

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



Kemp & Associates, CPA PC

Certified Public Accountants
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FOR THE YEAR END SEPTEMBER 30, 2012

	PAGE NUMBERS
INTRODUCTORY SECTION	
Organizational Chart	i
Principal Officials	ii
 FINANCIAL SECTION	
Independent Auditor's Report	1 and 2
Management's Discussion and Analysis	3 - 12
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes	
In Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund	
Balances - Budget (GAAP Basis) and Actual - General Fund	19 and 20
Statement of Fiduciary Net Assets – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	22
NOTES TO FINANCIAL STATEMENTS	
Notes to the Financial Statements	23 - 46
REQUIRED SUPPLEMENTARY INFORMATION	
Required Supplementary Information	47

FOR THE YEAR END SEPTEMBER 30, 2012

COMBINING FUND STATEMENTS

Combining Balance Sheet - Nonmajor Governmental Funds 48

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds 49

Combining Balance Sheet - Nonmajor Special Revenue Governmental Funds 50- 53

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Special Revenue Governmental Funds 54-57

COMPLIANCE SECTION

Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards* 58 and 59

Independent Auditor's Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133 60 and 61

Schedule of Expenditures of Federal Awards 62

Notes to Schedule of Expenditures of Federal Awards 63

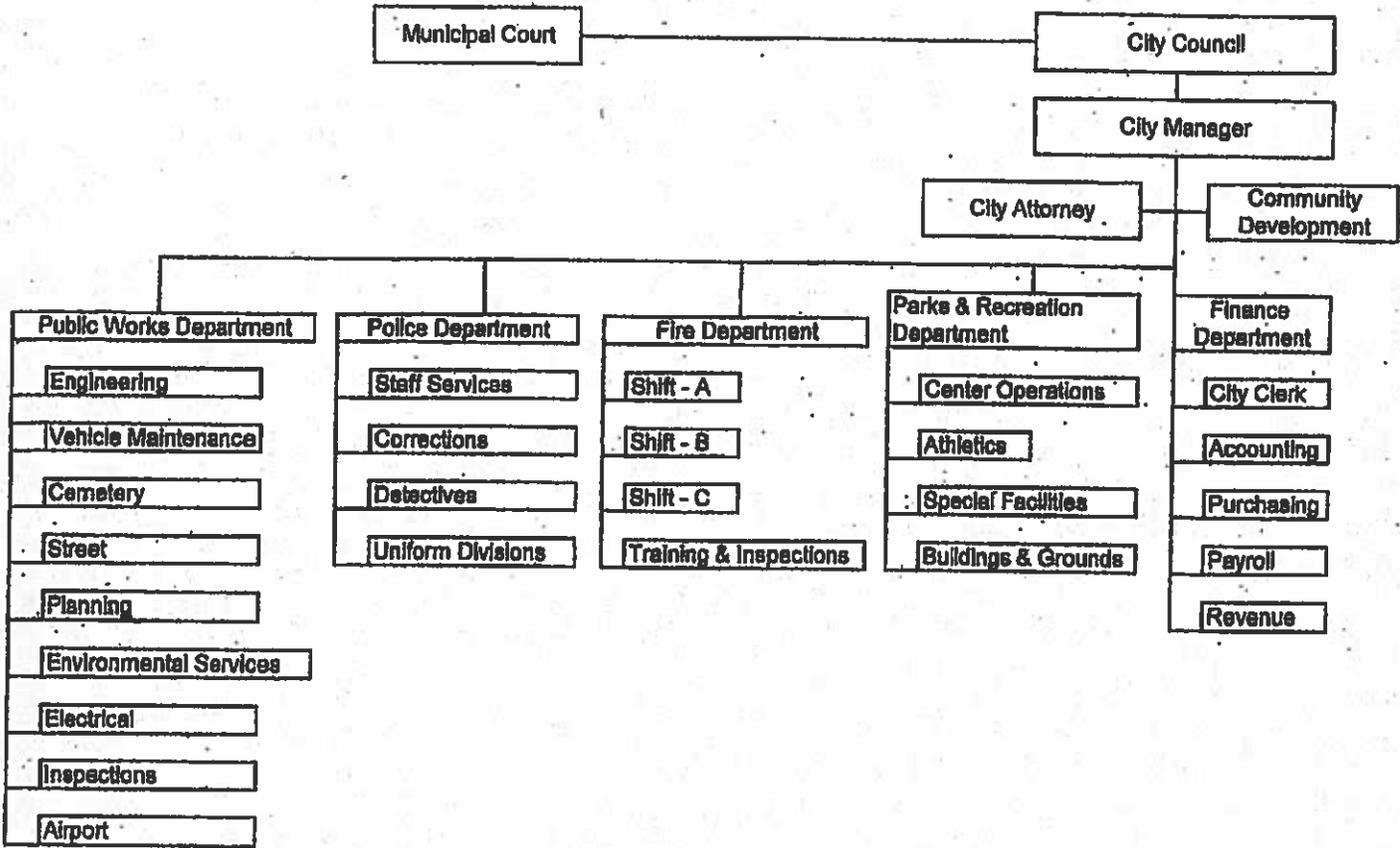
Schedule of Findings and Questioned Costs..... 64 - 70

Schedule of Prior Year Findings 71

Auditee's Response..... 72 and 73

INTRODUCTORY SECTION

ORGANIZATIONAL CHART



FOR THE YEAR END SEPTEMBER 30, 2012

City Council

Gene D. Robinson, Mayor
Jay W. Jenkins
Herbert Palmore
Reverend Benjamin Little
Marcus Dunn

City Council (effective 11/05/2012)

Vaughn Stewart, Mayor
Jay W. Jenkins
David E. Reddick
Seyram Salase
Millie Harris

City Manager

Don A. Hoyt

Finance Director

Danny McCullars, CPA

Other City Officials

Building	Phillip Caldwell, Superintendent
City Clerk	Alan Atkinson, City Clerk
Environmental Services	David Hill, Superintendent
Fire	Tony Taylor, Chief
Grounds	Chris Roberts, Superintendent
Municipal Court	Jennifer Downey, Judge
Municipal Garage	Jim Hill, Superintendent
Police	Layton McGrady, Chief
Public Works	Robert Dean, Director
Community Development	Don A. Hoyt, Interim Director
Recreation	Steven Folks, Director
Streets	Darryl Abernathy, Assistant Superintendent
Streets	Tony Hill, Assistant Superintendent

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council

City of Anniston, Alabama

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anniston, Alabama (the "City"), 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 Anniston, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Anniston City School Board, the Public Library of Anniston/Calhoun County, and the Farley L. Berman Foundation Inc., which represents 98% and 99%, respectively, of the assets and revenue of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based on the reports of the other auditors. We issued a separate audit report dated July 2, 2013, of the financial statements of the Policemen's and Firemen's Retirement Fund, which represents 99% and 100%, respectively, of the assets and revenues of the fiduciary funds.

Except as discussed in the following paragraph, 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. 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 and the reports of other auditors provide a reasonable basis for our opinions.

The financial statements of the Anniston Industrial Development Board, Anniston City Schools Foundation and Spirit of Anniston have not been audited, and we were not engaged to audit these entities' financial statements as part of our audit of the City's basic financial statements. Anniston Industrial Development Board, Anniston City Schools Foundation and Spirit of Anniston are included in the City's basic financial statements as discretely presented component units and represent 2% and 1% of the assets and revenues, respectively, of the City's aggregate discretely presented component units.

In our opinion, based on our audit and the reports of other auditors except for the effects of such adjustments, if any, as might have been determined to be necessary had the Anniston Industrial Development Board, Anniston City Schools Foundation and Spirit of Anniston financial statements been audited, the financial statements referred to previously present fairly, in all material respects, the financial position of the aggregate discretely presented

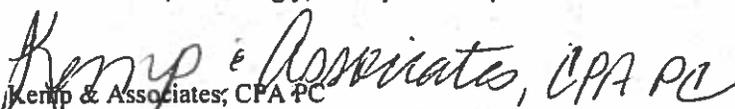
component units for the City of Anniston, Alabama, as of September 30, 2012, and the changes in financial position there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the City of Anniston, Alabama, as of September 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1, the City of Anniston, Alabama implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, as of October 1, 2010.

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2013, on our consideration of the City of Anniston, 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 3 through 10) and the Required Supplementary Information on page 45 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's basic financial statements. The introductory section and combining fund financial statements, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements of the City of Anniston, Alabama. The combining fund financial statements and schedule of expenditures of federal awards have been subjected to the auditing procedures applied, by us and the other auditors, in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Kemp & Associates, CPA PC
Anniston, Alabama
July 31, 2013

FOR THE YEAR END SEPTEMBER 30, 2012

This section of the City of Anniston's ("City") annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and other supplementary information, which follow this narrative.

Financial Highlights

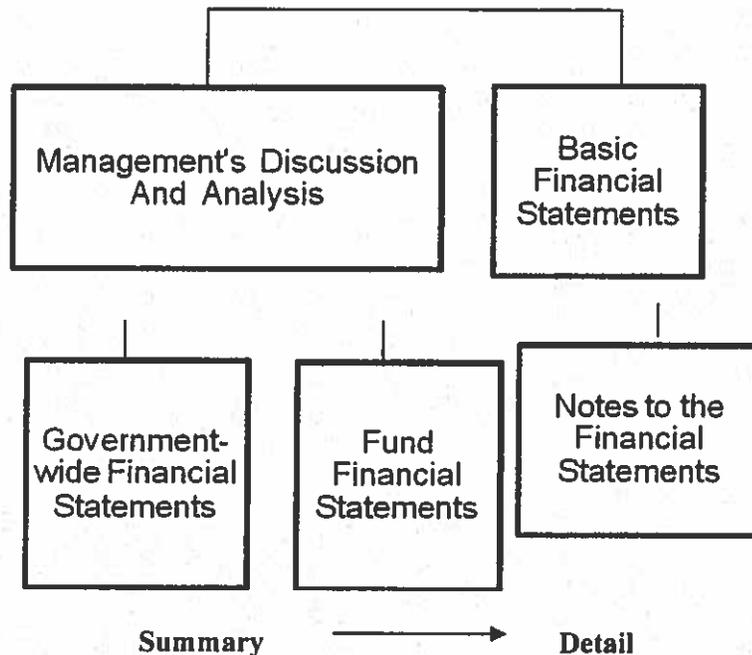
- The assets of the City of Anniston (primary government) exceeded its liabilities at the close of fiscal year 2012 by \$85.76 million. The assets of the City's component units exceeded their liabilities by \$29.94 million. Of the \$85.76 million in primary government net assets, \$3.61 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$29.50 million. The combined governmental funds fund balance decreased by \$20.02 million compared with the prior year. Of the \$29.50 million in fund balance, \$9.92 million is available for spending at the government's discretion (unassigned fund balance).
- The general fund ended the current year with a fund balance of \$10.13 million, down from \$10.82 million in 2011. The 2012 ending fund balance of the General Fund represents 31.8 percent of total general fund operating expenditures.
- In the fiscal year 2012, the City of Anniston realized a deficiency of operational revenues over expenditures in the general fund of \$181,519. However, the fund balance of the General Fund decreased by \$681,537 due to net transfers from the general fund to capital projects funds and debt service funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Anniston's basic financial statements. The basic financial statements consist of three components: 1. government-wide financial statements, 2. fund financial statements, and 3. notes to the financial statements (see figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Anniston. The following diagram shows how the required components of this annual report are arranged and relate to one another.

FOR THE YEAR END SEPTEMBER 30, 2012

**Required Components of Annual Financial Report
(Figure 1)**



Government-wide Financial Statements

The government-wide 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. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

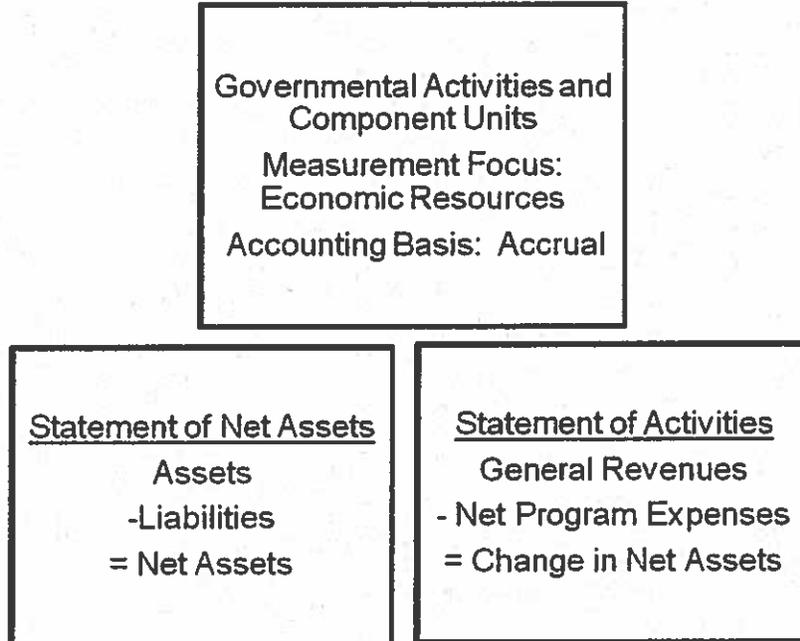
The government-wide financial statements of the City are divided into two categories:

Governmental Activities – Most of the City's basic services are included here such as the police, fire, public works, parks and recreation, and general administration. Sales, use and property taxes, charges for services, and state and federal grants finance most of these activities.

Discretely Presented Component units – The City includes other legally separate entities in its report including the board of education, the museum complex, the public library, Spirit of Anniston, and industrial development board, and a school support entity. The City is financially accountable for these entities.

FOR THE YEAR END SEPTEMBER 30, 2012

Government-wide Financial Statements



The statement of net assets includes all of the government's assets and liabilities except fiduciary funds. The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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 accounting groups that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by federal or state law while some are required by grant agreements. Other funds are established to control and manage City resources designated for specific purposes.

The City uses two types of funds:

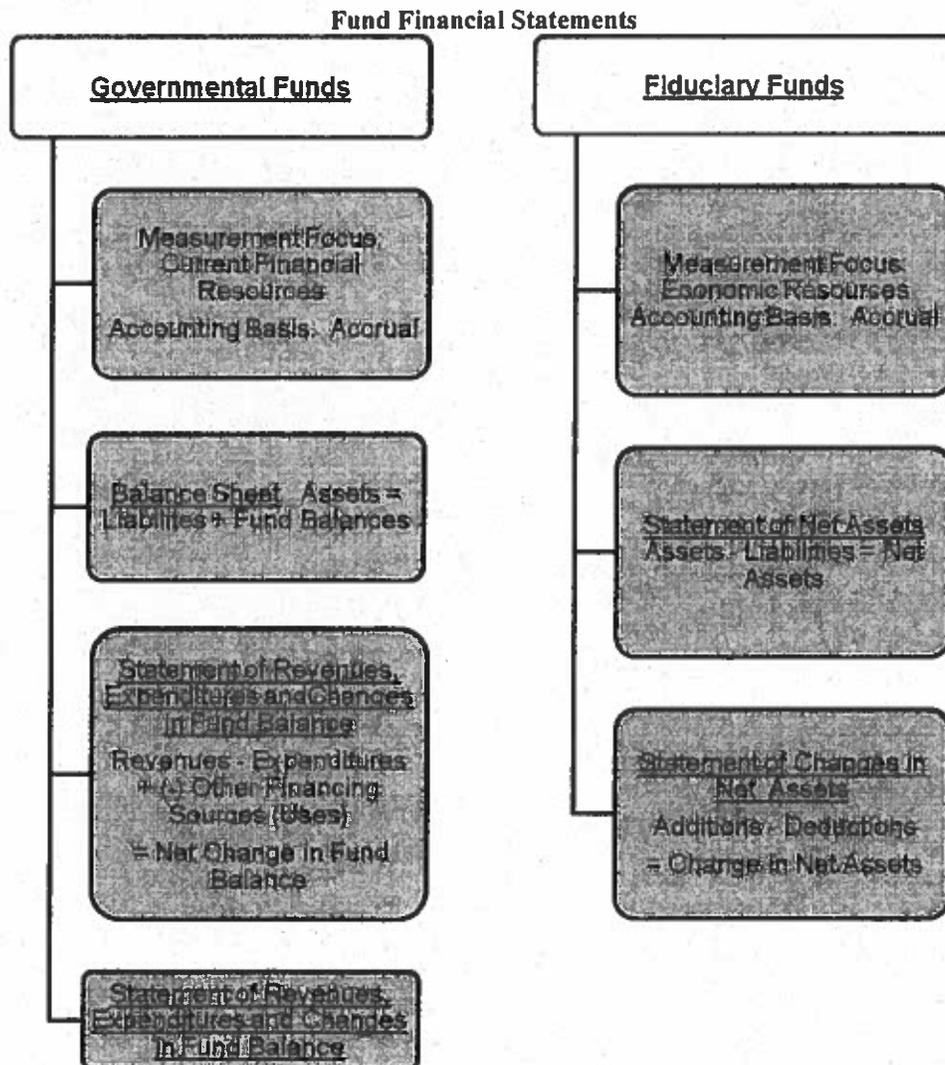
Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow into and out of the funds and (2) the balances left at year-end that are available for spending. Because the focus on governmental funds is narrower than that of the government-wide financial 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. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

FOR THE YEAR END SEPTEMBER 30, 2012

The City of Anniston adopts an annual appropriated budget for its general fund and other funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary Fund – The fiduciary fund statement reflects the financial relationship with the Policemen’s and Firemen’s Retirement Fund which provides benefits exclusively for certain public safety employees. This fund is excluded from the City’s government-wide financial statements because the City cannot use these assets to finance operations. In 2011, the City began to present the appropriate portion of the municipal court transactions as an agency fund to delineate the fiduciary nature of those transactions.

