

CITY OF MADISON, ALABAMA

POPULAR ANNUAL FINANCIAL REPORT

October 1, 2008 – September 30, 2009



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, 2009. This report is an overview of the City's financial position as well as an easy-to-read version of the City's 2009 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 generally accepted 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 approximately 42,800 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 350 employees including 12 department heads.

Citizens of Madison receive services through the departments 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.

In 2009, 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 for the City of Madison, Alabama, for the fiscal year ended September 30, 2009. The City prepares two (2) different financial statements using two (2) different methods to measure the financial position of the City. 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 are accounted for regardless of when cash is 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 that have been 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, 2009, the City's had \$181,771,143 of total assets including \$6,482,406 in unrestricted cash, \$24,107,361 in temporary restricted cash and other assets and \$151,181,376 in capital assets (net). Total assets increased \$2,289,991 or 1.28% in 2009 from 2008.

Liabilities were \$147,910,156 and represent \$4,550,063 in current liabilities and \$143,360,095 in long-term liabilities. Total liabilities increased \$20,182,324 in 2009 from 2008. In 2009, the City issued \$51,110,000 of general obligation school debt, which refunded four (4) outstanding school debts, and provided resources for Madison City Board of Education to construct capital improvements. This new debt caused liabilities to increase in 2009.

The City's total net assets were \$33,860,985 at September 30, 2009. Total net assets decreased \$17,892,333 in 2009 from 2008. The decrease in net assets was a result of the new debt for education. Madison City Board of Education provides for the accounting and reporting of assets acquired with debt proceeds and the City provides for the accounting and reporting of the liabilities.

Statement of Activities

The City recognized \$43,007,736 in revenues in 2009 and this represented a decrease of 13.26% from 2008. Expenses were \$60,900,069 for services provided to citizens in 2009. Expenses increased 24.75% in 2009 from 2008 and the increase related to the issuance of the new school debt. The transactions of revenues and expenses resulted in a decrease of \$17,892,333 to net assets.

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

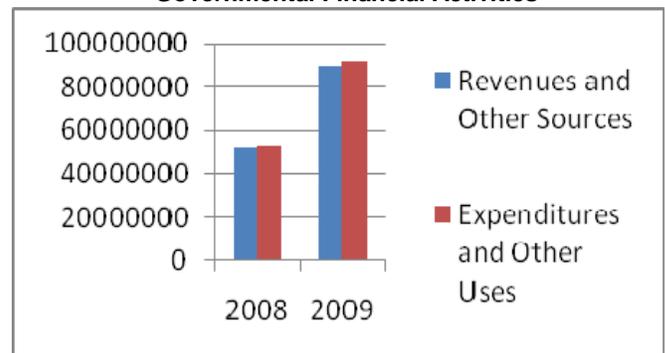
The City's governmental funds had a combined fund balance of \$19,120,759 at September 30, 2009, a decrease of \$2,519,075 or 11.64% from prior year. A large part of the decrease in fund balance attributed to capital project spending of \$3,478,977 with resources received in a prior year for the projects. Of the combined fund balance, 37.44% (12,895,479) was reserved and not available for spending and 32.56% (\$6,225,280) was unreserved and available for spending at the City's discretion.

The City received combined revenues of \$38,373,326 and combined other sources of \$51,110,000. Other sources are not revenues but are resources transferred from one fund to support expenditures in another fund or proceeds from issuing bonds or proceeds from financing capital purchases.

Combined expenditures were \$41,668,917 and other uses were \$50,340,637. Other uses consist of \$22,488,567 for debt proceeds transferred to Madison Board of Education and \$27,852,070 for refunding four (4) outstanding general obligation school debts and other debt issuance related uses. Expenditures included \$3,212,316 for retirement of long-term debt, \$6,073,235 for interest paid on debt, \$4,086,587 for the purchase of capital assets and the remaining \$28,296,779 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 general 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 has the most diverse sources of revenue. The principle revenue sources for fiscal year 2009 for the City of Madison General Fund continued to be the **sales tax, licenses and permits, property taxes, charges for services and lodging tax.**

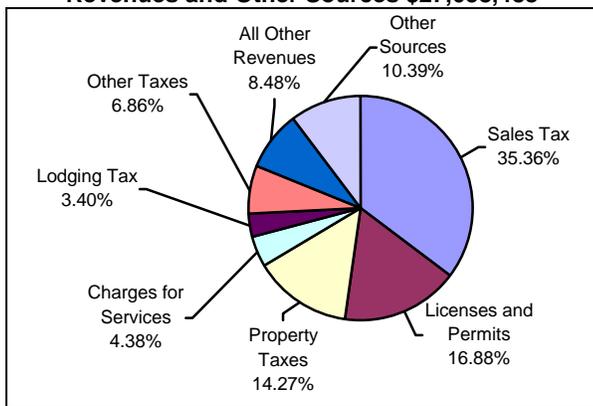
During fiscal year 2009, the General Fund received \$27,658,488 in resources (revenues, transfers and other financing sources). This was a decrease of 4.34% from prior year and the decrease was mostly in investment earnings and intergovernmental revenues. Intergovernmental revenues from grants were down in 2009 but grant awards increased. The City will receive the grant revenue in the fiscal year 2010 from the 2009 awards.

The City received revenues of \$9,778,985 from sales tax. Sales tax is the largest revenue source (35.36% of total resources) decreased 1.59% in 2009. The decrease was insignificant to overall resources. The second largest revenue source, licenses and permits was \$4,667,747 and increased 6.42% over prior year. Property taxes were \$3,946,785 and represented a slight increase of .83% and accounts for 14.27% of the General Fund total resources. The revenue from charges for services was \$1,210,360 and the revenue from lodging tax was \$939,661.

