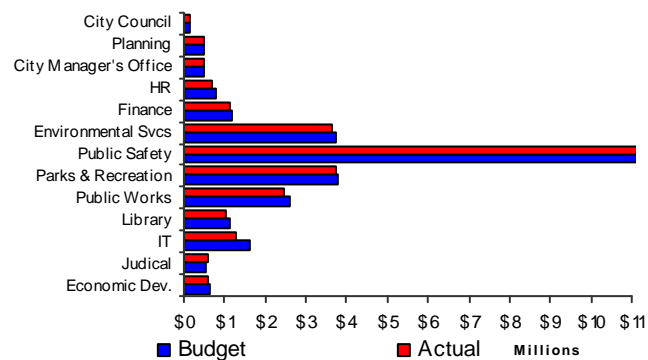


DEPARTMENTAL EXPENDITURES

General Fund departmental expenditures totaled \$28.1 million, \$1.7 million under final budget. Departmental expenditures in the General Fund increased 10.9% over the previous fiscal year. This favorable result is typical for Auburn and results from management's active use of the budget to control expenditures. All departments, except Judicial and Planning, came in under final budget. The net amount of departmental budgets was \$2 million greater than expenditures.

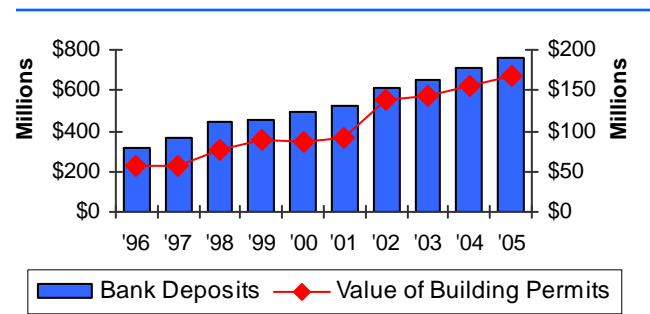
City Departments Show Controlled Spending



trial growth with the addition of three new manufacturing facilities. New national retailers and streetscape tenants at Colonial University Village include Belk, Ann Taylor Loft, Chico's, Coldwater Creek, Jos. A Bank, Lane Bryant, and Talbots.

The strength of the City's growth is illustrated by the growth in building permits. The number of building permits issued for single-family detached homes has grown 116% from fiscal 1999. The chart below shows the increases in building permit valuations and in bank deposits within the City for the last 10 years.

Auburn Continues to Grow

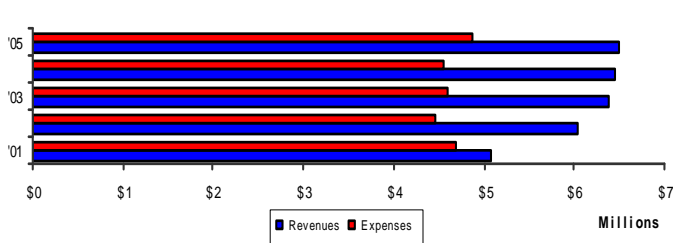


THE SEWER REVENUE FUND

The City's Sewer Revenue Fund has experienced steady revenue and net income growth in response to the expanding customer base. Late in FY 01, the City deprivatized the wastewater treatment plants to enable the expansion of treatment capacity. As a result of the change in ownership, operating costs have decreased while depreciation and interest expense has increased. The Sewer Fund generated an operating income of \$1.8 million in 2005. After non-operating revenues and expenses, the income before operating transfers and capital contributions was \$761,010.

The Sewer Fund also defrays expenses each year through developer contributions of installed sewer lines. In fiscal 2005, this non-cash contribution was valued at \$979,578.