The following diagram presents the major features of the fund financial statements including the types of information contained therein.



FOR THE YEAR END SEPTEMBER 30, 2012

Notes to the Financial Statements

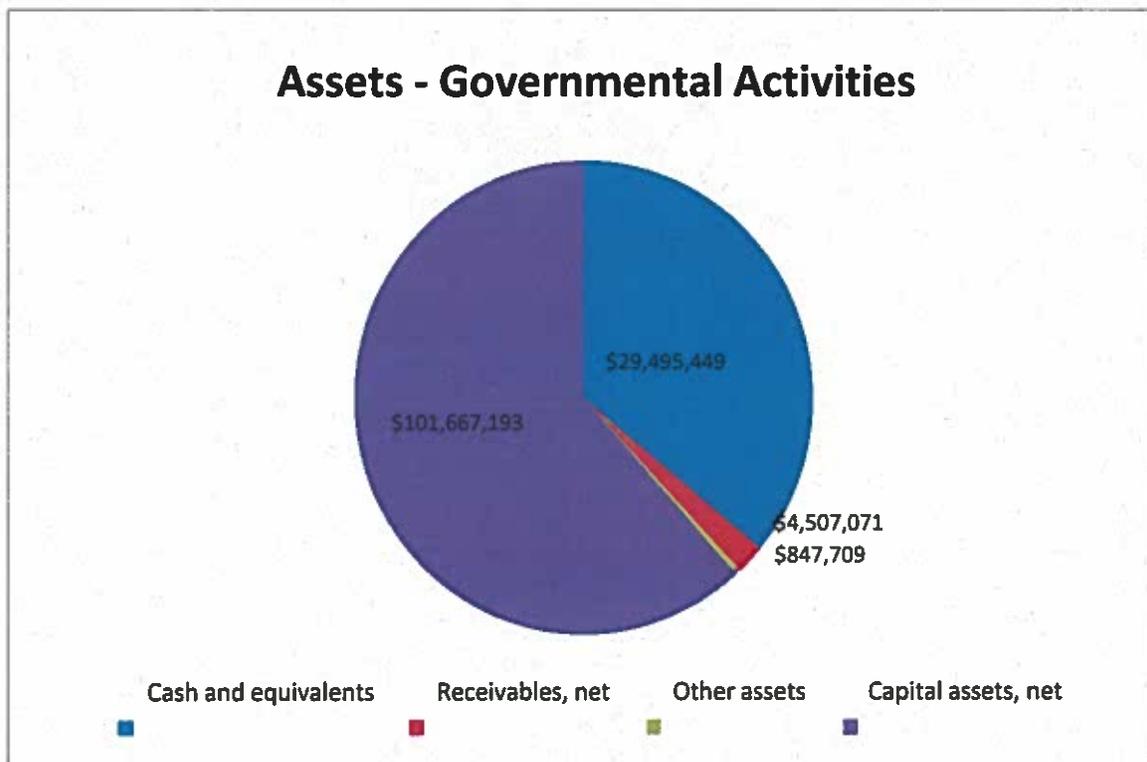
The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Other Information

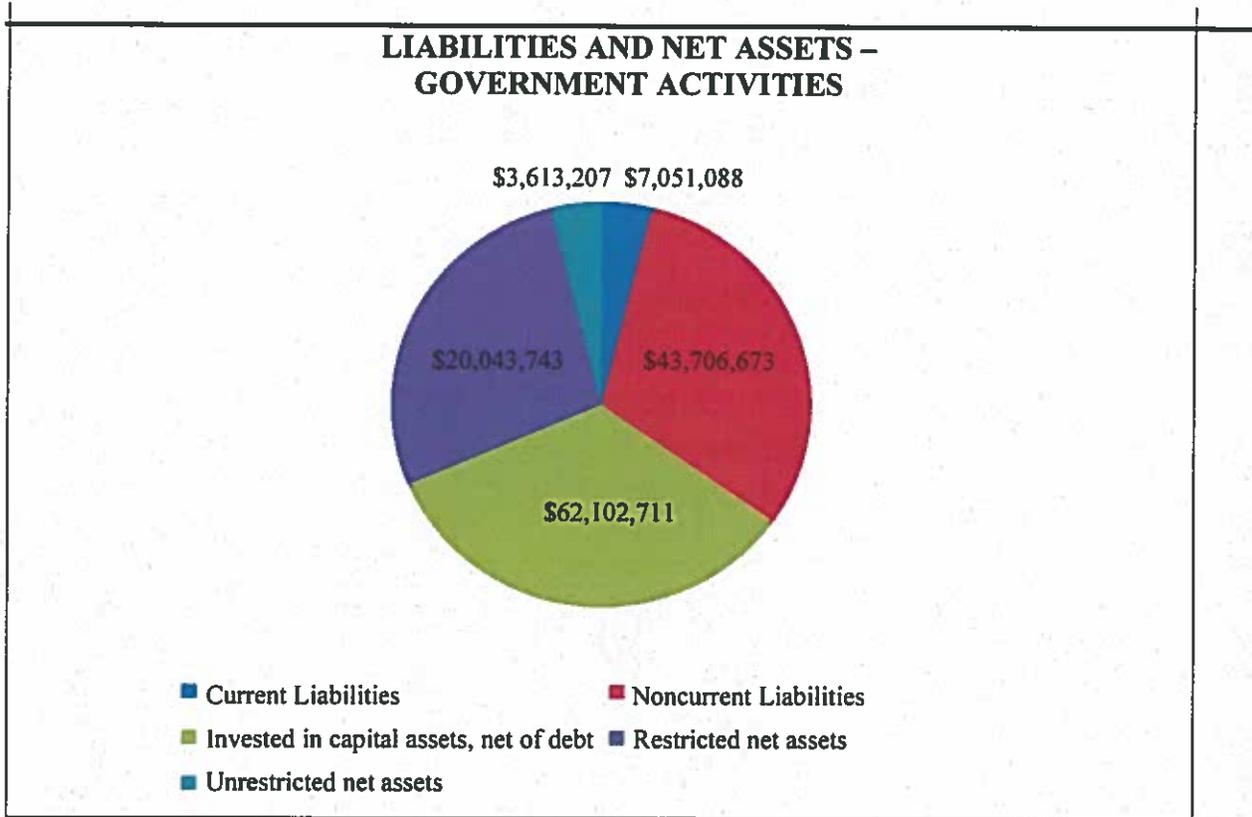
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information that should be considered in the evaluation of the City's financial position.

Government-wide Financial Analysis

The government-wide financial statement for the fiscal year ended September 30, 2003, was the first of a new format of reports for the City. The accounting year 2004 and subsequent years follow this format. The changes in the financial statements are in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34. The City has accounted for all infrastructure assets and has included them in this presentation. The following charts summarize the Statement of Net Assets for the Primary Government's activities



FOR THE YEAR END SEPTEMBER 30, 2012



The assets of the City of Anniston (primary government) exceeded its liabilities by \$85.76 million as of September 30, 2012. However, the largest portion (72.41 percent) reflects the City's investment in capital assets less any related debt still outstanding that was issued to acquire those assets. The City of Anniston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. Additionally, \$20.05 million represents net assets that are subject to external or Council placed restrictions on how they may be used. The balance of \$3.61 million is unrestricted.

Financial Analysis of the City's Funds

As noted earlier, the City of Anniston uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

FOR THE YEAR END SEPTEMBER 30, 2012

Governmental Funds

The focus of the City of Anniston's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Anniston's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. The General Fund is the chief operating fund of the City of Anniston. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9,917,677, compared with \$10,611,927 at the end of 2011. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 31.11 percent of total general fund expenditures at the end of 2012.

General Fund Budgetary Highlights

The Revenues for the year were \$212,112 below the budgeted amount.

Expenditures for the year before transfers were \$661,796 over budgeted amounts. The primary source of the overage was capital outlay expenditures incurred through capital lease obligations.

Capital Asset and Debt Administration

Capital Assets: The City of Anniston's investment in capital assets for its governmental activities as of September 30, 2012 totals \$101,667,193 (net of accumulated depreciation). These assets include infrastructure, buildings, land, machinery and equipment, facilities and vehicles, as well as the collection at the Anniston Museum.

Additional information about the City of Anniston's capital assets can be found in Note 5 in the Notes to the Financial Statements.

Long-term Debt: As of September 30, 2012, the City of Anniston had bonds and warrants outstanding of \$37,965,228, of which \$31,170,000 is bond debt related to the blended component unit, the City of Anniston Public Building Authority (the "PBA"). The PBA debts consist entirely of building revenue warrants whose debt service obligations are covered by the revenue generated by executed leases on the related buildings. In addition, the City is participating in regional economic development that specifically funded certain infrastructure at Honda Manufacturing of Alabama's plant in Lincoln, Alabama, fifteen miles away. The amount outstanding for this commitment is \$394,900.

During the fiscal year ended September 30, 2011, the City took advantage of recovery zone interest incentives offered by the American Recovery and Reinvestment Act. The maximum stimulus was utilized and general obligation warrant series 2010B was issued in the amount of \$5,380,000, the amount apportioned by the State of Alabama through Calhoun County. In addition, and at the same time of the 2010B in October, 2010, Series 2010A was issued in the amount of \$2,060,000, which included refinancing Series 1998 warrant principal of \$440,000, thereby liquidating that warrant. The purpose of these combined warrants was to construct a state of the art aquatic complex capable of generating substantial fees, while closing three antiquated facilities. Approximately \$1.2 million of this issuance was dedicated to public works street improvements. The net negative cash flow will be marginal due to revenues and efficiencies gained.

FOR THE YEAR END SEPTEMBER 30, 2012

The City of Anniston created the PBA to facilitate the construction of the Calhoun County Department of Human Resources complex on a federally declared Brownfield site, appropriately remediated. The PBA issued a warrant in February, 2011 in the amount of \$16,170,000 (DHR Series 2011). The lease payments to satisfy the warrant debt service will be paid directly by the State of Alabama to Regions Bank, trustee. Construction is under way and completion date is projected in December, 2012.

In August, 2011, the PBA issued \$15,000,000 of revenue warrants for the Justin Sollohub Justice Center. This new municipal complex will house the municipal court, police department, and municipal jail, replacing a sixty year old facility. Alabama law permits the usage of the corrections fund to pay for the court and jail components and it is anticipated that approximately 65 percent of the debt service, in the form of a lease payment to the PBA will come from the corrections fund, while the remaining portion of the lease will be paid from the general fund. It is anticipated to be completed in May of 2013.

Economic Factors and Next Year's Budget

Regionally, the economy continues on pace for relatively low growth. The Anniston Army Depot, once employing up to 7,000 people at the height of the Iraq and Afghanistan wars, has leveled at about 3,500 civilian civil service and contracted employees. Additionally, the civilians in the workforce are to be subject to furloughs due to sequestration. The health care marketplace in Anniston continues to be strong. Regional Medical Center, the largest employer within the city limits, continues to adapt and grow responding to the realities of the Affordable Care Act. In early 2013, Regional Medical Center bought Jacksonville Hospital, entrenching their presence as the hub of northeast Alabama health care.

The City of Anniston has an opportunity that has gained much interest from the development community. The map on the ensuing page diagrams the dynamics of Veterans Memorial Parkway, US Highway 431 (connecting to I20 and I59), and Alabama Highway 21 (connecting to I20). This infrastructure, the completion of which was funded by the American Recovery and Reinvestment Act, intersects in north Anniston. The commercial possibilities are intriguing to developers. On the property to the north of the interchanges, the Anniston City Board of Education has voted to abandon the site of the current middle school. This property, accompanied by property previously purchased by the City in 2006, equates to approximately 80 acres of contiguous developable real estate. The closure of the middle school is projected at about the same time the Veterans Parkway is completed, opening the door in early 2015 to development. Early projections are a development associated with this property could yield a minimum of \$2 million in additional consumption tax, and spin off many new businesses. The infrastructure is in place to easily accommodate growth in north Anniston.

In early 2013, a financing cooperative was formed to complete Iron Mountain Road. This infrastructure will accompany the simultaneous upgrades to the McClellan Industrial Park. The combined project, further opening up Anniston and the surrounding cities to potential new jobs, is \$8.5 million. The match of these US and Alabama grant dollars is approximately \$1.7 million. This match is a cooperative effort of Anniston, Calhoun County, Town of Ohatchee, City of Weaver, City of Jacksonville, Jacksonville State University and other public and non-governmental entities. Attracting jobs to a 'plug and play' industrial hub is of regional benefit. The city's partners has recognized it as such.

Risks

The number one risk to future budgets of the City of Anniston remains its entitlement programs. The City has two retirement plans to which it contributes on behalf of its employees. The Police and Fire Retirement Fund only

FOR THE YEAR END SEPTEMBER 30, 2012

includes sworn police and fire officers. The City's general employees are covered by the retirement systems of Alabama. As reflected in the notes to these financial statements, the general employee unit of the city is approximately 75 percent funded at the last measurement date. This represents approximately \$6.6 million in unfunded liabilities. The police and fire fund is 33 percent funded as of 10/01/2011. This represents approximately \$39.4 million in unfunded costs accrued. Concentrating on the police and fire retirement fund, changes went in place on October 1, 2012. Changes involved creating a five member board with two city representatives, one each active fire and policeman, and one retired officer. The Alabama legislature gave the Board wide latitude in making changes to the plan to ensure a path to fiscal sustainability is visited frequently. Contributions by employees were increased, benefits to 25 year service individuals were capped at a 2.5 multiplier. The actuarial valuation is pending at 9/30/2012. The expectation is the additional \$1.7 million of cash influx from the City of Anniston in 2013, and the changes to the plan, could be enough to somewhat stabilize the plan. However, it remains in question the extent to which the actuarial accrued liability is projected to be addressed. The Board of Trustees of the police and fire retirement plan can, with a supermajority vote, address deficiencies. Budgetary issues should make it difficult for the City of Anniston to contribute materially more funding.

