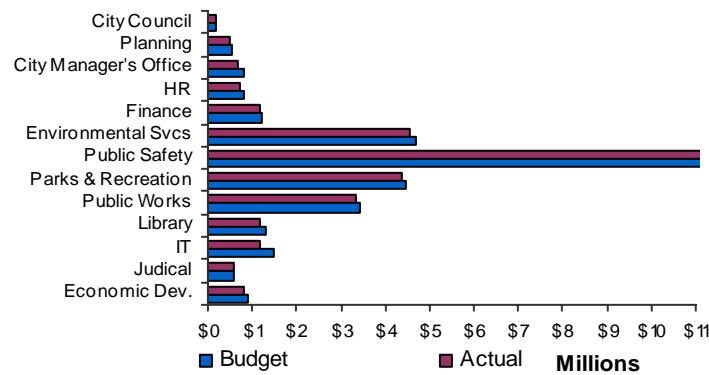


## DEPARTMENTAL EXPENDITURES

General Fund departmental expenditures totaled \$30.4 million, \$2.3 million under final budget. Departmental expenditures in the General Fund increased 7.8% over the previous fiscal year. This favorable result is typical for Auburn and results from management's active use of the budget to control expenditures. All departments, except City Council, came in under final budget

City Departments Show Controlled Spending

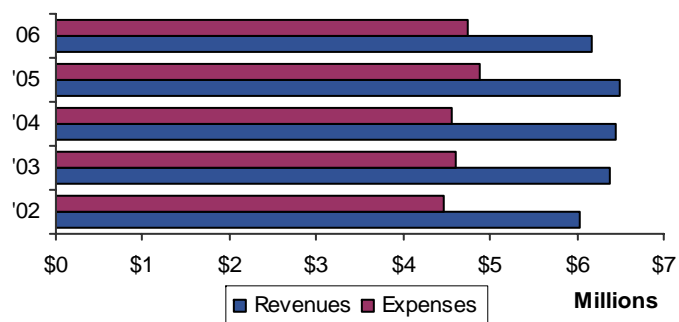


## THE SEWER REVENUE FUND

The City currently owns two wastewater treatment plants which are operated by Veolia Water. The financial activities are recorded in the Sewer Revenue Fund, an enterprise fund. The City's Sewer Revenue Fund has experienced steady revenue and net income growth in response to the expanding customer base. The Sewer Fund generated an operating income of \$1.4 million in fiscal 2006. After non-operating revenues and expenses, the income before operating transfers and capital contributions was \$365,864.

The Sewer Fund also defrays expenses each year through developer contributions of installed sewer lines. In fiscal 2006, this non-cash contribution was valued at \$1.7 million.

Sewer Revenues and Expenses



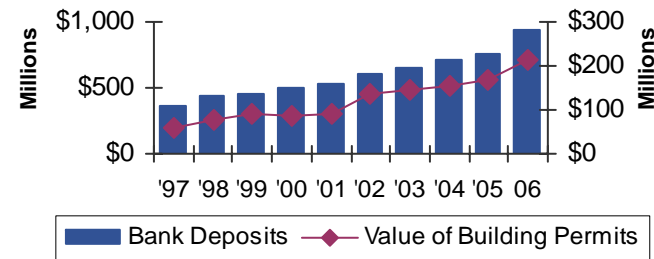
## ECONOMIC GROWTH

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 2006, the City continued its industrial growth with the addition of Nikki

America Fuel Systems, LLC; Cumberland Plastic Systems, LLC; Cylpro Auburn, Inc.; and Aluminum Technology Schmid. Infrastructure improvements are also underway at Auburn's Exit 57 to make way for a new 135,000 square foot Sam's Club, in addition to other restaurants and retailers.

The strength of the City's growth is illustrated by the growth in building permits. The number of building permits issued for single-family detached homes has grown 113% from fiscal 1999. The chart below shows the increases in building permit valuations and in bank deposits within the City for the last 10 years.

Auburn Continues to Grow



## BOND RATING

The City received its most recent bond ratings in December 2006. 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. Together with bonds rated triple A, they comprise what are generally known as investment grade bonds. An obligor rated "double A" is judged to have a very strong capacity to meet its financial commitments.

### 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 matter
- Recruiting and maintaining a highly motivated workforce committed to excellence
- Facilitating citizen involvement

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



# The City of Auburn, Alabama Popular Annual Financial Report

Fiscal Year Ending  
September 30, 2006

## INTRODUCTION

Auburn was founded in 1836 by Judge John J. Harper, who envisioned it as a religious, educational, and cultural center. The City was incorporated on February 2, 1839.

The City covers 56.05 square miles in the western part of Lee County in east central Alabama. Auburn, home to approximately 49,928 residents, is one of the fastest growing communities in Alabama and is the home of Auburn University, the state's largest land-grant university.

The City of Auburn currently operates under a Council-Manager form of government, with eight Council members elected on a non-partisan basis 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, Public Works, Environmental Services, Library, Parks & Recreation, Planning, and Water Resource Management. These departments are staffed by approximately 400 regular, full-time employees.

