



City of Auburn, Alabama Popular Annual Financial Report

Fiscal Year Ending September 20, 2008

THIS FINANCIAL REPORT

As part of our continuous effort to keep you informed of how your tax dollars are being spent, we are pleased to present the 2008 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental and proprietary funds and was drawn from information found in the 2008 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Machen, McChesney & Chastain, LLP.

Unlike the CAFR, the PAFR is unaudited and presented on a non-GAAP basis. The GAAP basis presentation in the CAFR includes the City's component units and the presentation of individual funds, as well as full disclosure of all material events, financial and non-financial, in notes to the financial statements. Copies of the CAFR are available for public viewing at City Hall, the Public Library, and online at www.auburnalabama.org/CAFR.



THE CITY OF AUBURN

Auburn was founded in 1836 (incorporated 1839) by Judge John J. Harper, who envisioned a religious, educational and cultural center.

The City covers 58.2 square miles in east central Alabama. Auburn, home to approximately 54,348 residents, is one of the fastest growing communities in Alabama and is the home of Auburn University.

The City of Auburn currently operates under a Council-Manager form of government, with eight Council members elected from eight

single-member districts to four-year terms. The Mayor is elected at-large. This legislative body establishes policy to guide the various City departments in providing services to citizens.

The City Manager is the chief executive officer of the City, directing and managing

the daily activities of the City government. The City's departments include: Office of the City Manager, Judicial, Information Technology, Finance, Economic Development, Human Resources, Public Safety, Pub-

lic Works, Environmental Services, Library, Parks & Recreation, Planning, and Water Resource Management. These departments are staffed by approximately 427 regular, full-time employees.

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.

MAJOR INITIATIVES

During fiscal 2008, the priorities of school funding, street construction, traffic flow management, commercial infrastructure construction, and utility rate review were addressed. The City contributed \$6.8 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 2008, there were five debt issuances to finance or refinance significant improvements to the City's infrastructure to provide a higher quality of life to its citizens.

On March 25, 2008, the City issued two general obligation warrants totaling \$1.7 million, permanently financing the construction of infrastructure on Richland Road. Two property owners affected by this construc-

tion agreed to pay the City for these improvements. Each property owner pledged irrevocable letters of credit to secure the warrants.

In May of fiscal 2008, the City issued \$4.2 million general obligation warrants refunding various notes and warrants payable totaling \$2.6 million. The remaining \$1.6 million was used to acquire property for use as a public parking area. Also in May, the City issued an \$8.7 million general obligation warrant that refunded a 2005 general obligation warrant that was issued to finance the infrastructure component of a redevelopment of the local mall.

On May 29, 2008, the City issued an \$8.8 million general obligation warrant, permanently financing the line of credit used for the design and construction of infrastructure around the

intersection of Glenn Avenue and Bent Creek Road. The completion of this construction has allowed for new development at Exit 57 of Interstate 85. This development includes Sam's Club and Academy Sports, both of which opened in 2008.

The Water Resource Management department began a significant initiative in fiscal 2008. On April 1, 2008, the City Council authorized a comprehensive sewer rate and access fee study. The goal of this study was to develop recommendations for future rate adjustments that will be sufficient to recover the projected costs of operating, maintaining, repairing, and financing the utility assets that comprise the Sewer system. The study was completed and the Council adopted rate increases in January 2009.

City of Auburn, Alabama

FINANCIAL HIGHLIGHTS

The assets of the City of Auburn exceeded its liabilities at the close of the fiscal year by \$52.1 million (net assets). Of this amount, the City had a deficit unrestricted net assets of \$31.2 million offset by \$9.6 million in restricted net assets and \$73.7 million in capital assets net of related debt.

The primary government experienced a 38.1% increase in net assets from \$37.7 million at September 30, 2007 to \$52.1 million at September 30, 2008.

At the end of the current fiscal year, total fund balance for the General fund was \$28.8 million or 36.0% of total General Fund expenditures and other financing uses; total fund balance increased by \$712,154 (2.5%) from fiscal year 2007. The unreserved and undesignated fund balance for the General Fund was \$11.3 million, or 14.0% of total General Fund expenditures; this was a decrease of \$3.6 million (24.0%) from fiscal 2007.

BOND RATING

The City received its most recent bond ratings in November 2008. The City received an upgrade from Standard & Poor's to AA+ from AA. Moody's Investors Service confirmed the City's general obligation bond rating of Aa3. The "double A" rating is reserved for organizations characterized by competent management, stable economies, and manageable debt levels. As with bonds rated triple A, a double A obligor is judged to have a very strong capacity to meet its financial commitments.