Sewer Revenues and Expenses



ECONOMIC GROWTH

Auburn's growth is the main contributor to the increase in assessed property values within the City. Other factors include higher median income levels, an award-winning school system, and planned growth, which allows proper zoning to protect property values. The City's economic development efforts have been highly effective. In 2005, the Auburn Technology Park North (ATPN) continued its indus-

BOND RATING

The City received its most recent bond ratings in March 2005. The City's rating from Moody's Investor's Service is Aa3; Standard & Poor's rated the City AA-. The "double A" rating is reserved for organizations characterized by competent management, stable economies, and manageable debt levels. Together with bonds rated triple A, they comprise what are generally known as investment grade bonds. An obligor rated "double A" is judged to have a very strong capacity to meet its financial commitments.

Mission Statement

The mission of the City of Auburn is to provide economical delivery of quality services created and designed in response to the needs of its citizens rather than by habit or tradition. We will achieve this by:

- Encouraging planned and managed growth as a means of developing an attractive built environment and protecting and conserving our natural resources
- Creating diverse employment opportunities leading to an increased tax base
- Providing and maintaining reliable and appropriate infrastructure
- Providing and promoting quality housing, educational, cultural, and recreational opportunities
- Providing quality public safety services
- Operating an adequately funded city government in a financially responsible and fiscally sound matter
- Recruiting and maintaining a highly motivated workforce committed to excellence
- Facilitating citizen involvement

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



INTRODUCTION

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

The City covers 55.4 square miles in the western part of Lee County in east central Alabama. Auburn, home to approximately 48,348 residents, is one of the fastest growing communities in Alabama and is the home of Auburn University, the state's largest land-grant university.

The City of Auburn currently operates under a Council-Manager form of government, with eight Council members elected on a non-partisan basis from four dual-member districts to four-year terms. The Mayor is elected at-large. This legislative body establishes policy to guide the various City departments in providing services to citizens.

The City Manager is the chief executive officer of the City, directing and managing the daily activities of the City government. The City's departments include: Office of the City Manager, Judicial, Information Technology, Finance, Economic Development, Human Resources, Public Safety, Public Works, Environmental Services, Library, Parks & Recreation, Planning, and Water Resource Management. These departments are staffed by approximately 400 regular, full-time employees.

ABOUT THIS FINANCIAL REPORT

As part of our continuous effort to keep you informed of how your tax dollars are being spent, we are pleased to present the 2005 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental and proprietary funds and was drawn from information found in the 2005 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Machen, McChesney & Chastain, LLP.

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

MAJOR INITIATIVES

During fiscal 2005, the citizens' priorities of school funding, expansion of recreation facilities, improvements to the City's buildings and traffic flow management were addressed. The City contributed \$5.9 million from its General Fund to the Auburn Board of Education. The City Council amended the

**The City of Auburn, Alabama
Popular Annual
Financial Report**

**Fiscal Year Ending
September 30, 2005**

ordinance requiring that a 15-mill property tax equivalent be appropriated to the City Schools from the General Fund each year to provide for a 20-mill equivalent, effective fiscal 2004. This commitment places Auburn's municipal government among the highest in Alabama in terms of the level of local school support.

There were four debt issuances by the City to finance significant improvements to the City's infrastructure and to provide a higher quality of life to its citizens. One of the debt issuances occurred in March 2005. The City issued \$9.9 million general obligation bonds to refund 1997 debt and to allow street improvements, such as street reconstruction, bridge improvements, intersection and traffic signal improvements, as well as the construction of a new fire station. In August 2005, the City issued \$33 million general obligation warrants for capital improvements to the public school system. The city school system is using the proceeds to build additional classrooms and labs, improve multi-purpose and food preparation areas and construct a new elementary school.

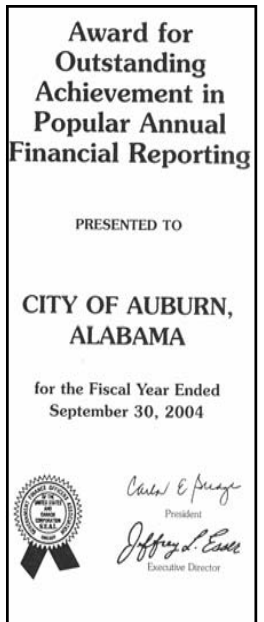
A significant initiative during 2005 was the establishment of a joint effort between Auburn University and the Auburn Research and Technology Foundation, with financial support from the State of Alabama and the City of Auburn, to develop a research park. This park will enhance and promote economic development within the region and state, and broaden the research industry in east Alabama. More information about the research park can be found at <http://www.researchpark.auburn.edu>.

