

CITY OF MADISON, ALABAMA

POPULAR ANNUAL FINANCIAL REPORT

October 1, 2009 – September 30, 2010



Mayor Paul Finley

CITY COUNCIL

Tim Holcombe – District One
Steve Haraway – District Two
Jerry Jennings – District Three - Pro tem
Tim Cowles – District Four
Tommy Overcash – District Five
Larry Vannoy – District Six
Bill Holtzclaw – District Seven - President

OUR MISSION

**“To Improve the Quality of Life for
EVERY Madison Resident, by
Providing Responsible Government,
Characterized by Honesty, Integrity,
Accessibility, Efficiency and
accountability”**

We are pleased to present the citizens of Madison this Popular Annual Financial Report (PAFR) for the fiscal year ended September 30, 2010. This report is an overview of the City's financial position as well as an easy-to-read version of the City's 2010 Comprehensive Annual Financial Report (CAFR).

The financial statements in the City's CAFR prepared by the Finance Department in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America, and audited in accordance with Governmental Auditing Standards by MDA Professional Group, P.C. a firm of licensed certified public accountants.

Unlike the CAFR, the PAFR is unaudited and does not contain financial information on Component Units (Madison Utilities and Madison City Board of Education). Both the CAFR and PAFR are available on the City's website www.madisonal.gov

To the Citizens of Madison

DESCRIPTION OF MADISON

The City of Madison is located in North Alabama in the Western part of Madison County on I-565 linking easy access to Interstate 65. The City has a total land area of 25 square miles with 42,938 residents.

The history of Madison as a town began in 1865 when Memphis and Charleston Railroad Company were laying railroad tracks. Before the incorporation of the Town of Madison in 1869, the Town of Madison was the Town of Madison Station. The citizens of the Town of Madison Station voted on November 30, 1869, to incorporate and change the name from the Town of Madison Station to the Town of Madison. The vote was successful, the town incorporated November 30, 1869, and the name changed from the Town of Madison Station to the Town of Madison.

Madison operates under the Mayor-Council form of government. A Mayor and a Council consisting of seven members govern the City. The Mayor serves on a full-time basis and members of the City Council serve on a part-time basis. Citizens of Madison elect the Mayor and City Council members to four-year terms. The citizens elect the Mayor at large and elect the seven Council members from within their respective districts.

The City Council serves the citizens by adopting ordinances, resolutions, budgets, appointing committees and appointing the City Clerk-Treasurer, Police Chief, Fire Chief, and City Attorney.

The Mayor as the Chief Executive Officer of the City serves the citizens by executing policies and ordinances, managing the affairs of the City, hiring heads of City departments and supervising a staff of approximately 417 employees including 13 department heads.

Citizens of Madison receive services provided by the department of Police, Public Works, City Clerk, Recreation, Fire, Planning, Court, Finance, Human Resources, Revenue, Engineering, Senior Center, Information Technology, Legal and Building. Citizens also receive services provided by Madison Public Library.

**U.S. News & World Report ranked
City of Madison, Alabama,
Second Best Place to Grow Up
and #49 Best Place to Live.**

FINANCIAL STATEMENTS

This section contains information on the financial statements of the City of Madison, Alabama, for the fiscal year ended September 30, 2010. The City prepares two (2) different financial statements using two (2) different methods to measure its financial position.

The **Government-wide Financial Statements** provide information on the overall financial position of the City. The method used to prepare these statements is more comparable to the method used in a private-sector business. These financial statements include all information on the long-term position of the City's assets, liabilities and net assets using the accrual method of accounting. All the City's revenues and expenses for the fiscal year accounted for regardless of when cash received or paid. Over time, increases or decreases in net assets can be an indicator to determine if the City's financial position is improving or deteriorating. **The City has no functions classified as business-type activities.**

The **Fund Financial Statements** provide information on the short-term financial position of the City's assets, liabilities and fund balances with focus on the individual funds of city government. These financial statements provide information on operations in more detail than the government-wide financial statements and spotlight the City's most significant funds, instead of the City as a whole.

A **Fund** is a self-balancing set of accounts used to maintain control over resources segregated for specific activities and objectives. The City maintains twenty (20) individual governmental funds.

When presented in one report both types of financial statements give the user a broader comparison and enhances the City's accountability.

FINANCIAL HIGHLIGHTS

The two (2) government-wide statements are Statement of Net Assets and Statement of Activities. These statements report the City's net assets and the changes in net assets.

Statement of Net Assets

At September 30, 2010, the City had \$183,767,114 of total assets including \$5,727,446 in unrestricted cash, \$20,392,823 in temporary restricted cash and other assets and \$157,646,845 in capital assets (net). Total assets increased \$1,995,971 or 1.10% in 2010 from 2009.