## ABOUT 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 2006 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 2006 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](http://www.auburnalabama.org/CAFR).

## MAJOR INITIATIVES

During fiscal 2006, the citizens' priorities of school funding, expansion of recreation facilities, construction of industrial infrastructure and traffic flow management were addressed. The City contributed \$6.8 million from its General Fund to the Auburn Board of Education. The City Council

amended the ordinance requiring that a 20-mill property tax equivalent be appropriated to the City Schools from the General Fund each year to provide for an appropriation equivalent to 13% of General Fund revenues. This commitment places Auburn's municipal government among the highest in Alabama in terms of the level of local school support.

There were three debt issuances by the City to finance significant improvements to the City's infrastructure and to provide a higher quality of life to its citizens. On December 13, 2005, the City issued a \$6,000,000 general obligation warrant to fund infrastructure improvement projects in the City including the Bent Creek Interchange and the Auburn Technology Park West. In February 2006, a \$5,000,000 general obligation warrant was issued to finance the design and construction of the infrastructure improvements in the Auburn Research Park. On September 22, 2006, the City issued a \$3,700,000 general obligation warrant to provide financing for the Auburn Tennis Center, which is scheduled for completion during fiscal year 2007. The City, Auburn University and the Public Park and Recreation Board will all participate in designing, constructing and operating the facility.

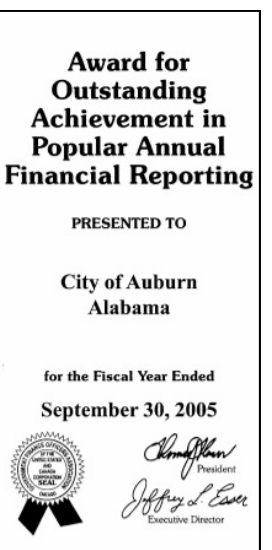
A major initiative during 2006 was the continuation of a joint effort between Auburn University and the Auburn Research and Technology Foundation, with financial support from the State of Alabama and the City of Auburn, to develop a research park. This park will enhance and promote economic development within the region and state, and broaden the research industry in east Alabama. More information about the research park can be found at <http://www.researchpark.auburn.edu>.

## AWARDS

The City received the following awards from the Government Finance Officers Association (GFOA) in 2006:

- Certificate of Achievement for Excellence in Financial Reporting for the year ended September 30, 2005 (twentieth consecutive year).
- Distinguished Budget Presentation Award for the biennium beginning October 1, 2004.
- Award for Outstanding Achievement in Popular Annual Financial Reporting for the year ended September 30, 2005.

The CAFR and PAFR awards are valid for a period of one year only. We believe our CAFR and PAFR continue to conform to the GFOA award program requirements and we have submitted both for review.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### FINANCIAL HIGHLIGHTS

- ◆ The City's *combined* net assets at September 30, 2006 totaled \$10.9 million.
- ◆ Total revenues for all governmental funds were \$85.3 million.
- ◆ Total spending for all governmental funds was \$79.1 million.
- ◆ The General Fund revenues totaled \$50.3 million. Borrowing and transfers provided additional resources of \$1.1 million.
- ◆ General Fund expenditures totaled \$51.2 million.
- ◆ Sewer Fund revenues totaled \$6.2 million.
- ◆ Spending in the Sewer Fund totaled \$4.7 million.
- ◆ The City appropriated \$6.8 million from the General Fund to the Auburn Board of Education.

### TYPES OF FUNDS

#### GOVERNMENTAL 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 these 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

Proprietary funds account for activities the City operates in a manner similar to private businesses. The City of Auburn has two proprietary funds: the Sewer Revenue Fund and the Industrial Park Fund.

#### FIDUCIARY FUNDS

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.

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

### GOVERNMENTAL FUNDS' FINANCIAL ACTIVITIES

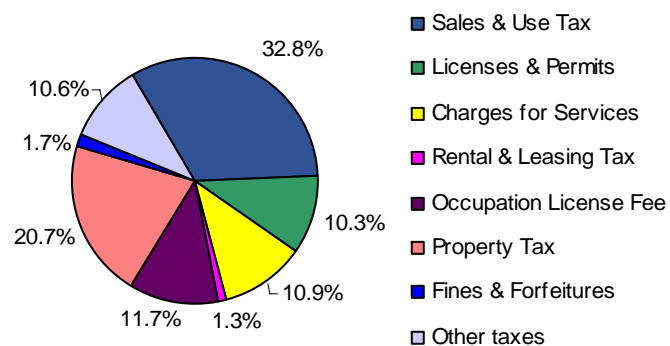
At September 30, 2006, the City's governmental funds reported a combined fund balance of \$49.6 million, a 14% increase from the previous year. These financial activities comprise the major changes in governmental fund balances:

#### GOVERNMENTAL REVENUES

Total revenues of the governmental funds, excluding other financing sources, showed growth of 11% or \$6.2 million over the prior year.