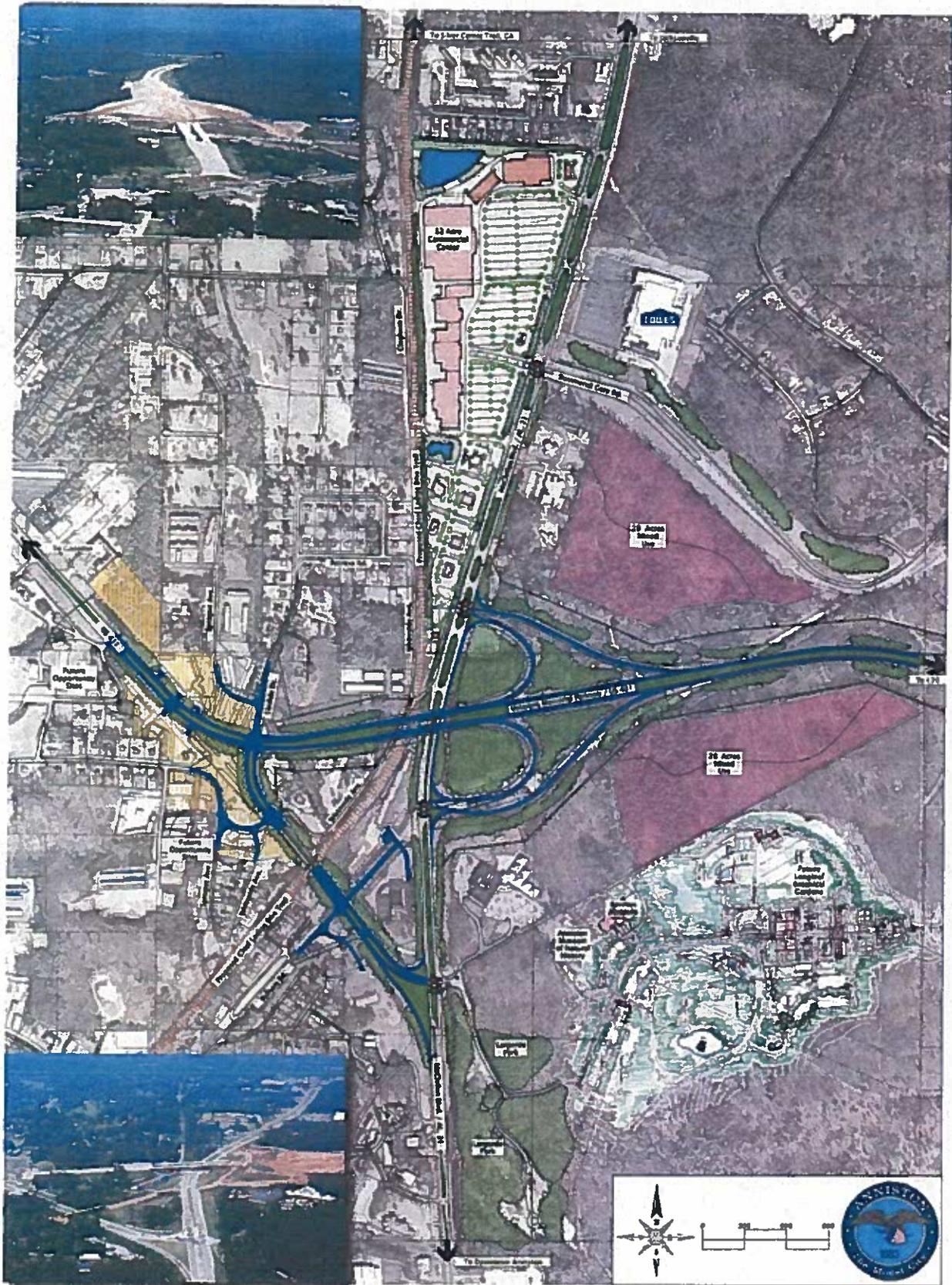
Another significant entitlement is the Retiree Health Care Plan of the City of Anniston. As of 10/1/2011, the unfunded entitlement is \$13.7 million. In late 2012, the current Council passed a resolution repealing a previous resolution that capped premiums, therefore eliminating over \$4 million in the unfunded liability. Nevertheless, the unfunded portion of the retiree health plan is approximately \$10 million.

Opportunities

The City of Anniston has partnered with local industry, non-governmental organizations, and the public to create what will be the premier mountain biking venue in the SE United States at Coldwater Mountain. See the Northeast Alabama Bicycle Association for more information as to the momentum of this project (www.neaba.org). This is an opportunity in addition to the Chief Ladiga Trail completion. There are seven unfinished miles of paved street bike trail connecting downtown Anniston with downtown Atlanta GA. Ladiga is a long term project, expected to be fulfilled within seven years. The Coldwater Mountain wilderness trails, within the city limits of Anniston, are nearing completion of the first 26 miles, with two trailheads. Economic impact studies promise windfall for Calhoun County from this year round unique tourist destination.

Questions or Comments

Any questions or comments about this document should be addressed to Danny McCullars, CPA, and Finance Director. The finance director's email is dmccullars@anniston.al.gov.



**VETERANS MEMORIAL PARKWAY
NORTH ANNISTON DEVELOPMENT CENTER
ANNISTON, AL**

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	Primary Government	
	Governmental Activities	Total
ASSETS		
Current Assets		
Cash	7,952,336	7,952,336
Investments	5,157,311	5,157,311
Cash bonds on hand	22,275	22,275
Taxes receivable, net	1,895,572	1,895,572
Accounts receivable, net	575,318	575,318
Notes receivable	985,273	985,273
Interest receivable	3,262	3,262
Due from agency fund	165,083	165,083
Due from other governments	882,563	882,563
Inventory	49,566	49,566
Prepaid items	178,634	178,634
Other Assets	256,765	256,765
Total current assets	18,123,958	18,123,958
Non-current Assets		
Restricted Assets:		
Cash	16,385,802	16,385,802
Investments		
Other assets		
Deferred charges - bond issuance costs	340,469	340,469
Capital assets		
Non-depreciable assets	42,381,340	42,381,340
Depreciable assets, net of accumulated depreciation	59,285,853	59,285,853
Total non-current assets	118,393,464	118,393,464
TOTAL ASSETS	136,517,422	136,517,422
LIABILITIES		
Current Liabilities		
Salaries and benefits payable	286,856	286,856
Accounts payable	2,396,939	2,396,939
Accrued liabilities	924,914	924,914
Cash bond liabilities	137,594	137,594
Due to agency fund	48,132	48,132
Retainage payable	549,448	549,448
Unearned revenues	1,297,177	1,297,177
Loan Payable		
Capital leases payable - current	217,059	217,059
Bonds payable - current	245,000	245,000
Net other post employment benefits obligation	311,800	311,800
Intergovernmental agreement - current	125,040	125,040
Compensated absences payable	511,129	511,129
Total current liabilities	7,051,088	7,051,088
Long-term Liabilities		
Capital leases payable (net of current portion)	545,994	545,994
Compensated absences payable - long term	2,044,518	2,044,518
Net other post employment benefits obligation	3,125,983	3,125,983
Intergovernmental agreement - long term	269,950	269,950
Bonds payable (net of current portion)	37,720,228	37,720,228
Total long term liabilities	43,706,673	43,706,673
TOTAL LIABILITIES	50,757,761	50,757,761
NET ASSETS		
Invested in capital assets, net of related debt	62,102,711	62,102,711
Restricted for:		
Public safety	6,282,239	6,282,239
Road improvements	1,862,360	1,862,360
Culture and recreation	27,307	27,307
Housing and development	794,048	794,048
Capital projects	11,077,789	11,077,789
Other purposes:		
Debt service	-	-
Grants	-	-
Endowment fund	-	-
Unrestricted	3,613,207	3,613,207
TOTAL NET ASSETS	85,759,661	85,759,661
TOTAL LIABILITIES AND NET ASSETS	136,517,422	136,517,422

CITY OF ANNISTON, ALABAMA

Anniston City Board of Education	Public Library of Anniston/ Calhoun County	Anniston Industrial Dev. Board	Farley L. Berman Foundation, Inc.	Public Education Foundation of Anniston	Spirit of Anniston	Total
3,734,287	238,717	304,750	205,469	42,812	26,620	4,552,655
57,556	86,484	263,300	-	-	55,632	462,972
-	-	-	-	-	-	-
3,249,146	34	-	-	-	-	3,249,180
-	-	-	-	-	-	-
44,456	-	-	3,368	-	-	47,824
43,918	14,596	-	-	-	-	14,596
7,129,363	339,831	568,050	208,837	42,812	82,252	8,371,145
-	-	-	30	-	-	-
1,530,929	-	-	-	-	-	1,530,929
41,885	-	-	30	-	-	41,915
1,404,063	25,907	-	8,684,449	-	2,000	10,116,419
15,690,307	459,559	-	59,523	-	105,905	16,315,294
18,667,184	485,466	-	8,744,002	-	107,905	28,004,557
25,796,547	825,297	568,050	8,952,839	42,812	190,157	36,375,702
1,181,058	-	-	-	-	904	1,181,962
38,868	39,701	-	2,140	-	138	80,847
-	-	-	3,474	-	-	3,474
-	-	-	-	-	-	-
2,457,383	-	-	-	1,750	-	2,457,383
-	-	-	-	-	-	1,750
46,645	-	-	-	-	-	46,645
-	-	-	-	-	-	-
-	-	-	5,437	-	-	5,437
3,723,954	39,701	-	11,051	1,750	1,042	3,777,498
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,654,650	-	-	-	-	-	2,654,650
2,654,650	-	-	-	-	-	2,654,650
6,378,604	39,701	-	11,051	1,750	1,042	6,432,148
14,433,066	485,466	-	-	-	107,905	15,026,437
-	-	-	-	-	-	-
-	4,691	-	-	-	-	4,691
-	-	-	-	-	-	-
171,977	-	21,369	-	-	-	193,346
1,530,929	-	-	-	-	-	1,530,929
6,374	-	-	-	-	-	6,374
-	86,484	-	8,535,642	-	-	8,622,126
3,275,597	208,955	546,681	406,146	41,062	81,210	4,559,651
19,417,943	785,596	568,050	8,941,788	41,062	189,115	29,943,554
25,796,547	825,297	568,050	8,952,839	42,812	190,157	36,375,702

See accompanying notes to the basic financial statements

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes In Net Assets	
	Expenses	Charges for Services, Sales and Fines	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Total
PRIMARY GOVERNMENT:						
Governmental Activities						
General government	8,241,230	-	-	-	(8,241,230)	(8,241,230)
Judicial	601,910	9,093	18,187	-	(574,630)	(574,630)
Public safety	13,398,677	5,270,483	74,746	485,439	(7,568,009)	(7,568,009)
Public works	9,804,978	944,117	33,393	683,666	(8,143,802)	(8,143,802)
Housing and development	1,353,385	79,258	1,110,401	-	(163,726)	(163,726)
Culture and recreation	8,028,283	1,331,250	71,080	94,243	(6,531,710)	(6,531,710)
Interest on debt	1,949,756	-	-	-	(1,949,756)	(1,949,756)
Total Governmental Activities	43,378,219	7,634,201	1,307,807	1,263,348	(33,172,863)	(33,172,863)
Component Units						
Anniston City Board of Education	24,344,847	1,666,318	15,524,997	451,130	-	-
Public Library of Anniston/Calhoun County	1,219,207	39,445	881,382	301,750	-	-
Anniston Industrial Dev. Board	-	-	-	-	-	-
Farley L. Berman Foundation, Inc.	233,661	38,823	363,876	-	-	-
Anniston City Schools Foundation	-	-	-	-	-	-
Public Education Schools Foundation	102,004	-	112,485	-	-	-
Spirit of Anniston	94,925	9,515	108,550	-	-	-
Total Component Units	25,994,644	1,754,101	16,991,290	752,880		
GENERAL REVENUES:						
Taxes:						
Property					5,573,069	5,573,069
Sales					18,639,434	18,639,434
Alcoholic beverage					181,402	181,402
Other					2,367,990	2,367,990
Grants and contributions not restricted for specific programs						
Interest earned					103,927	103,927
Miscellaneous					926,897	926,897
Total General Revenues					27,792,719	27,792,719
Change in Net Assets					(5,380,144)	(5,380,144)
NET ASSETS, BEGINNING					91,139,805	91,139,805
NET ASSETS, END					85,759,661	85,759,661

CITY OF ANNISTON, ALABAMA

Net (Expense) Revenue and Changes in Net Assets						
Component Units						
Anniston City Board of Education	Public Library of Anniston/ Calhoun County	Anniston Industrial Dev. Board	Farley L. Berman Foundation, Inc.	Public Education Foundation	Spirit of Anniston	Total Component Units
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(6,702,402)	-	-	-	-	-	(6,702,402)
-	3,370	-	-	-	-	3,370
-	-	-	169,038	-	-	169,038
-	-	-	-	10,481	-	10,481
-	-	-	-	-	23,140	23,140
(6,702,402)	3,370	-	169,038	10,481	23,140	(6,496,373)
4,552,823	-	-	-	-	-	4,552,823
1,680,077	-	-	-	-	-	1,680,077
101,355	-	-	-	-	-	101,355
62,285	-	-	-	-	-	62,285
149,818	-	-	-	-	-	149,818
25,779	1,789	2,835	188	-	36	30,627
437,733	18,517	-	3,125	933	884	461,192
7,009,870	20,306	2,835	3,313	933	920	7,038,177
307,468	23,676	2,835	172,351	11,414	24,060	541,804
19,110,475	761,920	565,215	8,769,437	29,648	165,055	29,401,750
19,417,943	785,596	568,050	8,941,788	41,062	189,115	29,943,554

See accompanying notes to the basic financial statements

**BALANCE SHEET -
GOVERNMENTAL FUNDS**

CITY OF ANNISTON, ALABAMA

SEPTEMBER 30, 2012

	General	Public Building Authority	Major Special Revenue Fire Tax Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash equivalents	2,084,867			5,867,469	7,952,336
Investments	3,366,027		1,170,222	421,062	5,157,311
Cash bonds on hand				22,275	22,275
Taxes receivable, net of allowance	1,895,572			3,262	1,898,834
Accounts receivable, net of allowance	95,774	381,839		97,705	575,318
Notes receivable				985,273	985,273
Prepaid items	167,169			11,465	178,634
Inventories	49,566				49,566
Other Assets		256,765			256,765
Due from other funds	3,487,765			656,958	4,144,723
Due from agency fund	165,083				165,083
Due from other governments	137,549		8,654	736,360	882,563
Restricted Cash		12,427,097	3,635,892	322,813	16,385,802
TOTAL ASSETS	11,649,372	13,065,701	4,814,768	9,124,642	38,654,483
LIABILITIES					
Salaries & Benefits Payable	286,856				286,856
Accounts payable	398,308	1,879,424	12,498	106,509	2,396,939
Retainage payable		549,448			549,448
Accrued liabilities	283,430			14,263	297,693
Cash bond liabilities				137,594	137,594
Due to other funds	422,212	291,838	548,033	2,882,640	4,144,723
Due to agency fund				48,132	48,132
Deferred revenue	123,954			1,173,223	1,297,177
TOTAL LIABILITIES	1,514,960	2,720,710	560,531	4,362,361	9,158,562
FUND BALANCES					
Nonspendable					
Prepaid items	167,169			11,465	178,634
Inventories	49,566				49,566
Restricted for:					
Public safety			4,254,237	2,028,002	6,282,239
Road improvements				1,862,360	1,862,360
Court activities					
Culture and recreation				27,307	27,307
Housing and development					
Capital projects		10,344,991			10,344,991
Committed for:					
Culture and recreation				969,703	969,703
Capital projects				183,350	183,350
Assigned for:					
Housing and development				794,048	794,048
Unassigned	9,917,677			(1,113,954)	8,803,723
TOTAL FUND BALANCES (DEFICIT)	10,134,412	10,344,991	4,254,237	4,762,281	29,495,921
TOTAL LIABILITIES AND FUND BALANCES	11,649,372	13,065,701	4,814,768	9,124,642	38,654,483

See accompanying notes to the basic financial statements

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

CITY OF ANNISTON, ALABAMA

SEPTEMBER 30, 2012

TOTAL GOVERNMENTAL FUND BALANCES			29,495,921
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			
	Cost	195,548,098	
	Less Net cost of capital assets disposed	<u>(93,880,904)</u>	101,667,194
Net other post employment benefits obligations are not due and payable in the current period and therefore are not reported in the funds.			
		<u>(3,437,783)</u>	(3,437,783)
Long-term liabilities are not due and payable in the current period and there for are not reported in the fund statements.			
	Compensated absences	2,555,647	
	Intergovernmental agreement	394,990	
	Bonds payable	38,370,000	
	Capital leases	763,053	
	Unamortized deferred items	(404,772)	
	Unamortized bond issuance cost	(340,469)	
	Accrued interest	<u>627,222</u>	<u>(41,965,671)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES			<u>85,759,661</u>

See accompanying notes to the basic financial statements

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	General	Public Building Authority	Major Special Revenue Fire Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Intergovernmental	131,236	-	-	2,439,919	2,571,155
Fines and forfeitures	13,894	-	-	1,516,508	1,530,402
Charges for services	2,138,055	-	-	245,205	2,383,260
Taxes	25,491,649	-	812,260	457,986	26,761,895
Licenses and permits	3,720,539	-	-	-	3,720,539
Interest earned	32,819	45,990	12,030	13,088	103,927
Miscellaneous	174,692	-	-	669,200	843,892
TOTAL REVENUES	31,702,884	45,990	824,290	5,341,906	37,915,070
EXPENDITURES					
Current:					
General government	6,812,834	-	-	-	6,812,834
Judicial	-	-	-	601,910	601,910
Public safety	11,244,514	-	488,476	1,175,835	12,908,825
Public works	5,971,843	-	-	932,569	6,904,412
Culture and recreation	6,551,924	-	-	1,116,591	7,668,515
Housing and development	-	-	-	1,252,067	1,252,067
Capital outlay	1,135,896	16,997,471	692,994	1,337,523	20,163,884
Debt Service					
Principal	133,953	-	-	358,739	492,692
Interest	33,439	1,456,553	-	337,382	1,827,374
Bond Issue Costs	-	-	-	3,050	3,050
Fiscal agent fees	-	12,776	-	-	12,776
TOTAL EXPENDITURES	31,884,403	18,466,800	1,181,470	7,115,666	58,648,339
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(181,519)	(18,420,810)	(357,180)	(1,773,761)	(20,733,270)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of assets	94,057	-	-	-	94,057
Capital Leases	394,427	-	-	-	394,427
Transfers in	559,364	668,048	-	1,447,971	2,675,383
Transfers out	(1,547,866)	-	-	(1,127,517)	(2,675,383)
TOTAL OTHER FINANCING SOURCES (USES)	(500,018)	668,048	-	320,454	488,484
NET CHANGE IN FUND BALANCES	(681,537)	(17,752,762)	(357,180)	(1,453,307)	(20,244,786)
FUND BALANCES (DEFICIT), BEGINNING	10,815,949	28,097,753	4,611,417	6,215,587	49,740,706
FUND BALANCES (DEFICIT), END	10,134,412	10,344,991	4,254,237	4,762,281	29,495,921