TYPES OF FUNDS

Most City services and projects are accounted for in a general category referred to as **Governmental Funds**. These brief descriptions provide basic information about Auburn's governmental fund types.

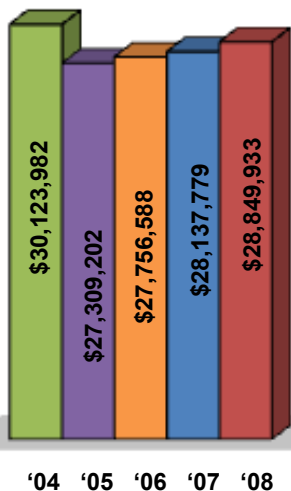
- ◆ The **General Fund** accounts for revenues and expenditures associated with the general operations of the City that are not required to be accounted for in separate funds.
- ◆ **Special Revenue Funds** account for proceeds of specific revenue sources that are legally restricted for specific purposes (e.g. streets and schools).
- ◆ **Debt Service Funds** account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.
- ◆ **Capital Projects Funds** account for the financial resources used for the construction and/or acquisition of major capital facilities.

Proprietary funds account for activities the City operates in a manner similar to private businesses. In 2008, the City of Auburn had one proprietary fund: the Sewer Revenue Fund, which is an Enterprise Fund.

Fiduciary funds statements convey information about financial relationships in which the City acts solely as a trustee for the benefit of others. The City of Auburn reports revenues and expenditures of independent associations associated with supporting youth athletic programs in private-purpose trust funds.

This PAFR focuses on the City's two largest funds, which are of most interest to citizens: the General Fund the Sewer Revenue Fund.

General Fund Balance



FUND BALANCE OF THE GENERAL FUND

Fund balance is the excess of what the City owns (assets) over what the City owes (debts or liabilities). The Council has established a goal for maintaining the fund balance in the General Fund at not less than 20% of budgeted expenditures and other financing uses. The City has consistently exceeded this goal; the total fund balance at September 30, 2008, stood at 36% of expenditures. In addition to the unrestricted, undesignated fund balance, the

General Fund balance includes \$4.6 million designated by the Council for use only in the event of natural disaster or significant, unprojected economic downturn.

At the end of fiscal 2008, the total fund balance of the General Fund increased \$712,154 (2.5%) from the prior year's ending fund balance, reflecting the excess of revenues and other financing sources over expenditures and other financing uses. The 2008 total ending fund balance was

\$28.85 million, compared to \$28.14 million at the end of 2007. Total reserved fund balances increased by \$4.3 million (49%); of this amount, the reserve for encumbrances rose by \$3.97 million due to an increase in approved but uncompleted construction contracts (\$4.2 million at the end of fiscal year 2008, as opposed to only \$1.8 million in construction contract commitments at the end of fiscal year 2007). Total unreserved fund balance in the General Fund decreased by \$3.55 million (18.3%) in 2008.

GOVERNMENTAL FUNDS' FINANCIAL ACTIVITIES

At September 30, 2008, the City's governmental funds reported a combined fund balance of \$40.9 million, a \$5.1 million decrease from the prior year. These financial activities comprise the major changes in governmental fund balances:

GOVERNMENTAL REVENUES

Total revenues of the governmental funds, excluding other financing sources, showed growth of 0.9% or \$626,229 over the prior year.

—Sales and use tax revenue decreased by 3.4% during the 2008 fiscal year. The sales tax rate remained at 3%, with the last rate increase occurring in 2003.

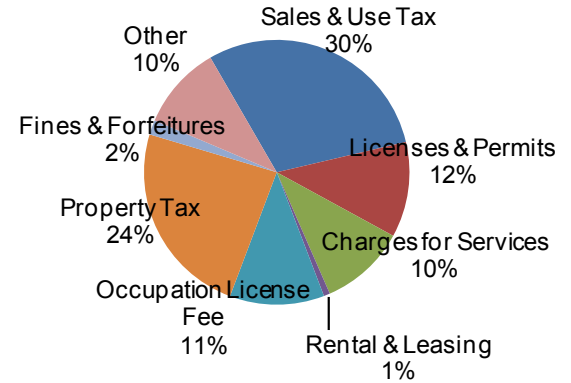
—General property tax revenues improved 12.6%, contributing additional revenue of \$1.9 million to the governmental funds. Growth in property taxes results from expansion of the city limits through voluntary annexations, as well as appreciation in property

values, attributable in part to new construction and improvements.

—Growth in occupation license fees of \$347,536 (4.4%) is evidence of the City's diversified employment base as well as the stabilizing influence of Auburn University as the major employer.

