alabama Public School and College Authority (PCSA) funds and/or proceeds from a bond issued by the City of Auburn as follows:

	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Remaining Commitment</u>
Auburn High School Track Field House	\$ -	\$ 2,000	\$ -
Ogletree Elementary School Roof	719,000	718,456	544
Pick Elementary School	<u>11,039,941</u>	<u>6,460,774</u>	<u>4,579,167</u>
Total	<u>\$ 11,758,941</u>	<u>\$ 7,181,230</u>	<u>\$ 4,579,711</u>

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 \$85,925 for the fiscal year ended September 30, 2012.

The approximate remaining annual minimum lease payments under the noncancelable operating leases existing as of September 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 72,231
2014	40,132
2015	<u>15,394</u>
Total	<u>\$ 127,757</u>

The Board entered into lease agreements with Hewlett-Packard Financial Services Company and Key Government Finance 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, 2012, was \$34,139.

The following is a summary of changes in obligations under capital leases of the Board for the year ended September 30, 2012:

	<u>Capital Lease Payable</u>
Balance, September 30, 2011	\$ 873,615
Retirement of debt	(392,871)
Issuance of new debt	<u>399,052</u>
Balance, September 30, 2012	<u>\$ 879,796</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 29. COMMITMENTS, LITIGATION AND CONTINGENCIES – CONTINUED

The approximate remaining annual minimum lease payments under the capital leases existing as of September 30, 2012, are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 522,457	\$ 27,422	\$ 549,879
2014	129,677	9,470	139,147
2015	73,699	6,111	79,810
2016	75,866	3,944	79,810
2017	<u>78,097</u>	<u>1,714</u>	<u>79,811</u>
	<u>\$ 879,796</u>	<u>\$ 48,661</u>	<u>\$ 928,457</u>

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.

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, 2012 is approximately \$3,892,657.

The Water Works Board also entered into an agreement in May 2011 to purchase water from Sandy Springs Farm II, LLC. The agreement includes a minimum annual purchase of 210,240,000 gallons per year at an initial rate of \$.50 per 1,000 gallons (\$105,120 per year), payable in monthly installments. This rate is subject to increase based on the Consumer Price Index. The term of the agreement is twenty years, with six five year extension options.

Industrial Development Board

Commitments - As of September 30, 2012, the Board was committed under certain construction contracts in the amount of \$1,574,452. Additionally, various incentive packages were committed to four companies as incentives to locate in Auburn or to expand existing operations. The incentives include property acquisition as discounted values; and cash assistance for site preparation, relocation and training. As of the date of these financial statements, cash incentives of \$104,280 had been paid.

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 \$750,000 at September 30, 2012.

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 30. 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 2012. The \$161,000 reported as landfill post closure care liability in the governmental activities' long-term debt and other liabilities at September 30, 2012, represents estimated costs of post closure care based on what it would cost to perform all post closure care in 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 31. 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. The Board member has subsequently retired from the Board.

NOTE 32. SUBSEQUENT EVENTS

CITY OF AUBURN PRIMARY GOVERNMENT

Subsequent to September 30, 2012, the City Council approved various design and construction contracts totaling approximately \$5,611,000, professional services type contracts totaling approximately \$938,000, equipment and computer software purchases totaling approximately \$1,752,000, and a loan of \$175,250 to the local humane society for expansion.

Subsequent to September 30, 2012, the City issued its \$5,525,000 General Obligation Capital Improvement Warrant, dated November 9, 2012, to finance the costs of certain public roadway, public utility, and other public capital improvements on and around certain real property owned by the Industrial Development Board of the City of Auburn. The warrant bears interest at a rate of 1.72%, payable monthly beginning December 9, 2012, and continuing through November 9, 2022.

On March 5, 2013 the City amended its 2010-D General Obligation Warrant of \$1,870,000 to change it from being tax-exempt to a taxable warrant. The interest rate and monthly payment amount changed beginning in April 2013. The tax status of the warrant changed because the intended use of the building that was financed by the warrant proceeds changed.

COMPONENT UNITS

Board of Education

On December 11, 2012, the Board approved bids in the amount of \$520,584 and \$94,965 for the purchase of six 78-passenger buses and one 54-passenger bus.

In December 2012, the Board passed a resolution to seek a 9 mill property tax increase. In January 2013, the Auburn City Council voted to request the Alabama State Legislature pass a measure allowing a local act requesting this property tax increase. Upon passage, the increase would generate approximately \$8.5 million annually, which would provide the necessary funds to complete the construction of a new high school and upgrades to existing facilities.

Water Works Board

Subsequent to September 30, 2012, the Board approved various design and construction contracts totaling approximately \$461,858.

In December 2012, the Board agreed on settlement terms relating to a dispute with the Loachapoka Water Authority, Inc. over water service areas. The settlement agreement has not been finalized and the amount due to the Board is immaterial to the financial statements, therefore, it has not been recorded as of September 30, 2012.

Industrial Development Board

Subsequent to September 30, 2012, the Board purchased an industrial building and related land from the City of Auburn for \$1.8 million. The purchase will be financed by the City over a ten year period. The Board then leased the building to an industry locating in Auburn under a capital lease. The principal amount of the lease is \$1.8 million, and the lease term is ten years.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 32. SUBSEQUENT EVENTS – CONTINUED

The Board signed three construction contracts subsequent to September 30, 2012, totaling approximately \$7.55 million. The contracts were for construction of a building, a grading contract, and improvements to Auburn Technology Park West. \$4.725 million of short-term construction financing was obtained by the Board to finance the construction cost of the building, and loan closing costs in the amount of \$41,935.50 were paid in connection with the loans. Upon completion, the building will be leased to an industry through an operating lease. Approximately \$650,000 of the grading contract will be funded by the company that will locate on the site, and the remainder will be funded by the Board. The Board approved another construction contract for building improvements to an existing building not to exceed \$175,000, but the contract had not been signed as of the date of these financial statements. Upon execution of the contract, the lease agreement with the building tenant will be amended to finance the improvements.

Subsequent to September 30, 2012, various incentive packages were committed to three companies as incentives to locate in Auburn. The incentives include property acquisitions at discounted values; cash assistance for relocation, training, and site preparation; a working capital loan; tax abatements; and construction financing. As of the date of these financial statements, none of the incentives had been disbursed.

NOTE 33. PRIOR PERIOD ADJUSTMENTS

CITY OF AUBURN PRIMARY GOVERNMENT

During fiscal year 2012, a prior period adjustment of \$569,482 was recorded to the Sewer Revenue Fund and \$225,176 to the Solid Waste Management Fund to adjust the accrual for unbilled revenues receivable at the beginning of the fiscal year. During the current fiscal year, the City calculated the year-end accrual based upon various cycle billing dates.



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.

Municipal Court Judicial Administration Fund accounts for funds received from specific fines collected that are to be used for municipal court administration purposes.

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 Fund 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.

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.

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.

2012 Capital Projects Fund accounts for the revenue and expenditure of bonds issued by the City on May 1, 2012, for the construction of a senior center, recreational facility improvements, and downtown parking improvements.

West Tech Park Phase II Fund accounts for the revenue and expenditure of bonds issued by the City for the expansion of Auburn Technology Park West and other infrastructure projects.