See accompanying notes to the basic financial statements

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENT		(20,244,786)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimates useful lives and reported as depreciation expense. This is the difference between depreciation expense and capital outlay in the current period.		
	Capital outlay	20,163,884
	Depreciation expense	<u>(4,414,913)</u>
		15,748,971
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net assets.		
		(11,052)
The receipt and repayment of bonds, notes payable and capital lease principal is a revenue and expenditure in the governmental funds, but the activity increases and decreases long-term liabilities in the statement of net assets.		
	Bond principal payment	240,000
	Amortization of bond issuance cost	(24,189)
	Amortization of bond discounts	(20,108)
	Capital leases	(394,427)
	Capital lease principal payment	133,953
	Intergovernmental agreement principal payment	<u>118,739</u>
		53,968
Some expenses reported in the statement of activities, such as accrued interest, compensated absences and contingent liabilities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
	Accrued interest	(102,274)
	Compensated absences	<u>5,012</u>
		(97,262)
Other post employment benefits obligations did not require the use of current financial resources and therefore were not reported as expenditures in governmental funds in the Statement of Net Assets.		
		<u>(829,983)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>(5,380,144)</u>

See accompanying notes to the basic financial statements

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Taxes				
Sales and use	16,990,000	18,490,000	18,639,434	149,434
General property taxes	4,901,000	4,901,000	4,760,809	(140,191)
Beverage taxes	144,000	144,000	156,402	12,402
Anniston Housing Authority	5,000	5,000	-	(5,000)
Water utility fees	510,000	510,000	522,606	12,606
Cigarette and tobacco	300,000	300,000	291,918	(8,082)
Gasoline	360,000	360,000	375,479	15,479
Bingo	65,000	65,000	58,500	(6,500)
Lodging	115,000	115,000	76,564	(38,436)
Rental	420,000	420,000	397,096	(22,904)
Business	147,840	147,840	212,843	65,003
Total taxes	23,957,840	25,457,840	25,491,651	33,811
Licenses, permits and fees:				
Business licenses	2,985,000	2,985,000	2,878,384	(106,616)
Other license and penalties	897,600	897,600	842,154	(55,446)
Total licenses, permits and fees	3,882,600	3,882,600	3,720,538	(162,062)
Intergovernmental				
Police administration	-	-	3,600	3,600
Planning grant	30,000	30,000	33,393	3,393
ALDOT grant	-	-	94,243	94,243
Total intergovernmental	30,000	30,000	131,236	101,236
Charges for services:				
Garbage fees	879,250	879,250	848,979	(30,271)
Airport revenue	59,340	59,340	59,112	(228)
Rental income	45,000	45,000	42,287	(2,713)
Recreation department fees	1,333,800	1,333,800	1,086,045	(247,755)
Public works receipts	46,250	46,250	72,996	26,746
Public safety receipts	25,916	25,916	28,635	2,719
Total charges for services	2,389,556	2,389,556	2,138,054	(251,502)
Fines and forfeitures				
Police court fines and fees	21,500	21,500	13,894	(7,606)
Total fines and forfeitures	21,500	21,500	13,894	(7,606)
Other revenue:				
Interest on investments	80,000	80,000	32,819	(47,181)
Miscellaneous revenue	53,500	53,500	174,692	121,192
Total other revenue	133,500	133,500	207,511	74,011
TOTAL REVENUES	30,414,996	31,914,996	31,702,884	(212,112)
EXPENDITURES:				
GENERAL GOVERNMENT				
Finance division	805,372	805,372	772,612	32,760
General division	181,952	181,952	179,340	2,612
City Council	186,613	186,613	185,050	1,563
Building maintenance	912,288	916,752	898,947	17,805
Professional services	80,000	80,000	144,524	(64,524)
Utilities	41,000	41,000	39,108	1,892
Projects	425,000	644,398	790,203	(145,805)
Workman's compensation insurance	420,000	420,000	377,487	42,513
Employer funded healthcare	2,435,000	2,435,000	2,361,782	73,218
Other insurance	480,000	480,000	461,958	18,042
Other boards and agencies	723,683	723,683	832,860	(109,177)
Miscellaneous	107,000	107,000	238,991	(131,991)
TOTAL GENERAL GOVERNMENT	6,797,908	7,021,770	7,282,862	(261,092)

See accompanying notes to the basic financial statements

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC SAFETY				
Police	6,451,710	6,451,710	6,375,584	76,126
Municipal court	282,092	282,092	289,205	(7,113)
Detention facilities	513,782	513,782	476,226	37,556
Fire	4,229,299	4,229,299	4,205,906	23,393
TOTAL PUBLIC SAFETY	11,476,883	11,476,883	11,346,921	129,962
PUBLIC WORKS				
General	455,435	721,110	797,554	(76,444)
Cemetery	144,631	151,231	159,128	(7,897)
Electrical	647,128	648,728	660,205	(11,477)
Engineering	152,890	301,026	298,922	2,104
Garage	209,310	217,310	211,897	5,413
Environmental services	1,171,600	1,116,800	1,176,965	(60,165)
Street department	2,818,171	2,915,671	2,846,308	69,363
Airport	35,500	30,500	51,320	(20,820)
Planning	265,185	265,185	270,255	(5,070)
TOTAL PUBLIC WORKS	5,899,830	6,367,561	6,472,554	(104,993)
CULTURE AND RECREATION				
Administration	770,371	795,371	849,232	(53,861)
Parks, facilities, and utilities	2,341,464	2,519,868	2,710,719	(190,851)
PARD programs	351,388	351,388	366,801	(15,413)
Park maintenance	511,766	511,766	509,922	1,844
Anniston/Calhoun County Library	550,000	550,000	550,000	-
Anniston City Board of Education	1,493,000	1,493,000	1,493,000	-
Berman Museum	135,000	135,000	135,000	-
TOTAL CULTURE AND RECREATION	6,152,989	6,356,393	6,614,674	(258,281)
DEBT SERVICE				
Principal	-	-	133,953	(133,953)
Interest	-	-	33,439	(33,439)
TOTAL DEBT SERVICE	-	-	167,392	(167,392)
TOTAL EXPENDITURES	30,327,630	31,222,607	31,884,403	(661,796)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	87,366	692,389	(181,519)	449,684
OTHER FINANCING SOURCES AND (USES):				
Proceeds from sale of capital assets	40,000	40,000	94,057	(54,057)
Capital lease	-	-	394,427	(394,427)
Transfers in	850,000	850,000	559,364	290,636
Transfers out	(1,575,710)	(1,575,710)	(1,547,866)	(27,844)
TOTAL OTHER FINANCING SOURCES (USES)	(685,710)	(685,710)	(500,018)	(185,692)
Net change in fund balance	(598,344)	6,679	(681,537)	263,992
FUND BALANCE, BEGINNING	10,815,949	10,815,949	10,815,949	-
FUND BALANCE, END	10,217,605	10,822,628	10,134,412	263,992

See accompanying notes to the basic financial statements

**STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS**

CITY OF ANNISTON, ALABAMA

SEPTEMBER 30, 2012

	<u>Municipal Court</u>	<u>Policemen's and Firemen's Retirement Fund</u>
ASSETS		
Cash and cash equivalents	143,777	413,533
Investments, at Fair Value		
U.S. Government obligations	-	1,805,154
Municipal obligations	-	103,008
Corporate bonds	-	2,171,477
International obligations	-	168,869
Domestic equity securities	-	7,417,207
International equity securities	-	234,888
Collective investment fund	-	6,710,729
Timber	-	952,083
Real estate	-	996,938
Accounts receivable	-	150,547
TOTAL ASSETS	<u>143,777</u>	<u>21,124,433</u>
LIABILITIES		
Accounts payable	143,777	25,589
TOTAL LIABILITIES	<u>143,777</u>	<u>25,589</u>
NET ASSETS		
Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented as required supplementary information)	-	21,101,844

See accompanying notes to the basic financial statements

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS**

CITY OF ANNISON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	<u>Policemen's and Firemen's Retirement Fund</u>
ADDITIONS	
Contributions	
Employer	765,244
Employee	765,245
Public utilities	419,470
Total Contributions	<u>1,949,959</u>
Investment earnings:	
Interest	205,888
Dividend	107,978
Net appreciation in fair value of investments	2,839,895
Net Gain on investment	244,774
Miscellaneous	1,563
Total Investment Earnings	<u>3,400,098</u>
Less: Investment expenses	<u>(70,129)</u>
Net Investment Income	3,329,969
Total Additions	5,279,928
DEDUCTIONS	
Benefits paid directly to participants	3,639,706
Administrative expenses	166,974
Total deductions	<u>3,806,680</u>
NET INCREASE IN NET ASSETS	1,473,248
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
NET ASSETS, BEGINNING	<u>19,628,596</u>
NET ASSETS, END	<u>21,101,844</u>

See accompanying notes to the basic financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Anniston, Alabama (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (the "GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Anniston, Alabama, was incorporated in 1883 under the laws of the State of Alabama. The City operates under the Council / Manager form of government with a City Council consisting of five council members elected for concurrent terms of four years. One council member is elected at large by the qualified voters of the City and has the title of Mayor. The City Manager is appointed by the Council and has full administrative authority for the operations of the City. The City provides the following services to its citizens as authorized by its charter: public safety (police and fire), recreation, water, and general and administrative services. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Anniston, Alabama (the "primary government") and its component units. The component units discussed below are included in the City's reporting entity because of the significance of its operational or financial relationship with the City. In conformity with generally accepted accounting principles, as set forth in Governmental Accounting Standards Board Statement No. 14, as amended by GASB Statement No. 39, the financial statements of the component units is discretely presented in the financial statements.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Discretely Presented Component Units

Component Unit	Included in the Reporting Entity Because	Separate Financial Statements
The Anniston City School Board is the governing board for the City School System. Eligible voters in the City elect the members of the Board. The City schools are fiscally dependent upon the City since the school board cannot issue bonded debt directly.	The bonded debt must be issued through the City which the Council must approve.	These audited financial statements are located at Anniston City Hall.
The Public Library of Anniston and Calhoun County receives a substantial amount of financial support from the City; however, they do not approve the Library's operations and capital budgets.	The members of the governing board are appointed by the City of Anniston and the Calhoun County Commission.	These audited financial statements are located at Anniston City Hall.
The Anniston Industrial Development Board is fiscally dependent upon the City support to carry out its mission.	The members of the board are appointed by City Council.	These unaudited financial statements are located at Anniston City Hall.
The Farley L. Berman Foundation, Inc. is fiscally dependent upon the City for its operational support; however, the City does not approve the Foundation's capital budgets or operations.	The City fiscally supports the entity.	These audited financial statements are located at Anniston City Hall.
The Anniston City Schools Foundation is fiscally dependent upon the City for its funding; however, the City does not approve its capital budgets or operations.	The City fiscally supports the entity.	These unaudited financial statements are located at Anniston City Hall.
The Spirit of Anniston, Inc. is fiscally dependent upon the City since the majority of its funding comes from the City. The City does not approve its capital budgets or its funding.	The City fiscally supports the entity.	These unaudited financial statements are located at Anniston City Hall.

Blended Component Unit

Component Unit	Included in the Reporting Entity Because	Separate Financial Statements
The Anniston Public Building Authority was established to account for the construction and ongoing maintenance of City buildings. The Authority is fiscally dependent upon the City since the Authority cannot issue bonded debt directly.	The bonded debt must be issued through the City which the Council must approve.	Separate financial statements are not prepared.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Government-wide and Fund Financial Statements**

These statements report financial information for the City as a whole. The primary government and the discretely presented component units are presented separately within these financial statements with the focus on the primary government. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City had no business-type activities during the year ended September 30, 2012.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are for fiduciary fund financial statements, although the agency fund has no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to long-term debt, compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, sales taxes, intergovernmental grants, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," the corresponding assets (receivables) in nonexchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Major individual governmental funds are reported as separate columns in the fund financial statements. The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Public Building Authority Fund* facilitates the construction and financing of major facilities for lease to the City funded by building revenue bonds.

The *Special Revenue Fire Tax Fund* accounts for the collection of special tax and revenue restricted expenditures for specific purpose.

The City also reports the following fund types within the non-major governmental funds:

Debt service fund accounts for the repayment of principal and interest on the City's outstanding bond issues and other debt obligations of the City.

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Improvement Fund accounts for the acquisition and construction of major facilities funded by City operations.

Fiduciary Fund Type

The *agency fund* is used to account for the collection and disbursement of monies by the City Municipal Court, such as traffic fines.

The *Policemen's and Firemen's Retirement Fund* accounts for assets held by the City as an agent or trustee to be invested and expended in accordance with the conditions of the trustee capacity. The City uses this fund to account for the assets of the defined benefit plan.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

Cash consists of demand deposits, and investments consist of government securities and certificates of deposit. Cash balances and the requirements of all funds are considered in determining the amount to be invested. Interest earned on cash and investments is recorded as General Fund revenue and allocated between funds based upon balances. In accordance with Governmental Accounting Standards Board No. 31, Accounting for Financial Reporting for Certain Investments and for External Investment Pools, the City reports its money market investments and investments in short term debt securities that have remaining maturities of one year or less at amortized cost. All other investments are stated at fair value based on quoted market prices.

E. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as "due to/from other funds."

F. Management Estimates

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

G. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an asset at the time the individual item is purchased. Inventories reported in the governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute "available, spendable resources" even though they are a component of net current assets.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported 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 historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost 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 primary government are depreciated using the straight line method over the following useful lives:

Asset	Years
Building and improvements	20-40
Improvements other than buildings	25-40
Machinery and equipment	5-10
Infrastructure	25-75

Infrastructure assets acquired prior to September 30, 1980 are included in the amounts reported.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**I. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities 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 other assets and amortized over the term of the related debt.

At the governmental fund financial reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as expenditures.

J. Compensated Absences

Accumulated sick pay benefits have not been recorded as a liability because these benefits are paid upon the illness of an employee and the amount of such payments cannot be reasonably estimated. Accumulated unpaid vacation costs are accrued when incurred in the government-wide financial statements.

Governmental funds report the compensated absence liability at the fund reporting level only "*when due.*"

K. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Fund Balance

Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- *Nonspendable* - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- *Restricted* - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- *Committed* - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. Only the City Council may modify or rescind the commitment.
- *Assigned* - Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City Manager to assign fund balances.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**K. Fund Equity**

- *Unassigned* - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.
- *Flow Assumptions* - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:
 - Committed
 - Assigned
 - Unassigned

Net Assets

Net assets represent the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2 LEGAL COMPLIANCE - BUDGETS

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

Prior to October 1, the City Manager submits to the City Council proposed operating budgets for the fiscal year commencing October 1.

Public hearings are conducted at City Hall to obtain taxpayer comments.

Prior to October 1, the budget is legally enacted through the passage of a resolution.

The City Manager is authorized to transfer budgeted amounts within departments of any fund; however, any revisions to the total expenditures of any fund or department must be approved by the City Council.

Formal budgetary integration is employed as a management control device during the year for all governmental funds.

All unencumbered appropriations lapse automatically at September 30.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 2 LEGAL COMPLIANCE – BUDGETS (Continued)

The following funds had excesses of actual expenditures over appropriations in the amount shown for the fiscal year ended September 30, 2012.

State law prohibits any municipality from making expenditures in excess of budgeted amounts unless the actual revenue is more than the budgeted amounts.

Budgets for all funds are prepared in accordance with the modified accrual basis for accounting.

Budgeted amounts are as originally adopted, or as amended by the City Council.

GENERAL FUND

General Government	
Professional Services	\$ 64,524
Projects	145,805
Other boards and agencies	109,177
Miscellaneous	131,991
Public Safety	
Municipal Court	7,113
Public Works	
General	76,444
Cemetery	7,897
Electrical	11,477
Environmental Services	60,165
Airport Planning	20,820
Planning	5,070
Culture and Recreations	
Administration	53,861
Parks, facilities and utilities	190,851
PARD Program	15,413
Debt service	167,392

NOTE 3 DEPOSITS AND INVESTMENTS

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities.