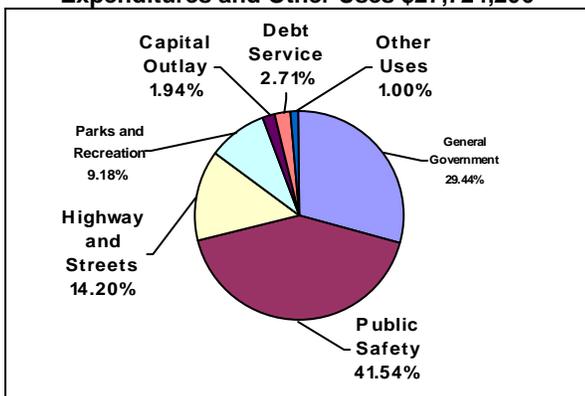
General Fund expenditures including transfers were \$27,724,206, a decrease of 3.67% compared to prior fiscal year. The decrease in expenditures was directly related to one-time capital outlay expenditures in 2008. Capital outlay expenditures decreased 80.82% in 2009 from 2008.

General Fund expenditures and other uses exceeded revenues and other sources by \$65,718 or .92% in 2009, which means that the fund balance of the General Fund decreased. The decrease in the fund balance did not place a negative impact on the City's financial position.

Revenues and Other Sources \$27,658,488



Expenditures and Other Uses \$27,724,206

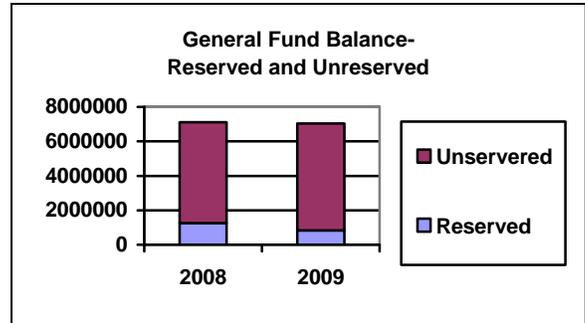


General Fund Balance

The fund balance is the excess of assets over liabilities. The fund balance of the City General Fund decreased \$65,718 or .92% in 2009 from 2008. The fund balance at the end of fiscal year 2009 was \$7,043,510 including \$831,902 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 set guidelines for the level of the fund balance for the General Fund. The policy states that the fund balance of the General Fund must 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 28.42% of actual revenues and 25.66% of actual expenditures.



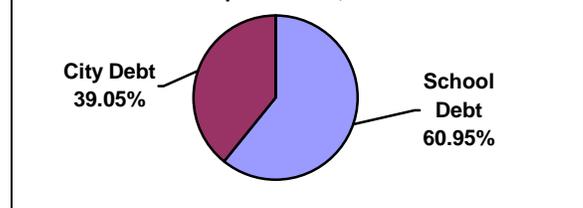
Debt Administration

The City issues general obligation warrants for funding the acquisition and construction of major capital facilities and other major improvement projects. The City had \$143,715,000 in general obligation warrants outstanding at September 30, 2009 and \$1,653,138 of capital lease obligations outstanding. Total outstanding debt increased \$20,767,683 or 16.67% in 2009 compared to 2008.

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

In 2009, the City issued \$51,110,000 in general obligation school warrants to refund four (4) outstanding school warrants, and provide resources to contribute to the funding of a new high school.

**Total Outstanding Debt - \$145,368,138
September 30, 2009**



Bond Rating

At September 30, 2009, 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, 2009, 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 on the service needs of its citizens through sound fiscal management. City officials are committed to this responsibility through the establishment of 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 perspective 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 directions in guiding the City toward 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) provide guidelines for debt that will not jeopardize the City's financial position and ensure the continued fiscal stability of the City's 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 2009. 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.

The City spent \$72,000 to construct a traffic light at County Line and Palmer Road. The traffic light eliminated safety issues at the intersection. The City purchased land to extend Eastview Drive for \$201,850 and purchased land to replace Fire Station #2 for \$130,712. Various street projects, drainage projects, addition to police department, sidewalk projects, improvements to the Senior Center and other capital improvement projects started construction in 2009 for a total of \$3,021,373. The City spent \$403,145 for capital equipment of which \$207,322 was funded through grants. Departments use the equipment to provide services to the citizens. Public Works Department put two (2) new knuckleboom trucks in operation to improve trash collection services.

The City issued \$51,110,000 in general obligation school debt, which refunded four (4) outstanding school debts, and obtained \$22,488,567 to fund a portion of the construction cost for a new high school.

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

FISCAL YEAR 2010 AT-A-GLANCE

- Continue to Seek Economic Development Opportunities
- Preserve Appropriate Reserve Levels
- Complete the Madison Growth Plan
- Redevelop Downtown Madison
- Construct a Dog Park and Three (3) Soccer Fields
- Add Dublin Outdoor Restroom Facility
- Complete Funded Capital Improvement Projects
- Improve Neighborhood Parks

LOCAL ECONOMY AND OUTLOOK

Throughout 2009, we continued to read and hear how federal, state and local governments confronted enormous economic challenges. Challenges they faced 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 high 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 challenges.

The City's Economic Development Team continues to seek new developments and redevelopment opportunities. This Team is devoted to promoting economic development in the City of Madison. The recruitment of businesses that started in early 2009 has begun to materialize and will become more apparent in the next fiscal year. We expect new businesses to start 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, 2009.

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 has demonstrated 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, characterized by honesty, integrity, accessibility, efficiency and accountability"

If you have any questions or inquiries concerning this report, please do not hesitate to contact the Finance Department at 256-772-5000.