**CITY OF AUBURN, ALABAMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2012**

	Special Revenue Funds							Debt Service Fund	
	Seven Cent Gas Tax Fund	Four and Five Cent Gas Tax Fund	Municipal Court Judicial Admin Fund	Public Safety Substance Abuse Fund	Grants General Activities	Community Development Block Grant Fund	Federal Grant Loan Repayment Funds	Total	Special 5-Mill Tax Fund
ASSETS	\$	\$	\$	\$	\$	\$	\$	\$	
Cash and cash equivalents	116,818	81,853	51,430	150,156	135,275	-	57,884	593,416	3,492,042
Receivables, net	13,359	10,427	-	-	75,193	14,396	2,286	115,661	34,563
Mortgages receivable	-	-	-	-	-	-	3,023,336	3,023,336	-
Restricted cash	-	-	-	-	-	-	71	71	13,665
Buildings held for Resale	-	-	-	-	-	-	68,481	68,481	-
Total assets	<u>130,177</u>	<u>92,280</u>	<u>51,430</u>	<u>150,156</u>	<u>210,468</u>	<u>14,396</u>	<u>3,152,058</u>	<u>3,800,965</u>	<u>3,540,270</u>
LIABILITIES AND FUND BALANCES									
Accounts payable and accrued liabilities	-	-	36,374	-	41,712	9,775	1,601	89,462	-
Due to other funds	-	-	-	-	-	4,621	-	4,621	-
Deferred program revenue	-	-	-	-	-	-	3,023,386	3,023,386	-
Total liabilities	<u>-</u>	<u>-</u>	<u>36,374</u>	<u>-</u>	<u>41,712</u>	<u>14,396</u>	<u>3,024,987</u>	<u>3,117,469</u>	<u>-</u>
Fund balances:									
Restricted									
Roads, bridges and streets	130,177	92,280	-	-	-	-	-	222,457	-
Law enforcement	-	-	15,056	150,156	-	-	-	165,212	-
General grants	-	-	-	-	168,756	-	-	168,756	-
Social and economic	-	-	-	-	-	-	127,071	127,071	-
Capital projects	-	-	-	-	-	-	-	-	-
Committed									
Debt service	-	-	-	-	-	-	-	-	3,540,270
Unassigned	-	-	-	-	-	-	-	-	-
Total fund balances	<u>130,177</u>	<u>92,280</u>	<u>15,056</u>	<u>150,156</u>	<u>168,756</u>	<u>-</u>	<u>127,071</u>	<u>683,496</u>	<u>3,540,270</u>
Total liabilities and fund balances	<u>130,177</u>	<u>92,280</u>	<u>51,430</u>	<u>150,156</u>	<u>210,468</u>	<u>14,396</u>	<u>3,152,058</u>	<u>3,800,965</u>	<u>3,540,270</u>

Capital Projects Funds

	'03 6.3 Mil Capital Projects Fund	Bent Creek Interchange/ West Tech Park Fund	2009 Capital Projects Fund	2012 Capital Projects Fund	West Tech Park Phase II Fund	Total	Total Nonmajor Governmental Funds
ASSETS	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	45,244	-	275,080	4,436,128	-	4,756,452	8,841,910
Receivables, net	-	-	304,856	-	-	304,856	455,080
Mortgages receivable	-	-	-	-	-	-	3,023,336
Restricted cash	-	-	-	-	-	-	13,736
Buildings held for Resale	-	-	-	-	-	-	68,481
Total assets	<u>45,244</u>	<u>-</u>	<u>579,936</u>	<u>4,436,128</u>	<u>-</u>	<u>5,061,308</u>	<u>12,402,543</u>
LIABILITIES AND FUND BALANCES							
Accounts payable and accrued liabilities	-	-	-	190,887	-	190,887	280,349
Due to other funds	-	-	-	-	347,364	347,364	351,985
Deferred program revenue	-	-	-	-	-	-	3,023,386
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,887</u>	<u>347,364</u>	<u>538,251</u>	<u>3,655,720</u>
Fund balances:							
Restricted							
Roads, bridges and streets	-	-	-	-	-	-	222,457
Law enforcement	-	-	-	-	-	-	165,212
General grants	-	-	-	-	-	-	168,756
Social and economic	-	-	-	-	-	-	127,071
Capital projects	45,244	-	579,936	4,245,241	-	4,870,421	4,870,421
Committed							
Debt service	-	-	-	-	-	-	3,540,270
Unassigned	-	-	-	-	(347,364)	(347,364)	(347,364)
Total fund balances	<u>45,244</u>	<u>-</u>	<u>579,936</u>	<u>4,245,241</u>	<u>(347,364)</u>	<u>4,523,057</u>	<u>8,746,823</u>
Total liabilities and fund balances	<u>45,244</u>	<u>-</u>	<u>579,936</u>	<u>4,436,128</u>	<u>-</u>	<u>5,061,308</u>	<u>12,402,543</u>

CITY OF AUBURN, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue Funds							Debt Service Fund	
	Seven Cent Gas Tax Fund	Four and Five Cent Gas Tax Fund	Municipal Court Judicial Admin Fund	Public Safety Substance Abuse Fund	Grants General Activities	Community Development Block Grant Fund	Federal Grant Loan Repayment Funds	Special 5-Mill Tax Fund	
	\$	\$	\$	\$	\$	\$	\$	\$	
Revenues									
General property taxes	-	-	-	-	-	-	-	3,812,162	
State shared taxes	148,222	115,650	-	-	-	-	263,872	-	
Fines and forfeitures	-	-	20,867	-	-	-	20,867	-	
Contributions from the public	-	-	-	39,488	-	-	39,488	-	
Grants	-	-	-	-	1,205,757	218,812	1,500,000	2,924,569	
Program income	-	-	-	-	-	-	305,363	305,363	
Interest	543	401	11	930	-	-	21,341	23,226	
Miscellaneous	-	-	-	-	-	-	180	180	
Total revenues	148,765	116,051	20,878	40,418	1,205,757	218,812	1,826,884	3,577,565	3,841,031
Expenditures									
General government and administration	-	-	-	-	51,427	-	-	51,427	-
Public works	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	17,147	153,103	-	-	170,250	-
Library	-	-	-	-	13,000	-	-	13,000	-
Planning	-	-	-	-	1,200	-	-	1,200	-
Economic development	-	-	-	-	-	447,988	1,565,278	2,013,266	-
Total departmental	-	-	-	17,147	218,730	447,988	1,565,278	2,249,143	-
Non-departmental	-	-	-	-	-	-	-	-	125,514
Debt service:									
Principal retirement	-	-	-	-	-	-	-	-	2,905,000
Interest	-	-	-	-	-	-	4,899	4,899	969,931
Administrative charges	-	-	-	-	-	-	-	-	89,265
Capital outlay	-	-	5,822	6,058	938,771	45,615	-	996,266	-
Intergovernmental	-	-	-	-	41,571	-	-	41,571	-
Payments to component units	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	5,822	23,205	1,199,072	493,603	1,570,177	3,291,879	4,089,710
Excess (deficiency) of revenues over expenditures	148,765	116,051	15,056	17,213	6,685	(274,791)	256,707	285,686	(248,679)
Other financing sources (uses)									
Debt issuance	-	-	-	-	-	-	-	-	-
Debt refunding	-	-	-	-	-	-	-	-	6,180,000
Premium on debt issued	-	-	-	-	-	-	-	-	493,473
Redemption of refunded bonds	-	-	-	-	-	-	-	-	(6,608,445)
Transfers in	-	-	-	-	-	274,791	-	274,791	-
Transfers out	(90,000)	(80,000)	-	-	-	-	(274,791)	(444,791)	-
Total other financing sources (uses)	(90,000)	(80,000)	-	-	-	274,791	(274,791)	(170,000)	65,028
Net changes in fund balances	58,765	36,051	15,056	17,213	6,685	-	(18,084)	115,686	(183,651)
Fund balances, beginning of year	71,412	56,229	-	132,943	162,071	-	145,155	567,810	3,723,921
Fund balances, end of year	130,177	92,280	15,056	150,156	168,756	-	127,071	683,496	3,540,270