- ◆ Sales and use tax revenue increased by 12.7% over fiscal year 2005. The sales tax rate remained unchanged from the prior year at 3%, with the last rate increase occurring in 2003.
- ◆ Lodging taxes increased by 62.4% (\$416,969) in fiscal year 2006. This growth resulted, in part, from a rate increase in lodging taxes from 4% to 7%, effective February 1, 2006. With the City's influx of visitors to City and Auburn University events, the City utilizes this increase in taxes to fund the extra services required by the added population.
- ◆ General property tax revenues increased 8.1%, contributing additional revenue of \$977,254 to the governmental funds. Growth in property taxes results from expansion of the city limits through voluntary annexations, as well as increases in property values, attributable in part to new construction and rising property values.

#### FY 2006 Governmental Funds Revenues



#### GOVERNMENTAL EXPENDITURES

The City of Auburn's governmental funds' spending in fiscal 2006 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.

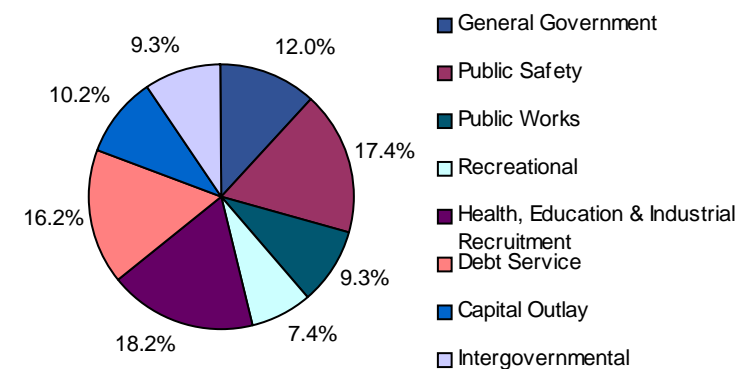
Total governmental expenditures decreased by \$39.9 million (35.6%) in fiscal 2006 from fiscal 2005. The major components of this decrease in governmental expenditures include:

- ◆ A \$31 million decrease in payments to component units. Last fiscal year, a borrowing of \$33 million occurred in July 2005, the proceeds of which were appropriated to the Board of Education for construction and

repairs to school facilities located in Auburn. This increased payments to component units in fiscal 2005 by \$33 million and subsequently decreased by virtually the same amount this year.

- ◆ Debt service increased dramatically in fiscal 2005 due to a payoff of a line of credit originally issued for infrastructure projects both of the City and the Industrial Development Board. Consequently, a decrease of \$12.2 million (51%) occurred in 2006 when debt service payments included only routine payments for debt principal and interest.

#### FY 2006 Governmental Fund Expenditures

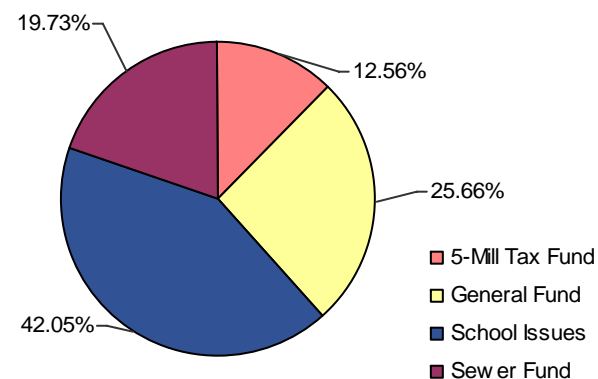


#### LONG-TERM DEBT

At 2006 fiscal year-end, the City had \$155.2 million in long-term debt outstanding, of which \$7.1 million will mature during fiscal 2007. The net increase in long-term debt from the previous year was \$8.6 million or 5.9%. The City's long-term debt is comprised of bonds, warrants and notes payable.

General obligation debt is payable from the City's general 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 legally restricted for repaying debt issued to finance projects that have been approved by the voters. The ratio of debt service to general expenditures is 12.4%, excluding payments on two lines of credit that were replaced with permanent financing. The following chart illustrates the various funding sources for the repayment of the City's long-term debt.

#### Funding Sources for Long-Term Debt



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. The outstanding debt applicable to this limit is \$64.4 million, resulting in a legal debt margin of \$34.6 million.

Although sales and use tax is considered a revenue source subject to variations in the economy, the consistent growth and stable economy of Auburn, in conjunction with the City government's sound management practices, means that debt repayment remains predictable. Auburn has been able to both expand and maintain its infrastructure to meet citizens' needs based on careful financial management in response to citizens' priorities which includes long-term capital planning and financial projection processes.

### THE GENERAL FUND

#### FUND BALANCE

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, 2006, stood at 51% of budgeted 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 2006, the total fund balance of the General Fund increased \$447,386 (1.6%) from the prior year's ending fund balance. The increase in receivables by \$1.0 million led an overall upward trend in the General Fund balance. A change in the residential and commercial rental business license collection schedule, from quarterly to annually, resulted in a year-end receivables accrual of approximately \$772,000. Revenues and other financing sources over expenditures and other financing uses increased fund balance by \$447,385. Deferred revenue also increased by \$661,954 due to delayed availability of revenue receivable for residential and commercial rental business license fees. These changes, together with other smaller changes in the components of assets and liabilities, produced an ending fund balance in the General Fund of \$27.8 million.

#### General Fund Balance