AWARDS

The City received the following awards from the Government Finance Officers Association (GFOA) in 2005:

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

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



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

FINANCIAL HIGHLIGHTS

- ◆ The City's *combined* net assets at September 30, 2005 totaled \$5.95 million.
- ◆ Total revenues for all governmental funds were \$126.1 million.
- ◆ Total spending for all governmental funds was \$126.3 million.
- ◆ The General Fund revenues totaled \$46 million. Borrowing provided additional resources of \$16 million.
- ◆ General Fund expenditures totaled \$65 million.
- ◆ Sewer Fund revenues totaled \$5.2 million.
- ◆ Spending in the Sewer fund totaled \$3.5 million.
- ◆ The City appropriated \$5.9 million from the General Fund to the Auburn Board of Education.

TYPES OF FUNDS

GOVERNMENTAL FUNDS

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

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

GOVERNMENTAL FUNDS' FINANCIAL ACTIVITIES

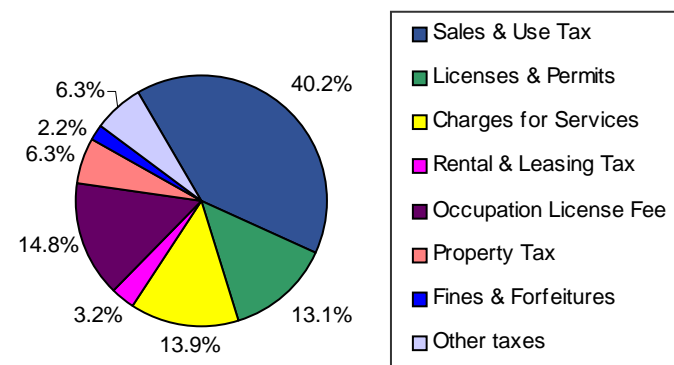
At September 30, 2005, the City's governmental funds reported a combined fund balance of \$43.4 million, a slight decrease from the previous year. These financial activities comprise the major changes in governmental fund balances:

GOVERNMENTAL REVENUES

Total revenues of the governmental funds showed growth of 4.4% or \$2.4 million over the prior year.

- ◆ Sales and use tax revenue increased by 2.6% over fiscal year 2004. The sales tax rate remained unchanged from the prior year at 3%, with the last rate increase occurring in 2003.
- ◆ Charges for services increased by 51.8% or \$2.1 million during fiscal year 2005. This increase is due in part to public safety charges to Auburn University increasing by more than \$1 million during fiscal year 2005, solid waste fees increasing by more than \$150,000 due to a larger consumer base resulting from the City's growth, and public safety fees for providing security services for businesses and schools increasing by approximately \$145,000. Fiscal 2005 was the first full fiscal year in which the City provided public safety services to Auburn University.
- ◆ General property tax revenues increased 15.7%, contributing additional revenue of \$1.6 million to the governmental funds. Growth in property taxes results from expansion of the city limits through voluntary annexations, as well as increases in property values, attributable in part to new construction and rising property values.

FY 2005 Governmental Funds Revenues



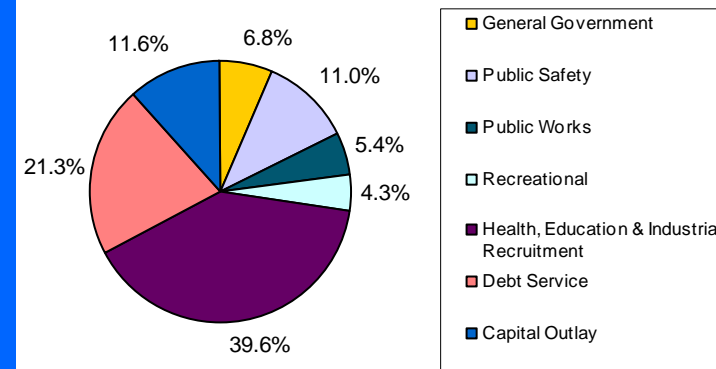
GOVERNMENTAL EXPENDITURES

The City of Auburn's governmental funds' spending in fiscal 2005 reflects the priorities set by the Council based on the Annual Citizen Survey results. The City has maintained its high funding level for health and education activities.