Capital Projects Funds

	'03 6.3 Mil Capital Projects Fund	Bent Creek Interchange/ West Tech Park Fund	2009 Capital Projects Fund	2012 Capital Projects Fund	West Tech Park Phase II Fund	Total	Total Nonmajor Governmental Funds
Revenues	\$	\$	\$	\$	\$	\$	\$
General property taxes	-	-	-	-	-	-	3,812,162
State shared taxes	-	-	-	-	-	-	263,872
Fines and forfeitures	-	-	-	-	-	-	20,867
Contributions from the public	-	-	107,673	-	-	107,673	147,161
Grants	19,141	-	16,000	-	-	35,141	2,959,710
Program income	-	-	-	-	-	-	305,363
Interest	282	1,344	2,977	8,859	-	13,462	65,557
Miscellaneous	-	-	-	-	-	-	180
Total revenues	19,423	1,344	126,650	8,859	-	156,276	7,574,872
Expenditures							
General government and administration	-	-	-	-	-	-	51,427
Public works	23,926	-	86,197	-	-	110,123	110,123
Public safety	-	-	-	-	-	-	170,250
Library	-	-	-	-	-	-	13,000
Planning	-	-	-	-	-	-	1,200
Economic development	-	-	-	-	-	-	2,013,266
Total departmental	23,926	-	86,197	-	-	110,123	2,359,266
Non-departmental	-	-	-	-	-	-	125,514
Debt service:							
Principal retirement	-	-	-	-	-	-	2,905,000
Interest	-	-	-	-	-	-	974,830
Administrative charges	-	-	-	94,504	-	94,504	183,769
Capital outlay	-	-	381,517	301,907	13,555	696,979	1,693,245
Intergovernmental	-	-	-	-	-	-	41,571
Payments to component units	-	402,625	-	-	333,809	736,434	736,434
Total expenditures	23,926	402,625	467,714	396,411	347,364	1,638,040	9,019,629
Excess (deficiency) of revenues over expenditures	(4,503)	(401,281)	(341,064)	(387,552)	(347,364)	(1,481,764)	(1,444,757)
Other financing sources (uses)							
Debt issuance	-	-	-	4,000,000	-	4,000,000	4,000,000
Debt refunding	-	-	-	-	-	-	6,180,000
Premium on debt issued	-	-	-	632,793	-	632,793	1,126,266
Redemption of refunded bonds	-	-	-	-	-	-	(6,608,445)
Transfers in	-	-	-	-	-	-	274,791
Transfers out	-	(56)	-	-	-	(56)	(444,847)
Total other financing sources (uses)	-	(56)	-	4,632,793	-	4,632,737	4,527,765
Net changes in fund balances	(4,503)	(401,337)	(341,064)	4,245,241	(347,364)	3,150,973	3,083,008
Fund balances, beginning of year	49,747	401,337	921,000	-	-	1,372,084	5,663,815
Fund balances, end of year	45,244	-	579,936	4,245,241	(347,364)	4,523,057	8,746,823

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues	\$	\$	\$	\$
State shared taxes	118,500	118,500	148,222	29,722
Interest	1,000	1,000	543	(457)
Total revenues	<u>119,500</u>	<u>119,500</u>	<u>148,765</u>	<u>29,265</u>
Other financing sources (uses)				
Transfers out	<u>(100,000)</u>	<u>(90,000)</u>	<u>(90,000)</u>	<u>-</u>
Net changes in fund balances	19,500	29,500	58,765	29,265
Fund balances, beginning of year	<u>71,412</u>	<u>71,412</u>	<u>71,412</u>	<u>-</u>
Fund balances, end of year	<u><u>90,912</u></u>	<u><u>100,912</u></u>	<u><u>130,177</u></u>	<u><u>29,265</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues	\$	\$	\$	\$
State shared taxes	95,000	95,000	115,650	20,650
Interest	1,000	1,000	401	(599)
Total revenues	<u>96,000</u>	<u>96,000</u>	<u>116,051</u>	<u>20,051</u>
Other financing sources (uses)				
Transfers out	<u>(95,000)</u>	<u>(80,000)</u>	<u>(80,000)</u>	<u>-</u>
Net changes in fund balances	1,000	16,000	36,051	20,051
Fund balances, beginning of year	<u>56,229</u>	<u>56,229</u>	<u>56,229</u>	<u>-</u>
Fund balances, end of year	<u><u>57,229</u></u>	<u><u>72,229</u></u>	<u><u>92,280</u></u>	<u><u>20,051</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues	\$	\$	\$	\$
Contributions from the public	500	500	39,488	38,988
Interest	2,500	2,500	930	(1,570)
Total revenues	<u>3,000</u>	<u>3,000</u>	<u>40,418</u>	<u>37,418</u>
Expenditures				
Public safety	3,000	3,000	17,147	(14,147)
Capital outlay	15,000	15,000	6,058	8,942
Total expenditures	<u>18,000</u>	<u>18,000</u>	<u>23,205</u>	<u>(5,205)</u>
Net changes in fund balances	(15,000)	(15,000)	17,213	32,213
Fund balances, beginning of year	<u>132,943</u>	<u>132,943</u>	<u>132,943</u>	<u>-</u>
Fund balances, end of year	<u><u>117,943</u></u>	<u><u>117,943</u></u>	<u><u>150,156</u></u>	<u><u>32,213</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues	\$	\$	\$	\$
General property tax	3,679,030	3,679,030	3,812,162	133,132
Interest	45,000	45,000	28,869	(16,131)
Total revenues	<u>3,724,030</u>	<u>3,724,030</u>	<u>3,841,031</u>	<u>117,001</u>
Expenditures				
Non-departmental	145,000	145,000	125,514	19,486
Debt service:				
Principal retirement	2,996,000	2,996,000	2,905,000	91,000
Interest	1,050,175	1,050,175	969,931	80,244
Administrative charges	130,000	130,000	89,265	40,735
Total expenditures	<u>4,321,175</u>	<u>4,321,175</u>	<u>4,089,710</u>	<u>231,465</u>
Excess (deficiency) of revenues over expenditures	<u>(597,145)</u>	<u>(597,145)</u>	<u>(248,679)</u>	<u>348,466</u>
Other financing sources (uses)				
Debt refunding	-	-	6,180,000	6,180,000
Premium on debt issued	-	-	493,473	493,473
Payment to refunded bond escrow agent	-	-	(6,608,445)	(6,608,445)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>65,028</u>	<u>65,028</u>
Net changes in fund balances	(597,145)	(597,145)	(183,651)	413,494
Fund balances, beginning of year	<u>3,723,921</u>	<u>3,723,921</u>	<u>3,723,921</u>	<u>-</u>
Fund balances, end of year	<u><u>3,126,776</u></u>	<u><u>3,126,776</u></u>	<u><u>3,540,270</u></u>	<u><u>413,494</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.

CITY OF AUBURN, ALABAMA
DISCRETELY PRESENTED BUSINESS-TYPE NONMAJOR COMPONENT UNITS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Public Park and Recreation Board
	\$
ASSETS	
Current assets:	
Cash and cash equivalents	150
Receivables, net	39,978
Other current assets	2,308
Total current assets	42,436
Noncurrent assets	
Capital assets, net of accumulated depreciation	5,818,081
Total assets	5,860,517
 LIABILITIES	
Current liabilities:	
Accounts payable and other accrued liabilities	13,296
 NET ASSETS	
Invested in capital assets, net of related debt	5,818,081
Unrestricted (deficit)	29,140
Total net assets	5,847,221

CITY OF AUBURN, ALABAMA
DISCRETELY PRESENTED BUSINESS-TYPE NONMAJOR COMPONENT UNITS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER, 30 2012

	Public Park and Recreation Board
	\$
Operating revenues	
Tennis center revenue	70,819
Miscellaneous	75,363
Total operating revenues	146,182
Operating expenses	
Salaries and wages	136,718
Employee benefits	29,161
Repairs and maintenance	27,038
Utilities	87,018
Rentals and leasing	1,905
Insurance	2,308
Office supplies	12
Professional services	447
Recreational supplies	10,447
Depreciation/amortization	308,969
Travel and training	542
Miscellaneous	512
Total operating expenses	605,077
Operating income (loss)	(458,895)
Non-operating revenues (expenses)	
Interest and investment earnings	1
Appropriations from the City of Auburn	201,174
Interest and fiscal charges	(826)
Gain/loss on disposal of assets	(30,123)
Total non-operating revenues (expenses)	170,226
Change in net assets	(288,669)
Net assets--beginning of year	6,135,890
Net assets--end of year	5,847,221