Liabilities were \$147,381,319 and represented \$5,405,095 in current liabilities and \$141,976,224 in long-term liabilities. Current liabilities increased \$855,032 and long-term liabilities decreased \$1,383,871, which resulted in a decrease of \$528,839 for total liabilities in 2010,

The City's total net assets were \$36,385,795 at September 30, 2010. Total net assets increased \$2,524,810 in 2010 from 2009. The increase in net assets was a result of the decrease in total liabilities and the increase in total assets.

Statement of Activities

The City recognized \$41,870,447 in revenues in 2010 and this represented a decrease of 2.64% from 2009. Expenses were \$39,345,637 for services provided to citizens in 2010. Expenses decreased 35.39% in 2010 from 2009 and the decrease related to the one-time expenses in 2009 for issuance of debt to construct a new high school.

Total transactions of revenues and expenses produced in an increase of \$2,524,810 to net assets in 2010.

GOVERNMENTAL FUND STATEMENTS

The City organizes its financial transactions and accounts on the basis of funds in the fund financial statements. Each fund is an independent fiscal and separate accounting entity, with a self-balancing set of accounts. The fund statements presented on current financial resources and modified accrual basis of accounting.

General Fund – the largest fund within the City and accounts for most of the financial resources of the government except those accounted for in another fund.

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

Debt Service Funds – account for the accumulation of resources for the payment of principle and interest on long-term debt.

Capital Project Funds – account for financial resources segregated for acquisition and construction of major capital facilities.

The City maintains twenty (20) individual governmental funds.

Fund Statements

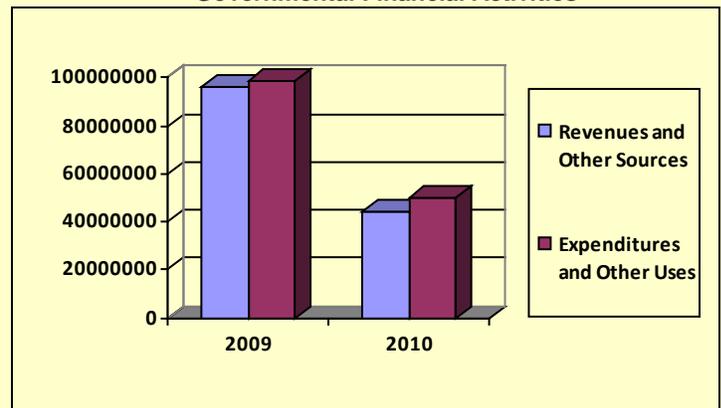
The City's governmental funds had a combined fund balance of \$13,835,168 at September 30, 2010, a decrease of \$5,285,591 or 27.64% from prior year. A large part of the decrease in fund balance attributed to capital project spending of \$4,312,870 with resources received in a prior year for the projects. Of the combined fund balance, 67.73% (\$9,370,676) was reserved and not available for spending and 32.27% (\$4,464,492) was unreserved and available for spending at the City's discretion.

The City received combined revenues of \$37,013,798 and combined other sources of \$7,455,659. Other sources are not revenues but are resources transferred from one fund to support expenditures in another fund, proceeds from the sale of capital assets and proceeds from financing purchases of capital assets.

Combined expenditures were \$43,080,306 and other sources were \$6,674,742. Expenditures included \$2,250,202 for retirement of long-term debt, \$6,965,125 for interest paid on debt, \$5,943,051 for the purchase of capital assets and the remaining \$27,921,928 for personnel and operating costs.

Governmental activities of the City resulted in a decrease of \$2,519,075 for the combined fund balance.

Governmental Financial Activities



General Fund

The General Fund is the main operating fund of the City and used to account for all revenues and expenditures applicable to the general operations of the City, except those accounted for in another fund.

This fund accounts for the most diverse sources of revenue. The principle revenue sources for fiscal year 2010 for the City of Madison General Fund continued to be the **sales tax, licenses and permits, property taxes, charges for services** and **lodging tax**.

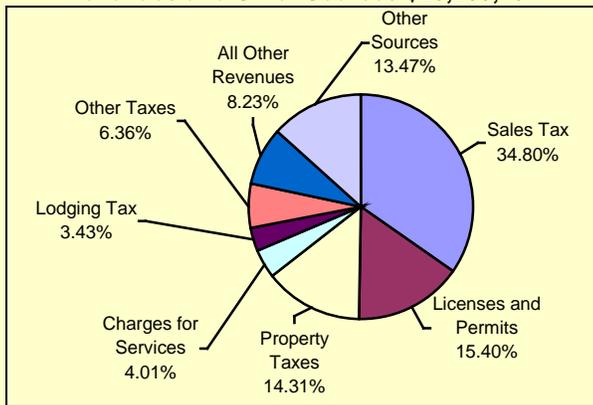
During fiscal year 2010, the General Fund received \$28,263,187 in resources (revenues, transfers and other financing sources). This was an increase of 2.19% from prior year and the increase related to property taxes, sales tax and other revenues.