The City is restricted by State statute to investments in U.S. Government Treasury and Agency securities, certificates of deposit and money market accounts, repurchase agreements and reverses repurchase agreements, banker’s acceptances and commercial paper. Each of the banks holding the City’s deposits, as well as those of the component units, is a certified participant in the SAFE program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury. Cash deposits and savings held at local banks are insured by the FDIC or collateralized by assets administered by the state treasurer’s office in accordance with the “SAFE” program.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 3 DEPOSITS AND INVESTMENTS (Continued)

At September 30, 2012, all of the deposits of the City were fully collateralized in accordance with the state statutes.

As of September 30, 2012, the City had the following deposits, classified as investments.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of deposit	365 days or less	\$ 4,201,975
Government securities	245 days	500,305
Money market	N/A	455,031
		<u>\$ 5,157,311</u>

Interest Rate Risk:

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, all investments are reviewed on a monthly basis for interest rate fluctuations and appropriate actions are taken to minimize this risk.

NOTE 4 RECEIVABLES

Receivables at September 30, 2012, for the City's individual funds, including the applicable allowances for uncollectible accounts are as follows:

<u>Receivables:</u>	<u>General</u>	<u>Public Building Authority</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Taxes	\$ 1,895,572	\$ -	\$ 3,262	\$ 1,898,834
Accounts	95,774	381,839	218,835	696,448
Notes	-	-	985,273	985,273
Gross receivables	1,991,346	381,839	1,207,730	2,927,061
Less allowance for uncollectible	-	-	(121,130)	(121,130)
Net total receivables	<u>\$ 1,991,346</u>	<u>\$ 381,839</u>	<u>\$ 1,086,600</u>	<u>\$ 3,459,425</u>

Property taxes are levied as of October 1 of each year on property assessed the preceding October 1. The taxes are due on October 1 and become delinquent on the lien date of January 1. Billings are mailed out on October 1 of each year. Property taxes are received monthly from Calhoun County. Taxes that are not both available and measurable are not accrued. These include property taxes, business licenses and franchise taxes.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 5 CAPITAL ASSETS

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

	Balance 9/30/11	Additions	Deductions	Transfers	Balance 9/30/12
Non-Depreciable					
Land	\$ 8,734,825	-	-	-	\$ 8,734,825
Collections	8,329,797	-	-	-	8,329,797
Construction in Progress	7,458,990	17,857,728	-	-	25,356,718
	<u>24,523,612</u>	<u>17,857,728</u>	<u>-</u>	<u>-</u>	<u>42,381,340</u>
Depreciable					
Buildings & Improvements	31,208,847	61,592	-	-	31,270,439
Machinery & Equipment	12,757,389	1,820,754	(430,258)	-	14,147,885
Improvements other than buildings	1,894,958	423,809	-	-	2,318,767
Infrastructure	105,429,666	-	-	-	105,429,666
Total other Capital Assets	<u>151,290,860</u>	<u>2,306,155</u>	<u>(430,258)</u>	<u>-</u>	<u>153,166,757</u>
Total Capital Assets	175,814,473	20,163,883	(430,258)	-	195,548,097
Accumulated Depreciation					
Buildings	17,323,598	829,080	-	-	18,152,678
Machinery & Equipment	9,151,079	820,551	(419,206)	-	9,552,424
Improvements other than Bldgs	195,970	56,757	-	-	252,727
Infrastructure	63,214,550	2,708,525	-	-	65,923,075
Total Accumulated Depreciation	<u>89,885,197</u>	<u>4,414,913</u>	<u>(419,206)</u>	<u>-</u>	<u>93,880,904</u>
Governmental Activities Capital Assets, net	<u>\$ 98,929,276</u>	<u>\$15,748,970</u>	<u>\$ (11,052)</u>	<u>-</u>	<u>\$101,667,193</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 603,424
Public Safety	489,852
Public Works	2,860,551
Housing and Development	101,318
Culture and Recreation	359,768
	<u>\$ 4,414,913</u>

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 5 CAPITAL ASSETS (Continued)

Component Units:	Balance 9/30/11	Additions	Deductions	Balance 9/30/12
Non-Depreciable				
Land	\$ 1,406,063	\$ -	\$ -	\$ 1,406,063
Collections	8,529,255	181,101	-	8,170,356
Construction in Progress	-	-	-	-
	<u>24,523,612</u>	<u>181,101</u>	<u>-</u>	<u>42,381,340</u>
Depreciable				
Building	17,049,632	-	-	17,049,632
Building Improvements	15,070,169	365,604	-	15,435,773
Vehicles	616,448	-	-	616,448
Machinery & Equipment	<u>3,333,453</u>	<u>94,416</u>	<u>(49,475)</u>	<u>3,378,394</u>
Total other Capital Assets	<u>36,069,702</u>	<u>460,020</u>	<u>(49,475)</u>	<u>36,480,247</u>
Total Capital Assets	46,005,020	641,121	(49,475)	46,596,666
Accumulated Depreciation				
Buildings	10,723,416	339,304	-	11,062,720
Building Improvements	5,784,419	532,567	-	6,316,986
Vehicles	440,668	31,908	-	472,576
Machinery & Equipment	<u>2,241,549</u>	<u>119,498</u>	<u>(48,376)</u>	<u>2,312,671</u>
Total Accumulated Depreciation	<u>19,190,052</u>	<u>1,023,277</u>	<u>(48,376)</u>	<u>20,164,953</u>
Governmental Activities Capital Assets, net	<u>\$ 26,814,968</u>	<u>\$ (382,155)</u>	<u>\$ (1,099)</u>	<u>\$ 26,431,713</u>

NOTE 6 LONG-TERM DEBT

Primary Government

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due In More Than One Year
Governmental activities						
Bonds and warrants	\$ 38,610,000	\$ -	\$ 240,000	\$ 38,370,000	\$ 245,000	\$ 38,125,000
Less deferred amounts						
Unamortized refunding	(3,917)	-	206	(3,711)	-	-
Unamortized discount	<u>(420,963)</u>	<u>-</u>	<u>19,902</u>	<u>(401,601)</u>	<u>-</u>	<u>-</u>
Total Bonds and Warrants	<u>38,185,120</u>	<u>-</u>	<u>260,180</u>	<u>37,965,228</u>	<u>245,000</u>	<u>38,125,000</u>
Intergovernmental						
Agreement	513,729	-	118,739	394,990	125,040	269,950
Capital lease payable	502,579	394,427	133,953	763,053	217,059	545,994
Compensated absences	2,560,659	-	5,012	2,555,647	511,129	2,044,518
Net OPEB Obligations	<u>2,607,800</u>	<u>1,227,900</u>	<u>397,917</u>	<u>3,437,783</u>	<u>311,800</u>	<u>3,125,983</u>
Governmental activities Long- Term Liabilities	<u>\$ 44,369,887</u>	<u>\$ 1,622,327</u>	<u>\$ 915,729</u>	<u>\$ 45,116,701</u>	<u>\$ 1,410,028</u>	<u>\$ 44,111,445</u>

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 6 LONG-TERM DEBT (Continued)

Governmental activities:

Bonds and Warrants.

During the fiscal year ended September 30, 2011, the City issued the Series 2010 general obligation bonds for purposes of (a) financing the costs of capital improvements for the City, (b) refunding of the 1998 issuance, (c) paying the expenses of issuing the bonds. The bonds are direct obligations of the City, and full faith and credit of the City is pledged against the bonds. The 2010 Series General Obligation Warrants are due semi-annually at rates ranging from 4.2% - 5.3% per annum, maturing March 1, 2035. The balance at September 30, 2011 was \$7,440,000. The carrying amount of the old debt exceeded the reacquisition price by \$19,012. This amount is being netted against the new debt and amortized over the life of the new debt, which is longer than the refunded debt. The transaction also resulted in an economic gain of \$3,917 and a reduction of \$19,707 in future debt service payments.

During the year ended September 30, 2011, The City issued bonds through the Public Building Authority of the City of Anniston in the amount of \$16,170,000 for the DHR Building Project. The proceeds from the bonds are to be used for construction of a building and pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds are limited obligations of the City and are payable solely from the rent received on the building. The 2011 Series DHR Building Revenue Bonds are due semi-annually at rates ranging from 2.0% - 5.5% per annum, maturing May 1, 2033.

During the year ended September 30, 2011, the City issued bonds through the Public Building Authority of the City of Anniston in the amount of \$15,000,000 for the Judicial Center Project. The proceeds from the bonds are to be used for construction of a building and pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds are limited obligations of the City and are payable solely from the rent received on the building. The 2011 Series Judicial Center Building Revenue Bonds are due semi-annually at rates ranging from 2.25% - 5.00% per annum, maturing March 1, 2043.

Annual debt service requirements to amortize bonds and warrants outstanding, as of September 30, 2012 follow:

Fiscal Year Ended September 30	Governmental Activity		
	Principal	Interest	Total
2013	\$ 245,000	\$ 1,708,659	\$ 1,953,659
2014	1,070,000	1,699,784	2,769,784
2015	1,095,000	1,674,209	2,769,209
2016	1,125,000	1,646,784	2,771,784
2017-2021	6,140,000	7,703,250	13,843,250
2022-2026	7,290,000	6,395,912	13,685,912
2027-2031	9,020,000	4,507,406	13,527,406
2032-2036	6,880,000	2,139,895	9,019,895
2037-2041	3,730,000	92,897	3,822,897
2042-2043	1,775,000	89,875	1,864,875
Total	\$ 38,370,000	\$27,658,671	\$ 66,028,671

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 6 LONG-TERM DEBT (Continued)

Governmental Activities: (Continued)

Intergovernmental Agreement.

On July 1, 2000, the City Council approved participation with the East Central Alabama Industrial Development Authority along with nine other cities and four counties. The Authority issued \$15,475,000 of Special Obligation Bonds to provide infrastructure for the Honda plant located at Lincoln, Alabama. First Commercial Bank administers the bond agreement (Honda Funding Agreement). The City agreed to make annual payments of principal and interest on February 1 of each year beginning 2001 and ending 2015 with principal and interest payments ranging from \$145,852 to \$146,117. The balance at September 30, 2012 was \$394,900.

Annual debt service requirements to amortize the intergovernmental agreement outstanding, as of September 30, 2011 follow:

Fiscal Year Ended September 30	Governmental Activity		
	Principal	Interest	Total
2013	\$ 125,040	\$ 21,077	\$ 146,117
2014	131,340	14,512	145,852
2015	138,610	7,486	146,096
Total	\$ 394,990	\$ 43,075	\$ 438,065

Capital Leases.

The City has entered into lease agreements as lessee for financing the acquisition of various equipment. The lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of leased assets under capital leases as of September 30, 2012:

Equipment	Governmental Activities
Less: Accumulated Depreciation	\$ 771,961
Net After Accumulated Depreciation	(179,459)
Non Capitalized Equipment	592,502
Total	179,611
	\$ 772,133

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 6 LONG-TERM DEBT (Continued)

Governmental Activities: (Continued)

Capital Leases. (Continued)

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

Fiscal Year End September 30,	<u>Governmental Activities</u>
2013	\$ 241,274
2014	231,285
2015	209,878
2016	126,690
2017	<u>7,149</u>
Total Minimum Lease Payment	816,276
Less amount representing interest	<u>(53,223)</u>
Present value of future minimum lease payments	<u>\$ 763,053</u>

Component Unit: Anniston City School Board

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due In More Than One Year</u>
Governmental activities						
2003 Pool Bond	\$ 746,091	-	\$ 44,796	\$ 701,295	\$ 46,645	\$ 654,649
QZAB	2,000,000	-	-	2,000,000	-	2,000,000
Governmental activities						
Long- Term Liabilities	<u>\$ 2,746,091</u>	<u>-</u>	<u>\$ 44,796</u>	<u>\$ 2,701,295</u>	<u>\$ 46,645</u>	<u>\$ 2,654,649</u>

2003 Pool Bonds. During the year ended September 30, 2004, the School Board borrowed \$1,021,738 to finance the acquisition and construction of certain capital improvements to the public schools under the jurisdiction and control of the Board. The Capital Improvement Pool Bonds Series 2003 are payable, as both principal and interest, solely out of and secured by a first priority pledge and assignment of pledged capital outlay funds. The principal is payable on December 1 of each year. Interest computed at 4.129% is payable on June 1 and December 1 of each year beginning June 1, 2004. The maturity date of the Pool Bonds is December 1, 2023.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 6 LONG-TERM DEBT (Continued)

Component Unit: Anniston City School Board (Continued)

Annual debt service requirements to amortize bonds and warrants September 30, 2012 follow:

Fiscal Year Ended September 30	Governmental Activity		
	Principal	Interest	Total
2013	\$ 46,645	\$ 28,190	\$ 74,835
2014	48,571	26,224	74,795
2015	50,577	24,177	74,754
2016	52,665	22,046	74,711
2017-2021	297,793	75,052	372,845
2022-2024	205,044	13,230	218,274
Total	\$ 701,295	\$ 188,919	\$ 890,214

Qualified Zone Academy Bonds (QZAB). During the year ended September 30, 2003, the Board borrowed \$2,000,000 from the Qualified Zone Academy Bond Program. The funds will be used to renovate and repair school buildings and to purchase equipment (the Project) under the jurisdiction and control of the Board. The Board entered into a lease purchase agreement to lease the Project to the Alabama School Finance Cooperative which will advance the funds for the Project. The Board has the option to purchase the project for \$1.00 at the end of the lease. The payments made by the Board will be deposited into an investment account with a guaranteed yield to maturity which will pay off the debt in a balloon payment of \$2,000,000 at its maturity in May 2018. The lease payments will be \$157,784 annually through May 2013.

QZAB-Qualified Zone Academy Bonds – Lease Payment Schedule

Payment Dates	Lease	Trustee's Payment	Total Fees Due
May 6, 2013	\$ 157,784	\$ 813	\$ 158,597

Costs of \$100,000 with accumulated amortization of \$46,673 to yield net cost of \$53,327, related to the issuance of the QZAB are included in the deferred charges in the statement of net assets and will be amortized on a straight line basis over the 15 year life of the debt. Capital Projects Funds and Debt Service Funds have been used to liquidate long-term liabilities in prior years.

NOTE 7 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Receivable Fund	Payable Fund	Amount
General Fund	Fire Tax Fund	\$ 548,033
General Fund	Public Building Authority	291,838
General Fund	Nonmajor Governmental Fund	2,647,894
Nonmajor Governmental Fund	General Fund	422,212
Nonmajor Governmental Fund	Nonmajor Governmental Fund	234,746
		<u>\$ 4,144,723</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) payments between funds are made.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 7 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund transfers for the year ended September 30, 2012 were:

<u>Transfers In</u>	<u>General Fund</u>	<u>Fire Tax Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ -	\$ 559,364	\$ 559,364
Fire Tap Fund	-	-	-	-
Public Building Authority	668,048	-	-	668,048
Nonmajor Governmental Fund	879,818	-	\$ 568,153	1,447,971
	<u>\$ 1,547,866</u>	<u>-</u>	<u>\$ 1,127,517</u>	<u>\$ 2,675,383</u>

These transfers were used to assist other funds in meeting operating requirements for the year ended September 30, 2012.

NOTE 8 RETIREMENT PLANS

The City participates in two pension plans which cover substantially all employees. Both of these plans are established by state law and are administered by outside trustees. The Retirement Systems of Alabama's accounts are not included in the accompanying financial statements; however, the accounts from the Policemen's and Firemen's Retirement Fund for the City of Anniston are included as a fiduciary fund.

Retirement Systems of Alabama

City employees, who elect to be included, are covered by the Retirement Systems of Alabama. This new plan is funded by contributions from employees and the City. Two recent legislations will impact the City's pension plan. The first legislation is Act 2012-377, which created a new benefit plan for employees with no previous creditable retirement service hired on or after January 1, 2013, referred as "Tier 2 employees." Employees hired on or before January 1, 2013, are considered "Tier 1 Employees." The second legislation is Act 2011-676, which allows an agency the option to adopt the higher employee contribution rates. As of the report date, the City has not elected to increase the employee contribution rate.

"Tier 1" Employees

"Tier 1" employees are eligible and must participate in the State PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after accumulating 25 years of service with the District or another entity covered by the state PERS. Benefits vest after 10 years of service.

Employees who retire at or after the age of 60, with ten or more years of service are entitled to pension payments for the remainder of their lives equal annually to 2.0125% of the member's average final service. The final average compensation is the average salary during the three years in his last ten years of creditable service for which such average is higher.

Pension provisions include deferred allowances whereby an employee may terminate his or her employment with the City after accumulating 10 years of service but before reaching the age of 60. If the employee does not withdraw his or her accumulated contributions, the employee is entitled to the applicable benefits upon reaching the age of 60.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 8 RETIREMENT PLANS (Continued)**Retirement Systems of Alabama (Continued)**

Pension benefits include death benefits and disability benefits, whereby the disabled employee or surviving spouse is entitled to receive annually an amount equal to 2.0125% of the member's average final compensation multiplied by the number of years of his creditable service, reduced by $\frac{1}{4}$ of 1% for each month by which his age at retirement or death is less than age 60 or his years of service are less than 30, if less, to a maximum reduction of 25%. State statutes determine benefits. Employees of the City are required to pay 5% of their gross earnings to the pension plan. The City makes annual contributions to the pension plan equal to the amount required by state statutes.