**CITY OF AUBURN, ALABAMA
DISCRETELY PRESENTED BUSINESS-TYPE NONMAJOR COMPONENT UNITS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER, 30 2012**

	Public Park and Recreation Board
	\$
Cash flows from operating activities	
Cash collected from customers	129,368
Payments to suppliers for goods and services	(125,238)
Payments to employees for services	(165,879)
	(161,749)
Cash flows from noncapital financing activities	
Operating transfers in	201,174
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(38,600)
Interest and fiscal fees paid	(826)
	(39,426)
Cash flows from investing activities	
Interest on investments	1
Net increase (decrease) in cash	-
Cash and cash equivalents, beginning of year	150
Cash and cash equivalents, end of year	150
 Reconciliation of operating income (loss) to net cash provided (consumed) by operating activities (A):	
Operating income (loss)	(458,895)
Add:	
Depreciation/amortization expense	308,969
Increase in account payable/accrued liabilities	7,300
Less:	
Increase in accounts receivable	(16,815)
Increase in prepaid expenses	(2,308)
	(161,749)

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, 2012

Governmental funds capital assets	\$
Land, buildings and improvements	54,520,005
Construction in progress	2,572,494
Communication equipment	370,078
Heavy equipment	2,509,635
Office equipment	3,192,396
Small tools and equipment	1,025,023
Vehicles	7,625,639
Infrastructure	<u>131,265,689</u>
Total governmental funds capital assets	<u><u>203,080,959</u></u>
Investment in governmental funds capital assets by source	
General fund revenues	136,708,954
Capital projects funds	50,078,840
Federal grants	7,474,334
State grants	237,711
Special revenue fund revenues	2,616,928
Donations	1,747,001
Special assessments	27,800
Enterprise fund revenues	1,216,935
Unclassified	<u>2,972,456</u>
Total investment in governmental funds capital assets	<u><u>203,080,959</u></u>

CITY OF AUBURN, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2012

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									
Information technology	2,109,029	27,021	78,127	5,600	-	1,262,983	48,548	67,120	619,630
Geographical information systems	225,321	-	-	-	-	225,321	-	-	-
Judicial	18,222	18,222	-	-	-	-	-	-	-
Administrative	275,099	242,049	9,377	-	-	-	-	23,673	-
Finance	793,784	-	13,580	-	-	762,024	-	18,180	-
Total general government and administration	<u>3,421,455</u>	<u>287,292</u>	<u>101,084</u>	<u>5,600</u>	<u>-</u>	<u>2,250,328</u>	<u>48,548</u>	<u>108,973</u>	<u>619,630</u>
Public works administration	136,865,618	5,322,441	1,984,336	-	1,444,357	89,435	60,966	982,633	126,981,450
Environmental services	1,600,869	373,352	-	-	318,775	6,659	113,321	788,762	-
Public safety administration	5,549,678	4,794,505	-	212,678	-	379,406	-	21,763	141,326
Fire	3,396,754	197,191	-	-	279,762	-	168,221	2,751,580	-
Police	2,836,969	130,593	40,211	151,800	-	172,670	319,138	2,022,557	-
Codes enforcement	95,327	-	-	-	-	7,421	-	87,906	-
Library	5,187,200	5,011,861	-	-	-	175,339	-	-	-
Parks and recreation	23,885,993	18,341,370	446,863	-	466,741	5,425	314,829	787,482	3,523,283
Planning	42,769	-	-	-	-	5,583	-	37,186	-
Human resource management	592,773	473,202	-	-	-	100,130	-	19,441	-
Economic development	281,090	263,734	-	-	-	-	-	17,356	-
Total departmental	<u>183,756,495</u>	<u>35,195,541</u>	<u>2,572,494</u>	<u>370,078</u>	<u>2,509,635</u>	<u>3,192,396</u>	<u>1,025,023</u>	<u>7,625,639</u>	<u>131,265,689</u>
Nondepartmental	<u>19,324,464</u>	<u>19,324,464</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental funds capital assets	<u><u>203,080,959</u></u>	<u><u>54,520,005</u></u>	<u><u>2,572,494</u></u>	<u><u>370,078</u></u>	<u><u>2,509,635</u></u>	<u><u>3,192,396</u></u>	<u><u>1,025,023</u></u>	<u><u>7,625,639</u></u>	<u><u>131,265,689</u></u>

CITY OF AUBURN, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2012

	Governmental Funds Capital Assets September 30, 2011 \$	Transfers/ Additions \$	Transfers/ Deductions \$	Governmental Funds Capital Assets September 30, 2012 \$
General government and administration				
Information technology	1,999,815	225,187	(115,973)	2,109,029
Geographical information systems	206,316	19,005	-	225,321
Judicial	12,400	5,822	-	18,222
Administrative	265,722	11,913	(2,536)	275,099
Finance	780,204	13,580	-	793,784
Total general government and administration	<u>3,264,457</u>	<u>275,507</u>	<u>(118,509)</u>	<u>3,421,455</u>
Public works administration	131,025,666	10,151,175	(4,311,223)	136,865,618
Environmental services	1,627,719	67,437	(94,287)	1,600,869
Public safety administration	5,561,971	197,235	(209,528)	5,549,678
Fire	3,028,267	384,281	(15,794)	3,396,754
Police	2,841,306	372,374	(376,711)	2,836,969
Codes enforcement	95,327	-	-	95,327
Library	5,187,200	-	-	5,187,200
Parks and recreation	23,433,300	542,664	(89,971)	23,885,993
Planning	42,769	-	-	42,769
Human resource management	592,773	-	-	592,773
Economic development	285,156	179,728	(183,794)	281,090
Total departmental	<u>176,985,911</u>	<u>12,170,401</u>	<u>(5,399,817)</u>	<u>183,756,495</u>
Nondepartmental	<u>19,317,564</u>	<u>6,900</u>	<u>-</u>	<u>19,324,464</u>
Total governmental funds capital assets	<u><u>196,303,475</u></u>	<u><u>12,177,301</u></u>	<u><u>(5,399,817)</u></u>	<u><u>203,080,959</u></u>

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.

Contents	Page
Financial Trends – Tables 1-5	145
<i>These schedules contain trend information to help the reader understand and assess how the government’s financial position has changed over time.</i>	
Revenue Capacity – Tables 6-8	152
<i>These schedules contain information to help the reader assess the government’s most significant revenue source, sales tax.</i>	
Debt Capacity – Tables 9-13	154
<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>	
Demographic and Economic Information – Tables 14-15.....	158
<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>	
Operating Information – Tables 16-18	160
<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 Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Primary government - governmental activities										
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	87,677,067	91,886,384
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	11,418,353	12,643,443
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)	(67,271,114)	(74,219,051)
Total governmental activities net assets	<u>4,206,592</u>	<u>13,144,831</u>	<u>(12,392,717)</u>	<u>(9,345,079)</u>	<u>13,686,099</u>	<u>27,913,046</u>	<u>23,117,265</u>	<u>19,546,239</u>	<u>31,824,306</u>	<u>30,310,776</u>
Primary government - business-type activities										
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	25,570,257	26,690,464
Restricted	9,621,721	4,444,361	1,460,163	1,931,130	-	-	20,739,857	3,876,709	1,956,004	1,070,064
Unrestricted	(7,469,591)	339,141	4,510,401	3,535,503	1,747,051	(574,995)	(20,859,392)	(2,025,635)	818,835	5,052,411
Total business-type activities net assets	<u>14,618,286</u>	<u>16,508,842</u>	<u>18,346,984</u>	<u>20,334,749</u>	<u>24,026,862</u>	<u>24,180,973</u>	<u>25,367,046</u>	<u>27,681,127</u>	<u>28,345,096</u>	<u>32,812,939</u>
Total primary government										
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	113,247,324	118,576,848
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	13,374,357	13,713,507
Unrestricted	6,301,699	(15,394,324)	(37,319,646)	(41,802,605)	(51,038,966)	(56,806,476)	(84,498,966)	(76,367,936)	(66,452,279)	(69,166,640)
Total primary government net assets	<u>18,824,878</u>	<u>29,653,673</u>	<u>5,954,267</u>	<u>10,989,670</u>	<u>37,712,961</u>	<u>52,094,019</u>	<u>48,484,311</u>	<u>47,227,366</u>	<u>60,169,402</u>	<u>63,123,715</u>