The City received revenues of \$9,834,179 from sales tax. Sales tax is the largest revenue source (34.80% of total revenue resources) and increased .56% in 2010. The second largest revenue source (licenses and permits) was \$4,351,845 and decreased 6.77% from prior year. Property taxes were \$4,045,566 and increased 2.50% over 2009 and accounts for 14.31% of the total revenues in the General Fund. The revenue from charges for services was \$1,133,569 and the revenue from lodging tax was \$969,411.

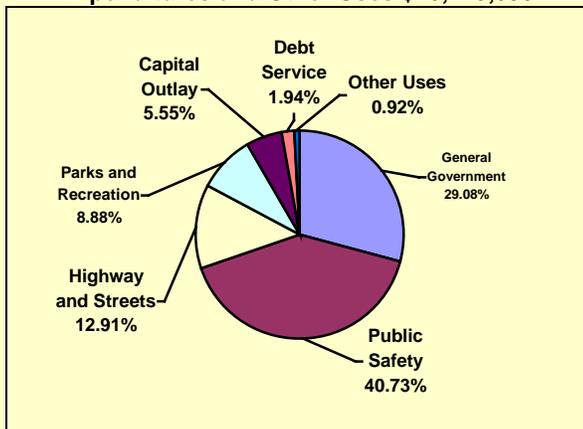
Expenditures and transfers to other funds were \$28,775,895, an increase of 3.79% compared to prior fiscal year. The increase in expenditures was for one-time capital outlay expenditures. Capital outlay expenditures increased 197.63% in 2010 from 2009.

Expenditures and other uses exceeded revenues and other sources by \$512,708 or 7.28% in 2010, and represents a decrease to the fund balance of the General Fund. The decrease to the fund balance did not place a negative impact on the City's financial position.

Revenues and Other Sources \$28,263,187



Expenditures and Other Uses \$28,775,895

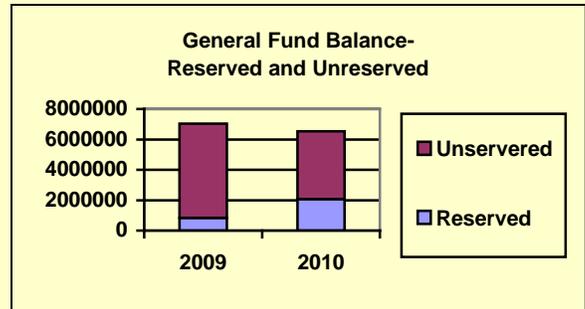


General Fund Balance

The Fund Balance is the excess of assets over liabilities. The fund balance of the City's General Fund decreased \$512,708 or 7.28% in 2010 from 2009. The fund balance at the end of fiscal year 2010 was \$6,530,802 including \$2,080,342 reserved. The reserved fund balance is for specific use such as outstanding encumbrances, prepaid expenditures and restricted assets, which the City utilizes and accounts for in the next fiscal year.

The City's fiscal policy establishes guidelines for the level of the fund balance for the General Fund. The policy requires the fund balance of the General Fund to be greater than or equal to 10% of the estimated revenues. **This policy provides stability in the case of unexpected events and/or economic downturns.**

At fiscal year-end, the total fund balance of the General Fund was 26.70% of actual revenues and 22.91% of actual expenditures.



Debt Administration

The City issues general obligation warrants for funding the acquisition and construction of major capital facilities and other major improvement projects. The City had \$141,955,000 in general obligation warrants outstanding at September 30, 2010 and \$1,910,530 of capital lease obligations outstanding. Total outstanding debt decreased \$1,502,608 or 1.03% in 2010 compared to 2009.

General obligation warrants are direct obligations of the City and pledge the full faith and credit of the City. The City's capital lease obligations collateralized by certain vehicles and equipment.

In 2010, the City acquired \$747,594 of capital lease obligations for police vehicles and a new municipal management system.



Bond Rating

At September 30, 2010, the City had an **"AA"** bond rating from **Standard & Poor's Rating Services**. This rating reflected a stable outlook for the City based on the City's very strong financial position, supported by good financial practices.

At September 30, 2010, the City had an **"A1"** bond rating from **Moody's Investors Services**. This rating reflected a continued trend of strong and stable financial operations, evidenced by five years of General Fund balance exceeding 20% of revenues.

The City maintained its bond ratings due to **management-demonstrated ability to systematically estimate revenues and proactively adjust expenditures, which are the basis for the City's stable financial position.**

FINANCIAL MANAGEMENT POLICIES

The City of Madison is responsible to meet and constantly improve the service needs of its citizens through sound fiscal management. City officials exhibit this commitment by establishing financial management policies, which demonstrate sound resource management and a high level of public accountability.