"Tier 2" Employees

"Tier 2" Employees are eligible and must participate in the state PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after accumulating 10 years of service with the City or another entity covered by the state PERS and attained the age of 62. Benefits vest after 10 years of service.

Employees who retire at or after the age of 62, with ten or more years of service are entitled to pension payment for the remainder of their lives equal annually to 1.65% of the member's average final service. The final average compensation is the average salary during the five years in his last ten years of creditable service for which such average is higher. The retirement benefit cannot exceed 80% of the Average Final Salary.

Pension provisions include deferred allowances whereby an employee may terminate his or her employment with the City after accumulating 10 years of service but before reaching the age of 62. If the employee does not withdraw his or her accumulated contributions, the employee is entitled to the applicable benefits upon reaching the age of 62.

Pension benefits provide disability benefits and death benefits. A disabled employee is entitled to receive monthly which are calculated identically to those for service retirement. Death benefits prior to retirement are calculated and paid to beneficiary(ies) based on the member's age, service credit, employment status and eligibility for retirement. State statutes determine benefits.

The Employees' Retirement Systems was established as of October 1, 1945 under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, state police and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement Systems is vested in the City of Anniston, Alabama. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Employees' Retirement System Board authority to accept or reject various Cost-Of-Living Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement Systems of Alabama.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 8 RETIREMENT PLANS (Continued)

Retirement Systems of Alabama (Continued)

Below is a chart summarizing the payroll, employer's contributions and employees' contributions for the year ended September 30, 2012. All contributions have been made.

Fiscal Year Ended September 30 2012	Contributions		
	Employer	Employee	Total
	\$ 526,196	\$ 368,494	\$ 894,689

The following schedule is based on the actuarial valuation as of September 30, 2011 (most recent information available) as provided by the Employees' Retirement System of Alabama:

**Summary of Employee Census Data
Effective For Period Beginning October 1, 2013**

Number of active members	217
Annual compensation	\$ 7,417,861
Number of Retired members and beneficiaries	96
Annual Retirement allowance	\$ 1,330,983

**Required Employer Contributions
Effective For Period Beginning October 1, 2008**

Normal cost	3.64%
Accrued Liability	2.60%
Pre-retirement death benefit	0.15%
Administrative Expense	<u>0.18%</u>
Total	6.57%
5% Employer contribution factor (6.57% / 5%)	1.314
6% Employer contribution factor (6.57% / 6%)	1.095

**Required Employer Contributions
Effective For Period Beginning October 1, 2010**

Normal cost	3.59%
Accrued Liability	3.03%
Pre-retirement death benefit	0.15%
Administrative Expense	<u>0.18%</u>
Total	6.95%
5% Employer contribution factor (6.57% / 5%)	1.390
6% Employer contribution factor (6.57% / 6%)	1.158

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 8 RETIREMENT PLANS (Continued)

Retirement Systems of Alabama (Continued)

The chart below shows the annual pension cost which equaled the annual required contribution for the current year and prior two years along with the percentage actually contributed by the City.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2008	\$ 526,024	100%	-
September 30, 2009	504,548	100%	-
September 30, 2010	480,413	100%	-

As of the most recent valuation date, September 30, 2010, the funded status of the Plan was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liabilities (AAL)</u>	<u>Funded Ratio (1)/(2)</u>	<u>Unfunded (1)-(2)</u>	<u>Annual Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
9/30/2010	\$ 19,237,752	\$ 25,815,248	74.5%	(\$ 6,577,532)	\$ 7,367,995	-89.3%

The valuation was prepared using the entry age normal actuarial cost method. An interest rate and projected salary increases of 4.61-7.75% were used for all purposes, together with other actuarial assumptions based on the experience of the system. Since the previous valuation, there have been no amendments to the system affecting the valuation.

Actuarial gains and losses are reflected in the unfunded actuarial accrued liability, which is being amortized over a twenty-year period. The amortization period is closed. The retirement plan is included in the financial report of the Retirement Systems of Alabama. Copies of this report may be obtained from the Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of September 30, 2008.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 8 RETIREMENT PLANS (Continued)

Retirement Systems of Alabama (Continued)

Policemen's and Firemen's Retirement Fund for the City of Anniston

The Policemen's and Firemen's Retirement Fund is funded by contributions from employees, the City and a tax on certain utilities revenue. The plan covers all sworn members of the Police and Fire Departments of the City. The Fund was substantially amended by the State of Alabama with Act No. 2012-484, effective October 1, 2012. Retirement benefits are paid to those members with 25 or more years (20 years if hired before May 29, 1979) equal to three percent of their final three-year average salary times their years of service up to a maximum of thirty years of service. Effective October 1, 2012, employees with the earlier of attaining age 65 or 25 years of service are entitled to pension benefits equal of 2 ½% of compensation years of service on and after October 1, 2012, plus 3% of compensation of years of services, but not greater than 30, less years of service on and after October 1, 2012. For additional information on pension benefits, please, refer to the Policemen's and Firemen's Retirement Fund's audited financial statements. An actuarial valuation of the plan is made biannually; however, contribution amounts are prescribed by state law and do not vary with the actuarial valuation. These contribution rates are as follows:

The most recent actuarial valuation was performed as of October 1, 2011, and contains the following information:

Valuation date	October 1, 2011
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	27 years
Asset valuation method	Market value Actuarial assumptions
Investment rate of return*	8.0%
Projected salary increases*	5.5%
*Includes inflation at 3%	

Below is a chart summarizing the payroll, employer's contributions and employees' contributions for the year ended September 30, 2012. All contributions have been made.

<u>Fiscal Period Ending</u>	<u>Employer</u>	<u>Employee</u>	<u>Utilities</u>	<u>Total</u>
September 30, 2012	\$ 765,245	\$ 765,244	\$ 419,470	\$ 1,949,959

The following schedule is based on the actuarial valuation as of October 1, 2009 (most recent information available):

Summary of Employee Census Data

Number of active members	171
Annual compensation	\$ 7,687,902
Number of Retired members and beneficiaries	164
Annual Retirement allowance	\$ 3,568,693

Required Employer Contributions

Normal cost	15.9%
Accrued Liability	14.3%
Total	30.2%

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 8 RETIREMENT PLANS (Continued)

Retirement Systems of Alabama (Continued)

Policemen's and Firemen's Retirement Fund for the City of Anniston (Continued)

The chart below shows the annual pension cost which equaled the annual required contribution for the current year and prior two years along with the percentage actually contributed by the City.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2008	\$ 1,965,165	100%	-
September 30, 2009	1,776,951	100%	-

As of the most recent valuation date, October 1, 2009, the funded status of the Plan was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liabilities (AAL)</u>	<u>Funded Ratio (1)/(2)</u>	<u>Unfunded (1)-(2)</u>	<u>Annual Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
10/1/2011	\$ 19,628,595	\$ 59,008,960	33.3%	(\$ 39,380,365)	\$ 7,635,932	-515.7%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of October 1, 2011.

NOTE 9 OTHER POST EMPLOYMENT BENEFITS

Description

Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The City, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a single-employer defined benefit plan to provide certain postretirement healthcare benefits to all former employees who have 25 years of continuous service, regardless of age, or who have 10 years of continuous service and are age 60. Such benefits are available to spouses or dependents of retiree until the spouse and / or other dependent attains Medicare eligibility.

Funding Policy

The City pays for postemployment healthcare benefits on a pay-as-you-go basis. The City is studying the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability. These financial statements assume that pay-as-you-go funding will continue.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 9 OTHER POST EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table illustrates the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Membership

The following schedule (derived from the most recent actuarial valuation report) reflects membership for the OPEB Health Care Plan as of October 1, 2012

Active members	377
Retired members	66
Total	<u>443</u>

Contributions

The City contributed \$397,917 to the OPEB Health Care Plan in fiscal year 2012. The annual required contribution amount is determined using actuarial methods and assumptions approved by the Commission. The Council establishes and may amend the funding policy for the OPEB Health Care Plan.

Annual Required Contribution	\$ 1,232,200
Annual OPEB Cost	1,232,200
Interest on net OPEB obligation	104,300
Adjustment on net OPEB obligation	(108,600)
Actual Contribution	<u>(397,917)</u>
Increase in net OPEB obligation.	829,983
Net OPEB obligation, September 30, 2011	2,607,800
Net OPEB obligation, September 30, 2012	<u>\$ 3,437,783</u>

Fiscal Year Ended September 30,	Annual OPEB Cost	Actual OPEB Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 1,128,600	\$ 475,500	42.13%	\$ 653,100
2009	1,129,000	468,800	41.52%	1,313,300
2010	922,200	281,200	30.49%	1,954,300
2011	967,400	313,900	32.45%	2,607,800
2012	1,232,200	397,917	32.29%	3,437,783

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 9 OTHER POST EMPLOYMENT BENEFITS (Continued)

Funding Status and Funding Progress

As of October 1, 2011, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Funded Ratio (1)/(2)	Unfunded (1)-(2)	Annual Covered Payroll	Percentage of Covered Payroll
10/1/2011	-	\$ 13,679,400	0.0%	(\$ 13,679,400)		0.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the plan in effect at October 1, 2011. The assumptions used in the October 1, 2011 actuarial valuation are as follows:

Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	Market Value of Assets
Assumed Rate of Return on Investments	4.50%
Medical Cost Trend Rate	10.00%
Ultimate Medical Cost Trend Rate	5.00%
Year of Ultimate Trend Rate	2017
Amortization Method	Level dollar, closed
Remaining Amortization Period	30 years
Payroll Inflation Rate	2.50%

The schedule of funding progress, presented as RSI following the notes to the financial statements, is to present 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.

NOTE 10 DEFERRED COMPENSATION PLAN

Employees are also eligible to participate in the PEIRAF Deferred Compensation Plan of the Retirement Systems of Alabama. Employees may defer a portion of their pre-tax compensation into this plan and are eligible to remove the proceeds at retirement. The City does not contribute to this plan.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 11 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, errors and omissions, job-related illnesses and injuries, and natural disasters. Risk management is the process of managing the City's activities to minimize the adverse effects of certain types of losses and to obtain finances to provide for or restore the economic damages of those losses. The City maintains insurance coverage with the Alabama Municipal Insurance Corporation. The City believes the coverage is adequate to preclude any significant risk exposure. The City is self-insured for employee's medical coverage for claims up to an expected level. A specific stop loss agreement is in effect with an outside insurance company. This will cover claims exceeding \$125,000 per eligible employee per year with an outside company. As of September 30, 2008, a liability for future claims is not recorded. The liability, if any, for this contingency is measured in accordance with Financial Accounting Standards Boards (FASB) Statement No. 5. Expenses are recognized when incurred and offsetting revenues are recorded as a reduction against the applicable expenditure. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 12 COMMITMENTS AND CONTINGENCIES**Grant Contingencies:**

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.

The City is a defendant in various litigations of which legal counsel and City management are of the opinion that none will have a material adverse effect on the financial statements of the City. These actions include both asserted and unasserted claims. The City's legal counsel has advised that damages on any asserted claims, should an unfavorable judgment be reached, will be within the limits of the City's insurance coverage and therefore should not impact upon municipal assets. The City's maximum liability is estimated to be the \$5,000 insurance deductible for claims. No accrual has been included in these financial statements for this matter.

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2012

SCHEDULE OF FUNDING PROGRESS

Retirement Systems of Alabama

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liabilities (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll of ((b-a)/c)
9/30/2006	\$ 19,027,654	\$ 20,685,845	\$ 1,658,191	92.0%	\$ 6,952,331	23.9%
9/30/2007	19,804,701	21,957,493	2,152,792	90.2%	6,870,025	31.3%
9/30/2008	19,966,441	23,330,034	3,363,593	85.6%	7,696,743	43.7%
9/30/2009	19,744,665	24,077,674	4,333,009	82.0%	7,466,202	58.0%
9/30/2010	19,237,752	25,741,050	6,503,298	74.7%	7,367,995	88.3%
9/30/2010	19,237,752	25,815,284	6,577,532	74.5%	7,367,995	89.3%
9/30/2011	18,586,518	26,010,836	7,424,318	71.5%	7,417,861	100.1%
9/30/2011	18,586,518	26,073,705	7,487,187	71.3%	7,417,861	100.9%

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

Reflects changes in actuarial assumptions.

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

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.

Reflects changes in actuarial assumptions.

* Market Value of Assets as of September 30, 2011: \$15,784,722

Police and Firefighters Retirement Fund of the City of Anniston

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (1)/(2) (3)	Over (Under) Funded (UAAL) (2)-(1) (4)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
10/1/2003	\$ 25,704,942	\$ 39,873,805	64.7%	\$ (14,168,863)	\$ 5,565,899	-254.57%
10/1/2005	24,632,743	42,810,623	57.54%	(18,177,880)	6,249,403	-290.87%
10/1/2007	27,089,478	49,792,153	54.41%	(22,702,675)	6,665,540	-340.60%
10/1/2009	20,471,581	55,360,777	36.98%	(34,889,196)	7,854,449	-444.20%
10/1/2011	19,628,595	59,008,960	33.3%	(39,380,365)	7,635,932	-515.70%

Note: See assumptions used for these schedules disclosed in the notes to the financial statements.

OPEB Health Care Plan

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (1)/(2) (3)	Over (Under) Funded (UAAL) (2)-(1) (4)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
10/1/2007**	-	\$ 12,216,500	0.00%	\$ (12,216,500)	\$ 13,085,683	-93.36%
10/1/2009	-	10,135,000	0.00%	(10,135,000)	13,342,472	-75.96%
10/1/2011	-	13,679,400	0.00%	(13,679,400)	N/A	0.00%

Note: See assumptions used for these schedules disclosed in the notes to the financial statements.

**First year of implementation

COMBINING FUND STATEMENTS

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF ANNISTON, ALABAMA

SEPTEMBER 30, 2012

	Nonmajor Debt Service Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Improvement Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash	-	5,867,469	-	5,867,469
Investments	-	421,062	-	421,062
Cash bond on hand	-	22,275	-	22,275
Taxes receivable	-	3,262	-	3,262
Accounts receivable	-	87,985	9,720	97,705
Notes receivable	-	985,273	-	985,273
Interest receivable	-	-	-	-
Prepaid items	-	11,465	-	11,465
Due from other funds	-	468,404	188,554	656,958
Due from agency funds	-	-	-	-
Due from other governments	-	715,566	20,794	736,360
Restricted Cash	-	-	322,813	322,813
TOTAL ASSETS	-	8,582,761	541,881	9,124,642
LIABILITIES				
Accounts payable	-	96,880	9,629	106,509
Accrued liabilities	-	14,263	-	14,263
Cash bond liabilities	-	137,594	-	137,594
Due to other funds	-	2,533,738	348,902	2,882,640
Due to agency funds	-	48,132	-	48,132
Due to other governments	-	-	-	-
Deferred revenue	-	1,173,223	-	1,173,223
TOTAL LIABILITIES	-	4,003,830	358,531	4,362,361
FUND BALANCES				
Nonspendable	-	-	-	-
Prepaid items	-	11,465	-	11,465
Restricted for:	-	-	-	-
Judicial	-	-	-	-
Public safety	-	2,028,002	-	2,028,002
Road improvements	-	1,862,360	-	1,862,360
Court activities	-	-	-	-
Culture and recreation	-	27,307	-	27,307
Housing and development	-	-	-	-
Capital Outlay	-	-	183,350	183,350
Committed for:	-	-	-	-
Culture and recreation	-	969,703	-	969,703
Assigned for:	-	-	-	-
Housing and development	-	794,048	-	794,048
Unassigned	-	(1,113,954)	-	(1,113,954)
TOTAL FUND BALANCES (DEFICIT)	-	4,578,931	183,350	4,762,281
TOTAL LIABILITIES AND FUND BALANCES	-	8,582,761	541,881	9,124,642