Table 2
City of Auburn
Changes in Net Assets
Last Ten Fiscal Years

Expenses	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governmental activities:										
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	6,696,333	\$ 6,882,510
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	7,176,200	7,087,489
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	1,759,158	1,903,429
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	17,484,211	17,966,335
Library	947,709	1,052,313	1,146,947	1,292,363	1,370,600	1,550,700	1,678,410	1,613,894	1,641,371	1,686,566
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	5,611,356	5,607,803
Planning	379,761	381,375	502,342	492,700	604,603	648,516	614,034	665,283	573,462	562,555
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	3,302,021	5,235,985
Human resources	434,485	440,976	472,238	483,065	536,067	584,270	697,585	704,963	702,065	698,236
Risk management	254,694	426,002	506,603	1,018,109	933,550	768,281	1,297,761	1,289,942	1,069,339	1,585,905
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	14,624,398	35,412,033
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	5,914,822	5,753,942
Total governmental activities expenses	37,793,461	42,629,082	81,445,310	60,260,858	75,237,130	70,583,702	75,043,806	78,083,189	66,554,736	90,382,788
Business-type activities:										
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	8,173,912	8,038,127
Solid Waste Management Fund*	-	-	-	-	-	-	3,178,574	3,385,837	3,522,953	3,757,884
Industrial Parks	188	226	213	284	141,742	-	-	-	-	-
Total business-type activities expenses	4,487,279	4,434,752	4,753,289	6,221,351	6,447,652	6,903,856	11,003,804	11,190,040	11,696,865	11,796,011
Total primary government expenses	42,280,740	47,063,834	86,198,599	66,482,209	81,684,782	77,487,558	86,047,610	89,273,229	78,251,601	102,178,799
Program Revenues										
Governmental activities:										
Charges for services:										
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	10,540,374	\$ 12,332,933
Public works	800	1,906	-	-	-	-	-	-	-	250
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	3,677,033	3,203,403
Library	11,300	12,427	16,125	30,226	29,236	32,435	37,558	42,893	34,621	35,799
Parks and recreation	249,791	231,676	413,535	690,660	715,521	670,682	807,267	785,095	791,821	729,455
Planning	50,233	58,427	60,323	59,962	61,459	43,379	30,002	38,322	40,872	59,489
Employee services	676,662	-	-	-	-	-	-	-	-	-
Risk management	-	144,095	187,407	457,318	361,578	415,381	716,141	741,130	745,281	782,796
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	2,747,298	3,831,256
Capital grants and contributions	857,782	548,829	306,081	861,585	1,337,648	14,639,704	1,898,595	4,238,477	3,698,776	3,687,087
Total governmental activities program revenue	12,079,951	13,192,925	15,196,595	17,444,352	18,959,426	33,052,104	20,810,105	22,333,836	22,276,076	24,662,468
Business-type activities:										
Charges for services:										
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	9,493,840	10,938,292
Solid Waste Management Fund*	-	-	-	-	-	-	3,118,925	3,133,116	2,961,625	3,590,771
Operating grants and contributions	-	-	-	-	-	-	1,000	39,831	21,595	19,369
Capital grants and contributions	921,575	900,675	979,578	1,524,865	2,961,120	610,781	1,178,184	605,467	373,520	244,653
Total business-type activities program revenues	6,034,890	6,124,066	6,251,053	7,623,287	9,698,019	7,097,685	12,056,446	12,501,005	12,850,580	14,793,085
Total primary government program revenues	18,114,841	19,316,991	21,447,648	25,067,639	28,657,445	40,149,789	32,866,551	34,834,841	35,126,656	39,455,553
Net (expense)/revenue										
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)	(44,278,660)	(65,720,320)
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	1,153,715	2,997,074
Total primary government net expense	(24,165,899)	(27,746,843)	(64,750,951)	(41,414,570)	(53,027,337)	(37,337,769)	(53,181,059)	(54,438,388)	(43,124,945)	(62,723,246)

*In FY09, the Solid Waste Management Fund was created to account for charges from Environmental Services - Solid Waste and Recycling, which had previously been accounted for in the General Fund under Environmental Services.
**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 Board of Education are listed separately.

Table 2 Continued

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
General Revenues and Other Changes in Net Assets										
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	22,987,406	30,890,400
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	9,033,443	9,221,981
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	20,966,105	21,424,164
Motor fuel taxes	483,054	495,322	461,800	491,778	504,228	502,460	260,447	278,467	293,425	311,846
Lodging taxes	548,362	568,887	668,094	1,085,063	1,369,273	1,425,637	1,184,540	1,253,511	1,371,789	1,914,441
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	473,732	515,164
Cigarette taxes	102,809	96,708	91,188	93,177	86,776	84,663	78,290	77,423	79,304	77,145
Alcoholic beverage taxes	25,790	27,051	29,473	30,551	34,984	83,521	119,781	121,710	131,668	142,503
Interest and investment earnings	887,885	854,188	981,502	1,884,183	1,996,272	1,255,843	827,049	512,963	362,808	241,936
Gain (loss) on disposal of assets	(1,074,742)	2,644	18,245	139,743	(23,936)	31,509	(166,665)	-	33,639	64,005
Miscellaneous	21,545	28,312	6,655	38,151	31,970	30,927	10,277	38,073	31,441	29,967
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)	(248,354)	(626,769)
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	55,516,406	64,206,783
Business-type activities:										
Interest and investment earnings	353,612	321,665	245,029	416,657	370,249	43,263	139,237	45,538	48,728	33,440
Gain (loss) on disposal of assets	(2,255)	-	-	18,895	66,128	22,625	28,748	12,598	(754)	9,820
Miscellaneous	-	-	-	278,160	258	504	3,999	37,087	7,656	6,085
Special items	-	-	-	-	-	-	-	675,000	-	-
Transfers	(111,910)	(120,424)	95,349	(127,883)	5,110	(106,111)	(38,553)	232,893	248,354	626,769
Total business-type activities	239,447	201,241	340,378	585,829	441,745	(39,719)	133,431	1,003,116	303,984	676,114
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	55,820,390	64,882,897
Changes in Net Assets										
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)	11,237,746	(1,513,537)
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	1,457,699	3,673,188
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)	12,695,445	2,159,651

Table 3

City of Auburn ~ Primary Government
General Government Tax Revenues by Source ⁽¹⁾

Last Ten Fiscal Years

Unaudited

Fiscal Year	Sales & Use Tax	Cigarette & ABC* Tax	Motor Fuel Tax	Lodging and Rental Tax	Financial Institution Tax	Motor Vehicle Tax	General Property Tax	Totals
	\$	\$	\$	\$	\$	\$	\$	\$
2003	14,589,315 ⁽²⁾	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 ⁽³⁾	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	41,750,715
2010	21,081,231	146,915	788,560	1,662,229	-	108,006	19,739,993	43,526,934
2011	22,987,405 ⁽⁴⁾	168,268	818,351	1,839,015	184,886	126,685	20,333,624	46,458,234
2012	30,890,400	173,478	876,592	1,958,908	173,972	129,888	20,503,864	54,707,103

* State Alcoholic Beverage Control Board

⁽¹⁾ Includes state shared taxes.