—Revenue from charges for services grew by 5%, primarily from increased solid waste collection fees and E-911 fees. Solid waste and E-911 fees were unchanged during 2008, so the revenue growth resulted from an enlarged customer base.

—Deterioration in the interest rate environment during fiscal 2008 resulted in a lesser amount of interest income by \$771,784, a 38% decline from the prior year.

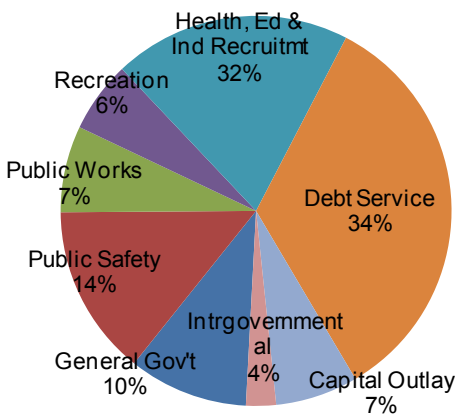


standing debt to obtain lower interest rates; the amount of debt service principal refunded during 2008 was \$20 million. Excluding the effect of the refinancing, the increase in debt service expenditures over the prior year was \$1.6 million (13%).

—The City's payments to component units in 2008 decreased by \$8 million from fiscal 2007 (28.5%). In 2007, large payments were made to the Commercial Development Authority for the development of Exit 57 on Interstate 85 and to the Public Park and Recreation Board for the construction of the Yarbrough Tennis Center, resulting in significant decreases in 2008 related to these component units. The 2008 payment to the Commercial Development Authority was for additional development costs for Exit 57. The Industrial Board received \$3.4 million for construction of infrastructure in the Auburn Technology Park West. The 2008 payments to the Industrial Board also include \$881,507 for incentives funded by the Federal Grant Loan Repayment Fund (Revolving Loan sub-fund).

GOVERNMENTAL EXPENDITURES

The City of Auburn's governmental funds' spending in fiscal 2008 reflects the priorities set by the Council based on the Annual Citizen Survey results. The City has maintained its high funding level for health and education activities.



Total governmental expenditures increased by \$15.2 million (17.6%) in fiscal 2008 from fiscal 2007. The major components of this increase in governmental expenditures was the increase in debt service principal repayments resulting from the City's refunding of debt during 2008.

—Departmental expenditures increased by \$2.7 million. Contributing to the upward trend across all departments were the 3% cost of living adjustment authorized for all regular employees, and spiraling fuel and utilities costs. The most significant increase in spending was seen in Public Safety (\$1.5 million, 11.7%), resulting in part due to additional positions.

—Total debt service expenditures of \$34.4 million in the governmental funds reflect an increase of \$21.7 million over the prior year. The City refinanced some out-

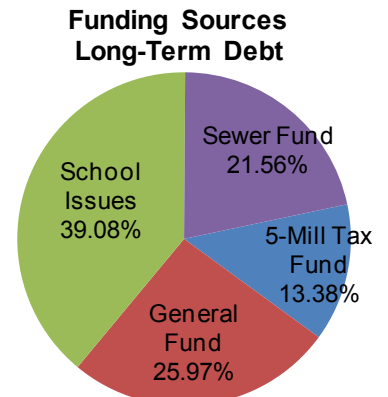
<i>Paid to component units:</i>		FY 2008
General revenues		
provided to City Schools		\$ 6,795,523
Education property taxes		
distributed to City Schools		5,200,000
Comm Dvlp Authority		1,805,170
Public Park & Rec Brd		58,164
Industrial Development Board		6,080,417
Total - Component Units		\$ 19,939,274

LONG-TERM DEBT

At 2008 fiscal year-end, the City had \$161.9 million in long-term debt outstanding, of which \$20.9 million will mature during fiscal 2009. The net increase in long-term debt from the previous year was \$2.9 million or 1.85%. General obligation debt is payable from the City's gen-

eral revenues (the General Fund). 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 le-