Fiscal Policy

The Fiscal Policy provides guidelines in planning and directing the day-to-day operations and the long-term financial affairs of the City. The appropriate levels of management review and update the policy as needed to maintain current perspectives on financial issues. The Fiscal Policy addresses Accounting, Auditing, Financial Reporting, Internal Controls, Operating Budget, Capital Budget and Program, Revenue Management, Expenditure Control, Asset Management, Financial Condition and Reserves and Debt Management. The policy also addresses Staffing and Training to ensure the financial staff of the City maintains current perspectives on financial issues. **The goals of the policy are:**

- (1) provide Management directions to achieve our Mission
- (2) recognize service demands are increasing and the City must identify new methods to meet the demands
- (3) strive to meet current service needs before the crisis level
- (4) maintain current and long-term fiscal stability while meeting the demands of growth on all city services
- (5) protect the City from financial crisis
- (6) establish guidelines for acquiring debt, which will not jeopardize the City's financial position and ensure the continued fiscal stability of city operations
- (7) encourage conservative yet responsible management of resources to meet current and future capital and operational plans

Investment Policy

The City's Investment Policy applies to cash management and investment activities of the City of Madison. Management reviews and updates the policy as required and City Council approves all changes to the investment policy.

The main objective of the City's investment activities is to preserve capital and liquidity, maximize investment income and comply with all state and local statutes governing the investment of public funds.

TAX DOLLARS AT WORK

The City was successful in meeting many of its goals and objectives throughout fiscal year 2010. There were no cuts in programs or services to the citizens. The City used citizens' tax dollars to improve services and enhanced growth in our community.

Construction completed on Eastview Drive Sidewalk Project for \$124,934 and construction completed on Eastview Drive Extension Project for total cost of \$1,612,000. Various street projects, drainage projects, addition to police department, sidewalk projects, addition to the Senior Center and other capital improvement projects started construction in 2010 for a total of \$4,089,942. The City spent \$1,641,997 for capital equipment of which \$62,574 acquired with grant funds. Departments use the equipment to provide services to the citizens of Madison.

The City acquired \$747,594 of capital lease obligations to improve public safety and improve the City's core management/service system.

To make sure your dollars are supporting your services, **"Buy Local, Shop Madison First"**.

FISCAL YEAR 2011 AT-A-GLANCE

- (1) Continue to Seek Economic Development Opportunities including the public and private partnership for the development of the Shoppes of Madison
- (2) Preserve Appropriate Reserve Levels
- (3) Complete Madison Growth Plan
- (4) Complete various Funded Capital Improvement Projects to include Police Department Addition and Parking Lot, Senior Center Addition, Soccer Fields and Lights at Palmer Park, Improvements to Highway 72, Sidewalks, Greenways and Drainage)
- (5) Implement Maintenance Program of city streets including paving, repairing potholes, filling cracks, and striping
- (6) Complete construction of Dog Park and Dublin Outdoor Concession/Restroom Facility

LOCAL ECONOMY AND OUTLOOK

Throughout 2010, we continued to read and hear how federal, state and local governments confronted enormous economic challenges. Some of the challenges were declining retail sales, home foreclosures and the fluctuating cost of fuel. The City of Madison was not exempt from those challenges. The City encountered a decline in certain revenue sources while the cost to provide quality services and programs to our citizens increased. To combat this, City management exercised fiscal discipline, used innovative methods to reduce cost, and continued providing high quality services and programs to the citizens. These services continued without a general tax increase to the citizens of Madison.

The City still faces some unknowns based on the challenges of the economy. We are optimistic about these challenges and management will continue to exercise fiscal discipline and use innovative methods to meet the demands of the financial unknowns.

The City's Economic Development Team is devoted to promoting economic development in the City of Madison. The recruitment of businesses to locate in Madison that started in early 2009 will become more apparent in the next fiscal year. We expect new businesses to start here in Madison and growth to continue for the businesses already here.

RESPONSIBLE GOVERNMENT

Now that you have read this report, we hope you gained a general understanding and summary of the City of Madison's financial position and activities for the fiscal year ended September 30, 2010.

This Popular Annual Financial Report represents the City of Madison's commitment to communicate fully all its financial activities to its citizens.

The City of Madison demonstrates its ability to achieve/maintain excellent bond ratings, maintain adequate reserve levels, maintain/improve services and disclose every effort to achieve our **MISSION**.

**"To Improve the Quality of Life
for EVERY Madison Resident, by
Providing Responsible Government,
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If you have any questions or inquiries concerning this report, contact the Finance Department at 256-772-5600.