⁽²⁾ Sales tax rate increased from 2.5% to 3.0% effective 8/1/03.

⁽³⁾ Lodging tax increased from 4% to 7% in FY2006.

⁽⁴⁾ Sales tax rate increased from 3.0% to 4.0% effective 8/1/11.

Table 4
City of Auburn
Fund Balances of Governmental Funds
 Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011 ⁽¹⁾	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
General Fund										
Reserved	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	13,480,580	21,426,238	19,488,460	18,451,274	19,436,335	15,882,269	19,983,950	19,649,481	-	-
Nonspendable	-	-	-	-	-	-	-	-	7,504,505	7,038,187
Restricted	-	-	-	-	-	-	-	-	176,679	237,639
Assigned	-	-	-	-	-	-	-	-	4,854,720	4,778,855
Unassigned	-	-	-	-	-	-	-	-	16,489,870	20,973,636
Total general fund	<u>19,040,255</u>	<u>30,123,982</u>	<u>27,309,202</u>	<u>27,756,588</u>	<u>28,137,779</u>	<u>28,849,933</u>	<u>28,828,259</u>	<u>27,101,466</u>	<u>29,025,774</u>	<u>33,028,317</u>
All other governmental funds										
Reserved	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	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	3,510,899	4,775,796	6,405,416	11,280,128	8,362,129	1,667,086	6,402,424	1,297,837	-	-
Nonspendable	-	-	-	-	-	-	-	-	560,000	-
Restricted	-	-	-	-	-	-	-	-	6,291,517	10,091,080
Committed	-	-	-	-	-	-	-	-	3,723,922	3,540,270
Assigned	-	-	-	-	-	-	-	-	-	(347,364)
Total all other governmental funds	<u>7,508,343</u>	<u>13,346,202</u>	<u>16,148,305</u>	<u>21,868,452</u>	<u>17,924,525</u>	<u>12,070,714</u>	<u>18,129,614</u>	<u>13,971,021</u>	<u>10,575,439</u>	<u>13,283,986</u>

⁽¹⁾ For fiscal year 2011, GASB Statement No. 54 was implemented requiring additional classifications of fund balance.

Table 5

City of Auburn

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues										
Sales and use 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	22,987,406	30,890,400
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	9,033,443	9,221,981
Motor fuel taxes	483,053	495,322	456,302	485,810	498,404	496,966	511,874	547,407	576,855	612,720
Lodging taxes	548,361	568,887	668,094	1,085,063	1,369,273	1,425,637	1,184,540	1,253,511	1,371,789	1,914,441
Rental and leasing taxes	1,121,061	1,463,934	1,456,463	819,682	1,473,112	538,541	451,563	420,201	473,732	515,164
Other taxes	128,599	123,759	120,661	123,728	121,760	168,183	198,072	199,133	210,972	219,648
Licenses and permits	4,886,027	5,597,240	6,001,452	6,518,522	7,311,513	8,266,168	9,350,937	9,002,598	8,860,187	10,222,535
General property tax	8,830,021	10,470,043	12,111,245	13,088,499	15,057,103	16,953,172	19,053,632	20,169,134	20,966,105	21,424,165
Charges for services	4,307,277	4,197,384	6,371,963	6,901,624	7,087,603	7,440,776	5,231,625	5,286,945	5,777,642	5,544,334
Fines and forfeitures	829,147	876,748	1,013,374	1,083,225	1,335,798	1,267,362	1,201,777	1,323,548	1,247,137	1,452,953
State shared taxes	735,804	838,939	1,021,092	1,285,313	1,165,920	1,178,766	1,390,567	881,140	1,057,737	1,278,040
Contributions from the public	327,407	1,371,735	194,769	320,747	494,010	606,144	2,329,064	868,428	1,624,491	600,544
Grants	1,237,731	2,011,292	793,940	1,284,695	1,475,458	1,699,127	2,125,631	2,555,213	2,205,074	2,959,710
Program income	467,518	481,957	549,327	127,229	1,206,632	350,544	836,384	521,164	385,822	305,363
Interest	855,743	855,952	985,974	1,883,720	2,011,961	1,240,177	851,855	512,963	362,808	241,936
Miscellaneous	105,879	108,811	75,695	95,972	122,150	117,144	60,020	89,280	71,438	61,489
Total revenues	45,010,794	54,619,022	57,034,467	63,280,023	70,341,510	70,967,739	73,028,419	73,160,402	77,212,638	87,465,423
Expenditures										
General government and administration	2,839,946	3,404,365	3,594,853	3,940,430	3,893,452	4,017,923	4,127,351	4,417,596	4,821,147	4,900,632
Public works	2,065,180	2,236,624	2,433,580	2,849,130	3,008,617	2,981,356	4,343,137	3,530,072	3,751,109	3,528,928
Environmental services	3,113,710	3,673,472	3,630,390	3,870,974	3,963,063	4,298,499	1,636,517	1,609,168	1,665,499	1,806,656
Public safety	8,448,024	10,162,166	11,757,986	12,527,380	12,860,510	14,366,534	15,318,545	15,953,686	16,692,869	17,164,517
Library	782,875	975,302	1,049,762	1,180,137	1,254,012	1,416,673	1,450,815	1,425,399	1,455,630	1,503,734
Parks and recreation	3,032,220	3,370,517	3,799,044	4,190,163	4,252,011	4,575,572	4,358,992	4,580,462	4,714,322	4,788,245
Planning	346,760	373,985	507,098	486,927	600,553	643,259	609,721	664,088	573,465	562,214
Economic development	880,402	653,010	757,920	1,639,314	1,433,446	1,674,592	2,126,883	2,187,721	2,035,324	3,005,858
Employee services	399,949	427,345	459,278	472,691	504,822	550,107	637,204	656,148	655,029	642,122
Risk management	294,934	431,210	511,523	246,881	929,627	941,221	1,231,524	1,313,917	1,269,056	1,301,944
Non-departmental	2,739,900	1,403,798	1,422,240	1,867,443	1,495,410	2,213,532	1,906,387	1,937,902	1,915,070	1,978,998
Debt service										
Principal	3,105,726	5,499,994	19,570,595 *	6,183,601	6,836,554	28,354,631 ^	10,060,309	9,989,029	10,464,788	13,013,380
Interest	3,747,321	3,503,675	4,318,811	5,519,505	5,840,756	6,042,452	6,018,665	5,622,881	6,049,543	6,256,774
Capital Outlay	7,347,636	6,530,914	12,983,719	7,328,307	8,359,823	6,939,861	5,702,327	10,521,541	5,774,421	7,261,516
Intergovernmental	796,317	809,166	1,177,306	6,742,832	3,141,812	2,515,343	2,198,727	1,022,118	876,083	921,568
Payments to component units	8,105,050	10,404,387	44,097,771	13,098,738	27,895,701	19,939,274	24,919,475	28,818,541	15,755,842	38,546,879 °
Total expenditures	48,045,950	53,859,930	112,071,876	72,144,453	86,270,169	101,470,829	86,646,579	94,250,269	78,469,197	107,183,965
Excess of revenues over (under) expenditures	(3,035,156)	759,092	(55,037,409)	(8,864,430)	(15,928,659)	(30,503,090)	(13,618,160)	(21,089,867)	(1,256,559)	(19,718,542)