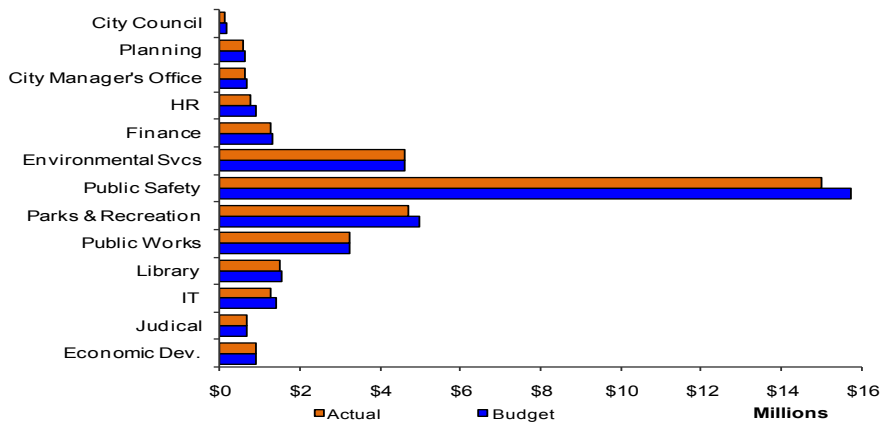
gally restricted for repaying debt issued to finance projects that have been approved by the voters. The percentage of debt service to total expenditures for 2008 is 17.6%. The following chart illustrates the various funding sources for the repayment of the City's long-term debt.



City of Auburn, Alabama

GENERAL FUND DEPARTMENTAL EXPENSES

City Departments Show Controlled Spending



General Fund departmental expenditures totaled \$35.4 million, a 5.7% increase over the prior year and \$1.4 million under final budget. This favorable result is typical for Auburn and results from management's active use of the budget to control expenditures. All departments came in under final budget.

THE SEWER REVENUE FUND

The City currently owns two wastewater treatment plants which are operated by Veolia Water. The Sewer Fund generated operating income of \$820,481 in 2008, a drop of \$1 million from 2007. Operating revenues decreased by \$249,749, in spite of a 5% rate increase; the drop is attributed to rainier weather in 2008. Operating expenses increased by \$793,071 (16.3%); major factors were increased professional services fees (\$300,883), depreciation expense (\$216,124) and utilities (\$100,554). The Sewer Fund's net assets increased by \$154,109 (0.6%) in fiscal year 2008. While total net assets increased, the unrestricted/unreserved component of net assets declined by \$2.3 million pushing the unrestricted/unreserved balance into a deficit position at a negative \$574,995. This was offset by an increase in the amount of net assets invested in capital assets (net of related debt) by \$2.5 million.

ECONOMIC DEVELOPMENT

Auburn's growth is the main contributor to the increase in assessed property values within the City. Other factors include higher median income levels, an award-winning school system, and planned growth, which allows proper zoning to protect property values. The City's economic development efforts have been highly effective. In January 2008, the City hosted a groundbreaking for the location of its first toolmaker, ToolCare US International, LLC. Seohan Auto USA and Seohan-NTN USA moved into a brand new 240,000 square foot facility

in June 2008. Summer 2008 saw the groundbreaking for the first tenant in Auburn Technology Park West. In addition to new industry, several existing industries expanded operations in 2008, including Briggs & Stratton Corporation and Pyongsan America, Inc. In total, new and expanded industry in 2008 represented 433 new jobs and \$74.2 million in capital investment. The Auburn Exchange Shopping Center at Exit 57 now encompasses more than 220,000 square feet of shopping for residents, including a Sam's Club and an Academy Sports + Outdoors store.

FINANCIAL REPORTING AWARDS

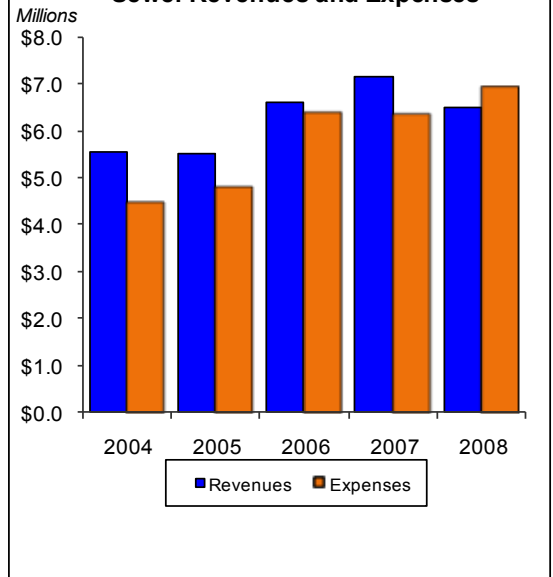
The City received the following awards from the Government Finance Officers Association (GFOA) in 2008:

—Certificate of Achievement for Excellence in Financial Reporting for the year ended September 30, 2007 (twenty-second consecutive year).

—Distinguished Budget Presentation Award for the biennium beginning October 1, 2006,

—Award for Outstanding Achievement in Popular Annual Financial Reporting for the year ended September 30, 2007.

Sewer Revenues and Expenses



Please contact the Finance Department at
(334) 501-7220 with questions about
this financial report.