See accompanying notes to the basic financial statements

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	Nonmajor Debt Service Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Improvement Fund	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	-	2,262,381	177,538	2,439,919
Fines and forfeitures	-	1,516,508	-	1,516,508
Charges for services	-	245,205	-	245,205
Taxes	-	457,986	-	457,986
Interest earned	-	11,743	1,345	13,088
Miscellaneous	-	551,912	117,288	669,200
TOTAL REVENUES	-	5,045,735	296,171	5,341,906
EXPENDITURES				
General government	-	-	-	-
Judicial	-	601,910	-	601,910
Public safety	-	1,175,835	-	1,175,835
Public works	-	276,540	656,029	932,569
Culture and recreation	-	1,116,591	-	1,116,591
Public facilities	-	-	-	-
Housing and development	-	1,252,067	-	1,252,067
Capital outlay	-	485,439	852,084	1,337,523
Debt Service				
Principal	118,739	-	240,000	358,739
Interest	27,192	-	310,190	337,382
Bond Exchange Cost	3,050	-	-	3,050
TOTAL EXPENDITURES	148,981	4,908,382	2,058,303	7,115,666
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(148,981)	137,353	(1,762,132)	(1,773,761)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	-	-
Transfers in	148,981	860,889	438,101	1,447,971
Transfers out	-	(1,127,517)	-	(1,127,517)
TOTAL OTHER FINANCING SOURCES (USES)	148,981	(266,628)	438,101	320,454
NET CHANGE IN FUND BALANCES	-	(129,276)	(1,324,031)	(1,453,307)
FUND BALANCES (DEFICIT), BEGINNING	-	4,708,206	1,507,381	6,215,587
FUND BALANCES (DEFICIT), END	-	4,578,931	183,350	4,762,281

See accompanying notes to the basic financial statements

COMBINING BALANCE SHEET -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS

CITY OF ANNISTON, ALABAMA

SEPTEMBER 30, 2012

	Museum Fund	Gasoline Fund	Seven Cent Gas Fund	Alabama Trust Fund	CDBG Fund	Emergency Shelter Grant Fund
ASSETS						
Cash and Cash Equivalents	827,300	198,684	247,209	1,322,515	5,597	-
Investments	158,061	-	-	-	-	-
Cash bonds on hand	-	-	-	-	-	-
Taxes receivable	3,262	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-
Notes receivable	-	-	-	-	653,484	-
Interest receivable	-	-	-	-	-	-
Prepaid items	11,465	-	-	-	-	-
Due from other funds	-	-	228,362	-	-	1,000
Due from agency funds	-	-	-	-	-	-
Due from other governments	-	52,827	64,274	-	298,826	-
TOTAL ASSETS	1,000,088	251,511	539,845	1,322,515	957,907	1,000
LIABILITIES						
Accounts payable	5,178	-	-	-	21,027	-
Accrued liabilities	13,742	-	-	-	521	-
Cash Bonds liabilities	-	-	-	-	-	-
Due to other funds	-	673,105	-	-	48,557	-
Due to agency funds	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Deferred revenue	-	-	-	-	654,484	-
TOTAL LIABILITIES	18,920	673,105	-	-	724,589	-
FUND BALANCES						
Nonspendable						
Prepaid items	11,465	-	-	-	-	-
Restricted for:						
Judicial	-	-	-	-	-	1,000
Public safety	-	-	-	-	-	-
Road improvements	-	-	539,845	1,322,515	-	-
Court activities	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Housing and development	-	-	-	-	-	-
Committed for:						
Culture and recreation	969,703	-	-	-	-	-
Assigned for:						
Housing and development	-	-	-	-	233,318	-
Unassigned	-	(421,594)	-	-	-	-
TOTAL FUND BALANCES (DEFICIT)	981,168	(421,594)	539,845	1,322,515	233,318	1,000
TOTAL LIABILITIES AND FUND BALANCES	1,000,088	251,511	539,845	1,322,515	957,907	1,000

See accompanying notes to the basic financial statements

**COMBINING BALANCE SHEET -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS (CONTINUED)**

CITY OF ANNISTON, ALABAMA

SEPTEMBER 30, 2012

	<u>Federal Seized Assets Fund</u>	<u>State Seized Assets Fund</u>	<u>Public Safety Grant Fund</u>	<u>Bulletproof Vest Grant Fund</u>	<u>Airport Wildlife Fund</u>	<u>Airport Grant 2009 Fund</u>
ASSETS						
Cash and Cash Equivalents	105,615	3,870	17	-	-	-
Investments	-	-	-	-	-	-
Cash bonds on hand	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-
Due from other funds	-	-	898	-	-	-
Due from agency funds	-	-	-	-	-	-
Due from other governments	-	-	35,722	3,565	21,693	64,532
TOTAL ASSETS	105,615	3,870	36,637	3,565	21,693	64,532
LIABILITIES						
Accounts payable	-	-	-	-	-	37,146
Accrued liabilities	-	-	-	-	-	-
Cash Bonds liabilities	-	-	-	-	-	-
Due to other funds	39,133	357	22,292	4,771	21,693	79
Due to agency funds	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
TOTAL LIABILITIES	39,133	357	22,292	4,771	21,693	37,225
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-
Restricted for:						
Judicial	-	-	-	-	-	-
Public safety	66,482	3,513	-	-	-	-
Road improvements	-	-	-	-	-	-
Court activities	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	27,307
Housing and development	-	-	-	-	-	-
Committed for:						
Culture and recreation	-	-	-	-	-	-
Assigned for:						
Housing and development	-	-	-	-	-	-
Unassigned	-	-	14,345	(1,206)	-	-
TOTAL FUND BALANCES (DEFICIT)	66,482	3,513	14,345	(1,206)	-	27,307
TOTAL LIABILITIES AND FUND BALANCES	105,615	3,870	36,637	3,565	21,693	64,532

See accompanying notes to the basic financial statements

**COMBINING BALANCE SHEET -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS (CONTINUED)**

CITY OF ANNISTON, ALABAMA

SEPTEMBER 30, 2012

	<u>JAG Recovery Act Grant Fund</u>	<u>JAG 2009 Grant Fund</u>	<u>JAG 2011 Grant Fund</u>	<u>UDAG Revolving Loan Fund</u>	<u>Home Consortium Fund</u>	<u>City Court Fund</u>
ASSETS						
Cash and Cash Equivalents	450	441	53,391	482,226	2,447	122,117
Investments	-	-	-	-	-	-
Cash bonds on hand	-	-	-	-	-	22,275
Taxes receivable	-	-	-	-	-	-
Accounts receivable	-	-	-	87,985	-	-
Notes receivable	-	-	-	-	331,789	-
Interest receivable	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	62,134
Due from agency funds	-	-	-	-	-	-
Due from other governments	-	-	-	-	40,523	-
TOTAL ASSETS	450	441	53,391	570,211	374,759	206,526
LIABILITIES						
Accounts payable	-	-	-	342	2,331	-
Accrued liabilities	-	-	-	-	-	-
Cash Bonds liabilities	-	-	-	-	-	137,594
Due to other funds	7,991	954	83,959	9,139	211,594	-
Due to agency funds	-	-	-	-	-	48,132
Due to other governments	-	-	-	-	-	-
Deferred revenue	-	-	-	-	331,789	-
TOTAL LIABILITIES	7,991	954	83,959	9,481	545,714	185,726
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-
Restricted for:						
Judicial	-	-	-	-	-	-
Public safety	-	-	-	-	-	20,800
Road improvements	-	-	-	-	-	-
Court activities	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Housing and development	-	-	-	-	-	-
Committed for:						
Culture and recreation	-	-	-	-	-	-
Assigned for:						
Housing and development	-	-	-	560,730	-	-
Unassigned	(7,541)	(513)	(30,568)	-	(170,955)	-
TOTAL FUND BALANCES (DEFICIT)	(7,541)	(513)	(30,568)	560,730	(170,955)	20,800
TOTAL LIABILITIES AND FUND BALANCES	450	441	53,391	570,211	374,759	206,526

See accompanying notes to the basic financial statements

COMBINING BALANCE SHEET -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS (CONTINUED)

CITY OF ANNISTON, ALABAMA

SEPTEMBER 30, 2012

	Cemetery Fund	Drug Task Force Fund	Drug Task Force Office Fund	Corrections Fund	JAG 2010 Grant Fund	Total Nonmajor Special Revenue Funds
ASSETS						
Cash and Cash Equivalents	-	-	513,724	1,959,150	22,716	5,867,469
Investments	-	-	-	263,001	-	421,062
Cash bonds on hand	-	-	-	-	-	22,275
Taxes receivable	-	-	-	-	-	3,262
Accounts receivable	-	-	-	-	-	87,985
Notes receivable	-	-	-	-	-	985,273
Interest receivable	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	11,465
Due from other funds	-	176,010	-	-	-	468,404
Due from agency funds	-	-	-	-	-	-
Due from other governments	-	133,604	-	-	-	715,566
TOTAL ASSETS	-	309,614	513,724	2,222,151	22,716	8,582,761
LIABILITIES						
Accounts payable	-	30,856	-	-	-	96,880
Accrued liabilities	-	-	-	-	-	14,263
Cash Bonds liabilities	-	-	-	-	-	137,594
Due to other funds	431,600	343,080	172,958	439,856	22,620	2,533,738
Due to agency funds	-	-	-	-	-	48,132
Due to other governments	-	-	-	-	-	-
Deferred revenue	-	-	186,854	-	96	1,173,223
TOTAL LIABILITIES	431,600	373,936	359,812	439,856	22,716	4,003,830
FUND BALANCES						
Nonspendable	-	-	-	-	-	11,465
Prepaid items	-	-	-	-	-	-
Restricted for:	-	-	-	-	-	-
Judicial	-	-	-	-	-	-
Public safety	-	-	153,912	1,782,295	-	2,028,002
Road improvements	-	-	-	-	-	1,862,360
Court activities	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	27,307
Housing and development	-	-	-	-	-	-
Committed for:	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	969,703
Assigned for:	-	-	-	-	-	-
Housing and development	-	-	-	-	-	794,048
Unassigned	(431,600)	(64,322)	-	-	-	(1,113,954)
TOTAL FUND BALANCES (DEFICIT)	(431,600)	(64,322)	153,912	1,782,295	-	4,578,931
TOTAL LIABILITIES AND FUND BALANCES	-	309,614	513,724	2,222,151	22,716	8,582,761

See accompanying notes to the basic financial statements

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	<u>Museum Fund</u>	<u>Gasoline Fund</u>	<u>Seven Cent Gas Fund</u>	<u>Alabama Trust Fund</u>	<u>CDBG Fund</u>	<u>Emergency Shelter Grant Fund</u>
REVENUES						
Intergovernmental	71,080	-	-	-	642,900	121,391
Fines and forfeitures	-	-	-	-	-	-
Charges for services	245,205	-	-	-	-	-
Taxes	25,000	110,431	126,564	195,991	-	-
Interest earned	1,439	1	3	10	2,632	-
Miscellaneous	204,262	-	11,539	-	2,964	-
TOTAL REVENUES	546,986	110,432	138,106	196,001	648,496	121,391
EXPENDITURES						
General government	-	-	-	-	-	-
Judicial	-	-	-	-	-	-
Public safety	-	-	-	-	-	120,391
Public works	-	276,540	-	-	-	-
Culture and recreation	1,007,023	-	-	-	-	-
Public facilities	-	-	-	-	-	-
Housing and development	-	-	-	-	758,202	-
Capital outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	1,007,023	276,540	-	-	758,202	120,391
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(460,037)	(166,108)	138,106	196,001	(109,706)	1,000
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	-	-	-	-	-	-
Transfers in	563,127	-	-	-	-	-
Transfers out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	563,127	-	-	-	-	-
NET CHANGE IN FUND BALANCES	103,090	(166,108)	138,106	196,001	(109,706)	1,000
FUND BALANCES (DEFICIT), BEGINNING	878,078	(255,486)	401,739	1,126,514	343,024	-
FUND BALANCES (DEFICIT), END	981,168	(421,594)	539,845	1,322,515	233,318	1,000

See accompanying notes to the basic financial statements

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS (CONTINUED)**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	<u>Federal Seized Assets Fund</u>	<u>State Seized Assets Fund</u>	<u>Public Safety Grant Fund</u>	<u>Bulletproof Vest Grant Fund</u>	<u>Airport Wildlife Fund</u>	<u>Airport Grant 2009 Fund</u>
REVENUES						
Intergovernmental	-	-	162,912	6,331	51,427	454,701
Fines and forfeitures	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Taxes	-	-	-	-	-	-
Interest earned	1	-	-	-	-	-
Miscellaneous	-	652	-	-	-	-
TOTAL REVENUES	1	652	162,912	6,331	51,427	454,701
EXPENDITURES						
General government	-	-	-	-	-	-
Judicial	-	-	-	-	-	-
Public safety	5,844	-	139,924	12,662	-	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	54,133	55,435
Public facilities	-	-	-	-	-	-
Housing and development	-	-	-	-	-	-
Capital outlay	33,289	-	-	-	-	423,809
TOTAL EXPENDITURES	39,133	-	139,924	12,662	54,133	479,244
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(39,132)	652	22,988	(6,331)	(2,706)	(24,543)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	-	-	-	-	-	-
Transfers in	-	-	-	6,331	2,706	24,543
Transfers out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	6,331	2,706	24,543
NET CHANGE IN FUND BALANCES	(39,132)	652	22,988	-	-	-
FUND BALANCES (DEFICIT), BEGINNING	105,614	2,861	(8,643)	(1,206)	-	27,307
FUND BALANCES (DEFICIT), END	66,482	3,513	14,345	(1,206)	-	27,307

See accompanying notes to the basic financial statements

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS (CONTINUED)**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	JAG Recovery Act Grant Fund	JAG 2009 Grant Fund	JAG 2011 Grant Fund	UDAG Revolving Loan Fund	Home Consortium Fund	City Court Fund
REVENUES						
Intergovernmental	-	-	31,124	-	346,110	18,187
Fines and forfeitures	-	-	-	-	-	9,093
Charges for services	-	-	-	-	-	-
Taxes	-	-	-	-	-	-
Interest earned	17	2	-	4,131	2,128	-
Miscellaneous	-	-	-	-	-	-
TOTAL REVENUES	17	2	31,124	4,131	348,238	27,280
EXPENDITURES						
General government	-	-	-	-	-	-
Judicial	-	-	-	-	-	6,480
Public safety	2,120	-	38,976	-	-	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Public facilities	-	-	-	-	-	-
Housing and development	-	-	-	22,404	471,461	-
Capital outlay	-	-	22,716	-	-	-
TOTAL EXPENDITURES	2,120	-	61,692	22,404	471,461	6,480
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,103)	2	(30,568)	(18,273)	(123,223)	20,800
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	(2,103)	2	(30,568)	(18,273)	(123,223)	20,800
FUND BALANCES (DEFICIT), BEGINNING	(5,438)	(515)	-	579,003	(47,732)	-
FUND BALANCES (DEFICIT), END	(7,541)	(513)	(30,568)	560,730	(170,955)	20,800

See accompanying notes to the basic financial statements

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS (CONTINUED)**

CITY OF ANNISTON, ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	<u>Cemetary Fund</u>	<u>Drug Task Force Fund</u>	<u>Drug Task Force Office Fund</u>	<u>Corrections Fund</u>	<u>Municipal Court Revenue Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
REVENUES						
Intergovernmental	-	356,218	-	-	-	2,262,381
Fines and forfeitures	-	-	167,305	385,315	954,795	1,516,508
Charges for services	-	-	-	-	-	245,205
Taxes	-	-	-	-	-	457,986
Interest earned	-	-	97	1,282	-	11,743
Miscellaneous	-	-	332,495	-	-	551,912
TOTAL REVENUES	-	356,218	499,897	386,597	954,795	5,045,735
EXPENDITURES						
General government	-	-	-	-	-	-
Judicial	-	-	-	-	595,430	601,910
Public safety	-	684,722	171,196	-	-	1,175,835
Public works	-	-	-	-	-	276,540
Culture and recreation	-	-	-	-	-	1,116,591
Public facilities	-	-	-	-	-	-
Housing and development	-	-	-	-	-	1,252,067
Capital outlay	-	-	-	5,625	-	485,439
TOTAL EXPENDITURES	-	684,722	171,196	5,625	595,430	4,908,382
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(328,504)	328,701	380,972	359,365	137,353
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	-	-	-	-	-	-
Transfers in	-	264,182	-	-	-	860,889
Transfers out	-	-	(133,921)	(634,231)	(359,365)	(1,127,517)
TOTAL OTHER FINANCING SOURCES (USES)	-	264,182	(133,921)	(634,231)	(359,365)	(266,628)
NET CHANGE IN FUND BALANCES	-	(64,322)	194,780	(253,259)	-	(129,276)
FUND BALANCES (DEFICIT), BEGINNING	(431,600)	-	(40,868)	2,035,554	-	4,708,206
FUND BALANCES (DEFICIT), END	(431,600)	(64,322)	153,912	1,782,295	-	4,578,931

See accompanying notes to the basic financial statements

COMPLIANCE SECTION



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

Honorable Mayor and Members of the City Council
City of Anniston, Alabama

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anniston, Alabama as of and for the year ended September 30, 2012, which collectively comprise the City of Anniston, Alabama's basic financial statements and have issued our report thereon dated July 31, 2013. Our report includes a reference to other auditors. 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. As discussed in our report and Note 1, the City of Anniston, Alabama implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of October 1, 2010. Other auditors audited the financial statements of the Anniston City School Board, the Public Library of Anniston/Calhoun County, and the Farley L. Berman Foundation Inc., as described in our report on the City of Anniston, Alabama's financial statements. We audited the financial statements of the Policemen's and Firemen's Retirement Fund, which represents 99% and 100%, respectively, of the assets and revenues of the fiduciary funds. The report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Anniston Industrial Development Board, Anniston City Schools Foundation and Spirit of Anniston have not been audited, and we were not engaged to audit these entities financial statements as part of our audit of the City's basic financial statements. Anniston Industrial Development Board's, Anniston City Schools Foundation's and Spirit of Anniston's are included in the City's basic financial statements as discretely presented component units and represent 2% and 1% of the assets and revenues, respectively, of the City's aggregate discretely presented component units.