Table 5 Continued

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Other financing sources (uses)										
Debt issuance	5,196,627	16,356,598	58,835,646	14,740,290	12,200,000	13,927,516	19,590,794	15,155,000	-	24,325,835
Refunding	-	-	-	-	-	11,268,100	-	27,020,000	-	27,879,100
Sale of surplus assets	-	-	-	177,942	61,597	50,134	16,919	33,355	33,639	64,006
Transfers in	4,328,628	4,281,419	9,148,733	7,071,256	6,761,798	6,960,429	8,707,117	725,271	565,234	509,453
Transfers out	(4,216,718)	(4,160,995)	(9,252,339)	(6,957,522)	(6,762,544)	(6,844,749)	(8,659,444)	(958,164)	(813,589)	(1,196,222)
Premium on debt issued	-	-	1,120,859	-	105,076	-	-	2,313,257	-	4,147,158
Payment to refunded bond escrow	-	-	(5,026,414)	-	-	-	-	(29,084,241)	-	(29,299,697)
Total other financing sources (uses)	5,308,537	16,477,022	54,826,485	15,031,966	12,365,927	25,361,430	19,655,386	15,204,478	(214,716)	26,429,633
Extraordinary item										
Insurance proceeds - fire in building	-	-	255,000	-	-	-	-	-	-	-
Net changes in fund balances	2,273,381	17,236,114	44,076	6,167,536	(3,562,732)	(5,141,660)	6,037,226	(5,885,389)	(1,471,275)	6,711,091
Debt service as a percentage of non-capital expenditures⁽¹⁾	18.3%	20.1%	25.0%	18.7%	16.4%	36.4%	19.9%	18.6%	22.7%	19.3%

*This increase was due to the payoff of two lines of credit and permanently refinancing one.

^This increase was due to the refunding of various warrants and permanently financing a line of credit.

◇This increase was due to the issuance of \$18.5 million in warrants for the Board of Education.

⁽¹⁾ 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

	2003*	2004	2005	2006	2007	2008	2009	2010	2011[^]	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Apparel Stores	25,743	30,979	38,138	74,473	71,846	66,699	57,276	60,201	68,169	66,354
Grocery Stores	56,877	57,269	59,929	53,307	60,280	51,372	51,435	55,799	70,663	77,901
Eating & Drinking Establishments	68,641	70,983	75,052	101,287	111,409	120,987	120,462	127,753	148,302	131,813
Mass General Merchandise Stores	95,854	98,680	97,799	86,922	88,571	110,116	115,686	114,644	122,437	116,691
Auto Dealers & Supplies	134,933	151,290	160,833	103,690	116,070	40,203	33,484	39,021	42,278	38,291
Building Materials	57,692	28,674	32,569	49,464	55,721	34,454	32,257	31,794	26,698	36,185
Home Furnishing & Appliances	4,543	4,503	2,471	9,240	15,468	14,823	11,085	9,733	11,126	12,477
All Other Retail Sales	106,209	155,255	146,209	211,555	271,889	258,296	244,863	254,509	273,606	289,079
Totals	550,492	597,633	613,000	689,938	791,254	696,950	666,548	693,454	763,279	768,791

* City sales tax rate increased from 2.5% to 3.0% effective August 1, 2003.

[^] City sales tax rate increased from 3.0% to 4.0% effective August 1, 2011.

Table 7
City of Auburn ~ Primary Government
Revenue Rates for General Sales Tax

Last Ten Fiscal Years
Unaudited

Fiscal Year	City Sales Tax Rate	County Sales Tax Rate	State Sales Tax Rate	Total Sales Tax Rate
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%
2010	3.0%	1.0%	4.0%	8.0%
2011 ^	4.0%	1.0%	4.0%	9.0%
2012	4.0%	1.0%	4.0%	9.0%

Source: State of Alabama Department of Revenue

* City sales tax rate increased from 2.5% to 3.0% effective August 1, 2003.

^ City sales tax rate increased from 3.0% to 4.0% effective August 1, 2011.

Table 8
City of Auburn ~ Primary Government
Principal Revenue Remitters of Sales and Use Tax ¹

Current Year and Nine Years Ago
Unaudited

Employer	2003 Rank	2012 Rank
Wal-Mart	1	1
Sam's Club		2
Auburn University Financial Reporting	2	3
Kroger	3	4
Academy Sports		5
Chartwells		6
Publix #1294		7
Dillard's (formerly Gayfers)	4	8
Publix #1355		9
Belk		10

Source: City of Auburn Revenue Office

¹ 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
Ratios of Outstanding Debt by Type ⁽¹⁾

Last Ten Fiscal Years

(dollar amounts expressed in thousands, except per capita amount)

Unaudited

Fiscal Year	Governmental Activities		Business-Type Activities		Total Debt Primary Government	Total Debt as Percentage of Personal Income	Total Debt Per Capita
	General Obligation Bonds	Capital Leases	General Obligation Bonds ⁽²⁾	Capital Leases			
	\$	\$	\$	\$	\$		\$
2003	67,872	530	30,253	38	98,693	9.79%	2,182
2004	79,058	199	30,253	38	109,548	10.05%	2,376
2005	113,591	68	30,111	-	143,770	12.79%	3,022
2006	122,272	-	30,054	-	152,326	13.25%	3,131
2007	127,635	-	28,263	-	155,898	12.64%	3,136
2008	124,476	-	34,220	-	158,696	12.34%	3,133
2009	133,947	-	62,240	-	196,187	14.34%	3,720
2010	139,143	-	45,880	-	185,023	13.28%	3,460
2011	128,679	-	44,775	-	173,454	12.97%	3,179
2012	141,120	-	48,950	-	190,070	14.41%	3,434

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

⁽¹⁾ The City does not have any special assessment bonds.

⁽²⁾ 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 10
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 ⁽¹⁾	Net Bonded Debt as Percent of Estimated Actual Taxable Value of Property	Net Bonded Debt Per Capita
	\$	\$	\$		\$
2003	98,692,366	1,360,172	97,332,194	27.10%	2,152
2004	78,912,853	1,523,137	77,389,716	17.90%	1,678
2005	113,590,812 ⁽²⁾	2,116,996	111,473,816	22.94%	2,343
2006	122,272,012	2,499,525	119,772,487	21.92%	2,462
2007	127,635,458	2,748,975	124,886,483	19.68%	2,513
2008	124,476,443	3,163,736	121,312,707	17.12%	2,395
2009	133,947,403	3,898,630	130,048,773	17.66%	2,466
2010	139,143,374 ⁽³⁾	3,831,044	135,312,330	18.01%	2,531
2011	128,678,587	3,723,922	124,954,665	15.66%	2,290
2012	141,120,142 ⁽⁴⁾	3,540,270	137,579,872	17.17%	2,486

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ City issued \$27 million of G.O. Warrants to refund outstanding debt.

⁽⁴⁾ City issued \$18.5 million of G.O. Warrants to pay the costs of new school construction under the jurisdiction of the Board of Education.

Table 11
City of Auburn ~ Primary Government
Direct and Overlapping Governmental Activities Debt
 Fiscal Year 2012
 Unaudited

	Debt Outstanding	Estimated Percentage Applicable ¹	Estimated Share of Overlapping Debt
City of Auburn Direct Debt			
General Bonded Debt and Warrants	\$ 141,120,142		
Less: Debt Service Funds Equity	3,540,270		
Net Direct Debt	137,579,872	100%	\$ 137,579,872
Overlapping Debt			
Lee County General Bonded Debt and Warrants	\$ 21,115,000	38%	8,036,669
Total Direct and Overlapping Debt			\$ 145,616,541

Sources: General bonded debt and warrants provided by the Lee County Administrator.

⁽¹⁾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 2010.

Table 12
City of Auburn ~ Primary Government
Legal Debt Margin Information

Last Ten Fiscal Years
(amounts expressed in thousands)
Unaudited

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Debt limit	100,557	96,665	98,146	98,974	110,789	141,724	147,267	150,282	159,565	160,252
Total net debt applicable to limit	<u>35,994</u>	<u>33,844</u>	<u>45,617</u>	<u>55,364</u>	<u>54,764</u>	<u>62,451</u>	<u>65,355</u>	<u>73,116</u>	<u>64,479</u>	<u>60,974</u>
Legal debt margin	<u><u>64,563</u></u>	<u><u>62,821</u></u>	<u><u>52,529</u></u>	<u><u>43,610</u></u>	<u><u>56,025</u></u>	<u><u>79,273</u></u>	<u><u>81,912</u></u>	<u><u>77,166</u></u>	<u><u>95,086</u></u>	<u><u>99,278</u></u>
Total net debt applicable to limit as a percentage of debt limit	35.79%	35.01%	46.48%	55.94%	49.43%	44.07%	44.38%	48.65%	40.41%	38.05%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	<u>\$ 801,260,040</u>
Debt limit (20% of total assessed value)	<u>\$ 160,252,008</u>
Debt applicable to limit:	
General obligation bonds	\$ 190,070,142
Less: Exempt Debt	<u>129,095,858</u>
Total net debt applicable to limit	<u>60,974,284</u>
Legal debt margin	<u><u>\$ 99,277,724</u></u>

Table 13
City of Auburn ~ Primary Government
Pledged Revenue Coverage⁽¹⁾

Last Ten Fiscal Years
Unaudited

Sewer G.O. Warrants⁽²⁾

Fiscal Year	Sewer Charges and Other ⁽³⁾	Less: Operating Expenses ⁽⁴⁾	Net Available Revenue	Principal	Interest	Coverage
	\$	\$	\$	\$	\$	
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
2010	8,803,453	4,548,588	4,254,865	1,060,000	1,788,254	1.49
2011	9,549,042	4,570,730	4,978,312	1,105,000	2,089,603	1.56
2012	10,978,794	4,465,603	6,513,191	1,155,000	1,983,951	2.07

⁽¹⁾ The City does not have any Special Assessment Bonds.

⁽²⁾ General Obligation warrants issued but paid by Sewer Service Fee revenue.

⁽³⁾ Includes sewer service charges, tapping fees, sewer access fees, gains on property disposals and other non-operating revenues.

⁽⁴⁾ Includes operating expenses and operating transfers out less depreciation expense.

Table 14
City of Auburn ~ Primary Government
Demographic and Economic Statistics
 Last Ten Fiscal Years
Unaudited

Fiscal Year	Population⁽¹⁾	Personal Income (expressed in thousands)⁽²⁾	Per Capita Personal Income	Unemployment Rate⁽³⁾
		\$	\$	
2003	45,226	1,007,771	22,283	5.0%
2004	46,111	1,089,695	23,632	4.6%
2005	47,571	1,124,198	23,632	3.0%
2006	48,644	1,149,555	23,632	2.8%
2007	49,705	1,232,883	24,804	2.8%
2008	50,651	1,286,485	25,399	4.1%
2009	52,733	1,368,052	25,943	7.8%
2010	53,470	1,393,696	26,065	7.7%
2011	54,566	1,337,413	24,510	7.5%
2012	55,342	1,319,353	23,840	6.9%

⁽¹⁾ U. S. Census Bureau

⁽²⁾ U. S. Department of Commerce, Bureau of Economic Analysis

⁽³⁾ State of Alabama, Department of Labor

Table 15
City of Auburn ~ Primary Government
Principal Employers
 Current Year and Nine Years Ago
 Unaudited

Employer	2003			2012		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Auburn University	6,871	1	32.31%	5,500	1	22.29%
Auburn City Schools	618	3	2.91%	900	2	3.65%
City of Auburn and Auburn Water Works Board	371	4	1.74%	750	3	3.04%
Briggs & Stratton Corporation	800	2	3.76%	480	4	1.95%
SCA, Inc.	-		-	410	5	1.66%
Borbet Alabama, Inc. (formerly ATS Wheels)	-		-	380	6	1.54%
Wal-Mart Supercenter	-		-	350	7 (tie)	1.42%
Masterbrand Cabinets	294	5	1.38%	350	7 (tie)	1.42%
CV Holdings, LLC	-		-	310	8	1.26%
Pyongsan America, Inc.	-		-	220	9	0.89%
Seohan Auto USA Corporation	-		-	210	10	0.85%
Total	8,954		42.11%	9,860		39.96%

Source: City of Auburn Economic Development Department, Alabama Department of Labor

Table 16
City of Auburn ~ Primary Government
Regular Full-Time Employees by Function/Program

Last Ten Fiscal Years

Unaudited

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government	75	75	73	73	74	76	77	77	81	81
Economic Development	9	11	13	14	14	13	13	13	13	12
Public Safety										
Police	78	107	110	109	112	113	115	113	113	113
Fire	30	29	30	43	43	43	43	43	43	43
Communications	6	6	6	7	9	11	11	11	11	11
Codes	6	7	8	9	9	9	9	9	9	8
Public Works										
Engineering	10	10	10	11	11	11	11	11	11	11
Construction & Maintenance	14	15	18	18	18	18	18	18	18	18
Inspection	4	4	4	6	6	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	14	14	15	16	16	16	16	16	16	16
Animal Control	2	2	2	2	2	2	2	2	2	2
ROW	7	7	6	7	7	7	7	7	7	7
Fleet Services	9	9	10	10	10	10	10	10	10	10
Parks and Recreation										
Leisure Services	15	15	14	14	15	15	15	15	15	15
Parks & Facilities	24	24	26	26	26	27	26	26	26	26
Library	13	15	14	15	15	16	16	16	17	17
Sewer	11	11	13	19	15	15	16	16	16	17
Total	346	380	391	418	421	427	430	428	433	432

Source: City of Auburn Human Resources Department

Table 17
City of Auburn ~ Primary Government
Operating Indicators by Function/Program
 Last Ten Fiscal Years
Unaudited

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Physical arrests	2,135	2,339	2,921	2,574	2,978	3,143	2,480	2,643	2,712	3,096
Traffic violations	6,535	7,892	9,490	10,435	14,077	14,516	19,556	20,618	23,736	25,016
Fire										
Number of calls answered	1,167	1,149	1,147	1,342	2,258	2,330	2,523	4,025	4,065	4,303
Inspections^	6,314	6,256	6,324	1,860	1,857	1,792	1,752	1,575	1,391	1,559
Public Works										
Potholes repaired	805	403	414	347	230	210	273	750	625	454
Environmental Services										
Refuse collected (tons/day)*	68	72	85	85	86	86	88	91	104	103
Recyclable collected (tons/day)*	3.46	3.38	3.52	3.89	3.38	4.21	4.39	4.36	4.40	5.82
Parks and Recreation										
Athletic participants	4,501	5,391	4,956	4,623	5,154	5,648	5,031	4,959	2,964	4,540
Recreation center admissions	81,659	75,001	83,374	114,484	96,106	92,291	111,960	138,751	150,690	164,888
Sewer										
Average daily sewage treatment (millions of gallons)	6.60	6.15	6.86	6.10	5.90	5.60	6.70	6.69	6.02	6.28

^A change in software lowered the number of inspections performed in 2006.

*Each year consists of 251 work days.

Source: City departments

Table 18
City of Auburn ~ Primary Government
Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years
Unaudited

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	59	77	86	88	89	91	91	98	94	96
Fire stations	4	4	4	4	4	5	5	5	5	5
Environmental Services										
Collection trucks	8	8	8	8	8	8	8	8	8	8
Public Works										
Streets (lane miles)	313	565	597	650	658	696	3	693	693	700
Signaled Intersections	48	49	50	50	55	56	58	59	60	60
Parks and Recreation										
Parks acreage	1,914	1,914	1,914	1,914	1,914	1,944	1,944	1,944	1,944	1,944
Swimming pools	2	2	2	2	2	2	2	2	2	2
Tennis courts	14	14	10	10	44	44	44	44	44	44
Community centers	3	3	3	3	3	3	3	4	4	4
Sewer										
Sanitary sewers (miles)	183	195	201	210	235	240	245	248	300	300
Maximum daily treatment capacity (millions of gallons)	7	7	7	7	8	8	11	11	11	13

Source: City departments

City of Auburn, Alabama
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2012
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