Internal Control Over Financial Reporting

Management of the City of Anniston, Alabama is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Anniston, Alabama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Anniston, Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Anniston, Alabama's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Anniston, Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City of Anniston, Alabama in a separate letter dated July 31, 2013.

This report is intended solely for the information and use of the members of the City Council, others within the entity, management of the City of Anniston, Alabama and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Kemp & Associates, CPA PC
Anniston, Alabama
July 31, 2013



Kemp & Associates, CPA PC

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

Honorable Mayor and Members of the City Council
City of Anniston, Alabama

Compliance

We have audited the City of Anniston, Alabama compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Anniston, Alabama's major federal programs for the year ended September 30, 2012. The City of Anniston, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Anniston, Alabama's management. Our responsibility is to express an opinion on the City of Anniston, Alabama's compliance based on our audit.

The City's basic financial statements include the operations of the Anniston City School Board, which received \$4,888,716 in federal awards which are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2012. Our audit, described below, did not include the operations of the Anniston City School Board because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Anniston, Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Anniston, Alabama's compliance with those requirements.

In our opinion, the City of Anniston, Alabama complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the City of Anniston, Alabama is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Anniston, Alabama's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Anniston, Alabama's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of finds and questioned cost items 2012-1, 2012-4, and 2012-5. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Anniston, Alabama's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Anniston, Alabama's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the members of the City Council, others within the entity, management of the City of Anniston, Alabama and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Kemp & Associates, CPA PC
Anniston, Alabama
July 31, 2013

FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-Through Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Transportation		
Passed through the Alabama Department of Transportation		
2009 Airport Grant	20.106	\$ 480,039
Transportation Improvement Program	20.205	11,022
Transportation Improvement Program	20.205	<u>9,773</u>
Subtotal Transportation Improvement Program		20,795
Total U.S. Department of Transportation		<u>511,184</u>
U.S. Department of Justice		
Direct Award		
Justice Assistance Grant	16.738	31,124
Bulletproof Vest Partnership Program	16.607	6,331
COPS Hiring Program – Recovery Act	16.710	<u>152,696</u>
Subtotal Direct Awards		190,151
Passed through the Alabama Department of Economic and Community Affairs		
Justice Assistance Grant	16.738	<u>220,000</u>
Subtotal Alabama Department of Economic and Community Affairs		220,000
Total U.S. Department of Justice		<u>410,151</u>
U.S. Department of Housing and Urban Development		
Direct Award		
Community Development Block Grants – Recovery Act	14.253	629,684
Emergency Shelter Grant Program	14.231	120,391
HOME Investment Partnership Grant Program	14.239	<u>434,880</u>
Total U.S. Department of Housing and Urban Development		1,184,955
U.S. Department of Energy		
Passed through the Alabama Department of Economic and Community Affairs		
Conservation Block Grant Program – Recovery Act	81.128	<u>11,343</u>
Total U.S. Department of Energy		11,343
Total Expenditures of Federal Awards		<u>\$2,107,283</u>

FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Anniston, Alabama (the "City") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2. SUBRECIPIENTS

During the fiscal year ended September 30, 2012, disbursements were made to subrecipients of the following grant program:

<u>Program</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Community Development Block Grant Cluster – Recovery Act	14.253	\$ 92,515
Emergency Shelter Grant Program	14.231	120,391
		<u>\$ 212,906</u>

FOR THE YEAR ENDED SEPTEMBER 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:
Material weaknesses identified?

_____ yes X no

Significant deficiencies identified not considered
to be material weaknesses?

_____ yes X no none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal Control over major programs: Material
weaknesses identified?

_____ yes X no

Significant deficiencies identified not considered
to be material weaknesses?

X yes _____ no

Type of auditor's report issued on compliance for
major programs

Unqualified

Any audit findings disclosed that are required to be reported
in accordance with OMB Circular A-133, Section 510(a)?

_____ yes X no

Identification of major programs:

CFDA Number

14.253

14.239

20.106

Name of Federal Program or Cluster

Community Development Block Grant

Cluster – Recovery Act

HOME Investment Partnership Grant

Program

2009 Airport Grant

Dollar threshold used to distinguish between
Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Section II- Financial Statement Findings and Reponses

None

Section III – Federal Awards Findings and Questioned Cost

During testing of compliance preformed for the period of October 1, 2011 thru September 30, 2012, we did not have any findings.

During the coarse of our audit, U.S. Department of Housing and Urban Development (HUD) released results of an “On-site Monitoring Review” they performed on the HOME Investment Partnership Program (Home) (CFDA 14.239). The report release of the monitoring is September 17, 2012. The following are five findings determined by HUD:

Department of Housing and Urban Development

2012-1 HOME Income Limits

Questioned
Cost

Condition: The participating jurisdiction (PJ) funded the Northeast Alabama CDC (CHDO) to acquire, rehabilitate, and rent three houses. The CHDO completed two of the houses and rented one of them to an over income family.

Criteria: The HOME regulations at 24 CFR92.216 require that 90 percent of rental units be occupied by persons at or below 60 percent of median income

Cause: The PJ’s consultant misunderstood the applicability of 24 CFR§92.216 to single-family rental units, and erroneously told the CHDO that they could rent to persons/familys up to 80 percent of median income and provided only those income limits to them.

Effect: The PJ’s Consultant erroneously gave the CHDO the income limits for persons at 80 percent of median income to use in determining eligibility to occupy one of the homes. This resulted in one family occupying a house with a family income in excess of 60 percent of median income.

Recommendation: The PJ must provide all landlords with the correct HUD issued income and rent limitations. Also they must insure that the landlords are reducing the rent by the amount of the utility allowance obtained from the local PHA.

Views of Responsible Officials and Planned Corrective Actions: The City has implemented a corrective action plan, see attached.

FOR THE YEAR ENDED SEPTEMBER 30, 2012**2012-2 Program Income Usage****Questioned
Cost**

Condition: Since the inception of the HOME program, the city reported to HUD in the IDIS system it had received \$3,866.62 in program income. Specifically, the city reported it had received program amounts of \$397.99 in 2009, \$2,246.08 in 2010, and \$1,222.55 in 2011. During the on-site review of program income, our financial analyst requested the city accounting records for program income receipts during the time frame of February 1, 2012 - July 31, 2012. Said records showed that the city had received \$7,911.73 in program income over the six month period. During the six month period reviewed, the city had received \$4,045.11 more in program income than had been reported over the entire program. As such, it is clear the city has failed to correctly report and use in IDIS program income.

Criteria: 24 CFR§92.503(a)(1) addresses the use of program income for the HOME program. The regulation states that program income must be used in accordance with the requirements of this part. Program income must be deposited in the PJ's HOME Investment Trust Fund local account unless the PJ permits the State recipient or subrecipient to retain the program income for additional HOME projects pursuant to the written agreement required by §92.504.

Cause: The city has not been closely monitoring the receipt, reporting, and use of program income.

Effect: The grantee drew line of credit funds instead of disbursing program income first, as required by the regulations. The U.S. Treasury was not able to earn interest on the funds that you unallowably drew from your line of credit.

Recommendation: The City will need to reconcile its accounting records to what has been reported in IDIS. The city needs to report all program income, not yet reported, immediately and use said income prior to drawing anymore funds fro its U.S. Treasury HOME account. The city has a program income policy that meets all the regulations requirements cited above. The city needs to create a procedure that it will implement immediately describing how its process will change so as to use program income correctly.

Views of Responsible Officials and Planned Corrective Actions: The City has implemented a corrective action plan, see attached.

2012-3 Incorrect reporting

Condition: As noted above, the city has not been reporting program income that it has received. Additionally, the city has been drawing down funds for entitlement costs under the administrative funds in IDIS. Under IDIS activity numbers 584 and 633, the city made draws for entitlement cost, yet drew those cost under the administrative fund type. Under activity 622, the city's HOME administration activity, the city made a draw for entitlement cost under the administration activity and with the administration fund type.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

**Questioned
Cost**

Criteria: 24 CFR§85.20(b)(1) addresses the financial management systems requirements of grantees regarding financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.

Cause: The city personnel have not reviewed program income records and reimbursement draws proficiently enough to ensure that all is being done correctly.

Effect: Lack of accurate accounting and reporting records leads to inability for HUD or other reviews to follow internal data, as well as system of checks and balances between the community development and finance department.

Recommendation: The program income reporting corrective action has been addressed in finding number two. The incorrect entitlement and administrative draws have been correct by the city by returning the funds to the HOME U.S. Treasury account and correcting the draws in IDIS. As such the city will not need to complete any additional monetary corrective actions under this finding. However, the grantee will need to create a policy and procedure which details how additional reviews will take place, prior to submitting and approving a draw request, to ensure reimbursements are being drawn from the correct fund type.

Views of Responsible Officials and Planned Corrective Actions: The City has implemented a corrective action plan, see attached.

2012-4 Procurement – Contractor

Condition: The city failed to advertise for a seal bid for IDIS activity 584. The city used the sealed bid process to procure a contractor for a housing rehabilitation project. However, the city only set bid packages out to contractors on its pre-qualified list. This is not only a requirement of the federal regulations cited below, but part of the city's procurement policy, which is more stringent than the federal requirements and therefore must be followed.

Criteria: 24 CFR§92.505(a) stipulates that the procurement requirements of 24 CFR§85.36 apply to all PJ, state recipients, and any governmental subrecipients receiving HOME funds. 24 CFR§85.36 details the procurement procedures required for obtaining services that will be paid for with HUD funds.

24 CFR§85.36(b) states grantees and subgrantees will use their own procurement procedures with reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Furthermore, 24 CFR§85.36(c) states that all procurement transactions will be conducted in a manner providing full and open competition consistent with standards of 24 CFR§85.36.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

24 CFR§85.36(d)(2)(ii)(A) states that (ii) if sealed bids are used, the following requirements apply: (A) The invitations for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids.

Questioned
Cost

Cause: The city did not refer to its own procurement policy when obtaining contractor services.

Effect: The lack of open advertising is restrictive to full open and equal competition.

Recommendation: The city will need to put a procedure in place to ensure that the city follows proper procurement policies and regulations. The city will need to include a supervisory level of approval for procurement decisions such as this, so as to ensure proper oversight.

Views of Responsible Officials and Planned Corrective Actions: The City has implemented a corrective action plan, see attached.

2012-5 Procurement – Consultants

Condition: Based on documentation provided and reviewed, the grantee failed to comply with the procurement requirements of 24 CFR§85.36, as well as the city's own procurement policy in its procurement of consulting services for the HOME program for the city and paid for with HOME funds. While on-site, multiple requests were made for documentation of procurement that was done for the purpose of obtaining HOME consulting services. The city was unable to provide any documentation that would indicate any procurement was completed.

Criteria: As the consultant contract for the city was in excess of small purchase procurement threshold as cited by the city's own procurement policy, the city would not have been able to use small purchase procedures to obtain the consulting services. As such, the city would have been required to follow the competitive proposal procurement requirements.

24 CFR§92.505(a) stipulates that the procurement requirements of 24 CFR§85.36 apply to all PJ, state recipients, and any governmental subrecipients receiving HOME funds. 24 CFR§85.36 details the procurement procedures required for obtaining services that will be paid for with HUD funds. Furthermore, 24 CFR§85.36(c) states that all procurement transactions will be conducted in a manner providing full and open competition consistent with standards of 24 CFR§85.36.

24 CFR§85.36(d)(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting and offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

FOR THE YEAR ENDED SEPTEMBER 30, 2012

- | | <u>Questioned
Cost</u> |
|--|----------------------------|
| (i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical; | |
| (ii) Proposals will be solicited from an adequate number of qualified sources; | |
| (iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposal received and for selecting awardees; | |
| (iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factor considered; and | |
| (v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurements of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and most qualified competitor is selected, subject to negotiations of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort. | |

24 CFR§85.36(d)(4) describes procurement by noncompetitive proposals as a procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

- (A) The item is available only from a single source;
 - (B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
 - (C) The awarding agency authorized noncompetitive proposals; or
 - (D) After solicitation of a number of sources, competition is determined inadequate.
- (ii) Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of cost and profits, is required.
 - (iii) Grantees and subgrantees may be required to submit the proposed procurement to the awarding agent for pre-award review in accordance with paragraph (g) of this section.

Furthermore, 24 CFR§85.36(b) states grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. As such, the city would need to refer to its own procurement policies to deem what, if any, areas are most stringent than the federal regulations cited above, and follow the most stringent rules.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Lastly, 24 CFR§85.36(b)(9) asserts that grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are no necessarily limited to the following: rationale for the method of procurement, selection of contract type, developer selection or rejection, and the basis for the contract price.

Questioned
Cost

Cause: The consulting service that was chosen for the HOME program was already the consultant working on the city’s CDBG program. The city may have not felt the need to follow procurement guidelines, as it already had a viable candidate working in the community development department.

Effect: Grant funds were misappropriated for an expense due to the failure of following procurement procedures and regulations stated above. As such, the expenses paid from the line of credit for the HOME consulting services.

Recommendation: As of the time of HUD on-site review, the city has drawn down \$85,000 of its HOME U.S. Treasury funds to pay for the consulting services discussed in this finding. The city will be required to pay back, with non-federal funds, the total amount drawn to the HOME U.S. Treasury line of credits from which the funds were drawn.

\$ 85,000

Views of Responsible Officials and Planned Corrective Actions: The City has implemented a corrective action plan, see attached.

Total Department of Housing and Urban Development

\$ 85,000

Significant Deficiencies:

The results of the on-site monitoring done by U.S. Department of Housing and Urban Development indicate the following significant deficiencies in the HOME Investment Partnership Program:

As discussed in Finding 2012-1, HOME program is managed by an outside consultant on behalf of the city. The city failed to properly monitor the activities of the consultant. As a result, the city failed to ensure that the consultant followed the compliance requirements of the U.S. Department of Housing and Urban Development grant program and failed to ensure that the consultant maintained proper documentation.

As discussed in Findings 2012-4 and 2012-5, the city has policies in place to ensure that city complied with federal and state regulations regarding procurement of services. The city failed to have procedures in place to ensure the policies were being followed.

FOR THE YEAR ENDED SEPTEMBER 30, 2012

2011 - Section II- Financial Statement Findings and Reponses

None

2011 - Section III – Federal Awards Findings and Questioned Cost

None



CITY OF ANNISTON
P.O. Box 2168
ANNISTON, AL 36202

**Response to HUD Monitoring Corrective Findings
for the period October 1, 2011 thru September 30, 2012
HOME Investment Partnership Program (HOME)**

2012-1 HOME Income Limits

CHDO and other landlords are now provided the correct HUD issued income limits, noting the 60% of median income limit for rental units. Additionally, the City will review agreements between the landlord and the tenant to ensure the tenant is within the income limit and that the rents are reduced by the amount of the utility assistance obtained from the local public housing authority.

2012-2 Program Income Usage

The City reconciled its accounting records to the amount of program income reported in IDIS. All income not previously reported was receipted in IDIS and was used prior to drawing funds from the U.S. Treasury HOME account. A program income policy was provided, and a procedure was implemented addressing the proper usage of program income. Both the program income policy and procedure are now part of the City's program manual.

2012-3 Incorrect Reporting

The incident that generated this finding was discovered and self-reported. The U.S. Treasury HOME funds were reimbursed prior to HUD's monitoring visit.

Since this incident, the City has created and implemented a procedure detailing how additional reviews will take place, prior to submitting and approving a draw request, to ensure reimbursements are being drawn from the correct fund type. This was placed in the City's program manual.

2012-4 Procurement-Contractor

The City has implemented a procedure to ensure that the City follows proper procurement policies and regulations; to include a supervisory level of approval for procurement decisions.

2012-5 Procurement-Consultants

A procurement policy was approved by the City Council and placed in the City's policy and procedure manual.

Funds (\$85,000) previously drawn from for the consulting services were paid back with non-federal funds to the HOME U.S. Treasury line of credit from which the funds were drawn on April 24, 2013 via wire transfer.