Total governmental expenditures increased by \$58.2 million (108.1%) in fiscal 2005 from fiscal 2004. The major components of this increase in governmental expenditures include:

- ◆ A borrowing of \$33 million occurred in July 2005, the proceeds of which were appropriated to the Board of Education for construction and repairs to school facilities located in Auburn. This increased payments to component units by \$33.7 million or 323.8%.
- ◆ Major capital outlay expenditures in fiscal year 2005 included: construction of a new cemetery and passive park (\$1.5 million) to be completed in fiscal 2006, renovations and upgrades to two of the City's sports complexes (\$1.3 million), and reconstruction of roads and intersection improvements at over \$1 million. There was also resurfacing work performed in low and moderate-income areas (\$416,992) as well as the purchase of public safety and environmental services specialty vehicles (\$223,552).
- ◆ Debt service increased dramatically from fiscal year 2004 due to the payoff of a line of credit originally issued for infrastructure projects for both the City and Industrial Development Board.

FY 2005 Governmental Fund Expenditures

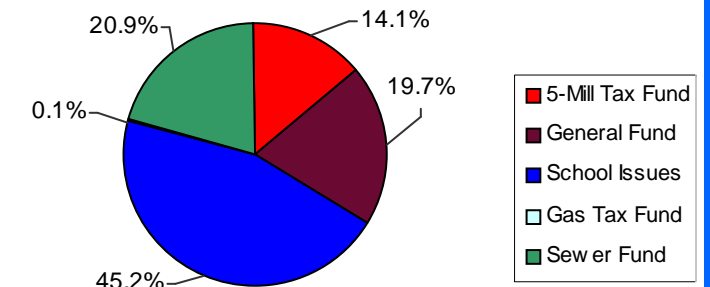


LONG-TERM DEBT

At 2005 fiscal year-end, the City had \$146.6 million in long-term debt outstanding, of which \$6 million will mature during fiscal 2006. The net increase in long-term debt from the previous year was \$35.6 million or 32.1%. The City's long-term debt is comprised of bonds, warrants, notes and capital leases payable.

General obligation debt is payable from the City's general revenues (the General Fund). Some long-term debt is payable from legally restricted revenue sources, such as the City debt issued to provide financing for the City Schools, which is payable from property taxes dedicated for education purposes. In addition, the City levies a property tax, the Special Five-Mill Tax, which is legally restricted for repaying debt issued to finance projects that have been approved by the voters. The ratio of debt service to general expenditures is 7.7%, excluding payments on two lines of credit that were replaced with permanent financing. The following chart illustrates the various funding sources for the repayment of the City's long-term debt.

Funding Sources for Long-Term Debt



THE GENERAL FUND

FUND BALANCE

Fund balance is the excess of what the City owns (assets) over what the City owes (debts or liabilities). The Council has established a goal for maintaining the fund balance in the General Fund at not less than 6% of budgeted expenditures. The City has consistently exceeded this goal; the unreserved and undesignated fund balance at September 30, 2005 stood at 25.3% of expenditures, an increase from 25.0% at the close of fiscal 2004. In addition to the unrestricted, undesignated fund balance, the General Fund balance includes \$4.3 million designated by the Council for use only in the event of natural disaster or significant, unprojected economic downturn.

The fund balance of the General Fund decreased by \$3.1 million (10.3%) from the prior year's ending balance. This decrease was planned; the budgeted expenditures for fiscal 2005 exceeded budgeted revenues by \$3.2 million. In fiscal 2003 and 2004, the General Fund capital spending was \$3.6 million under budget, so the fiscal 2005 budget planned to reduce the fund balance.

General Fund Balance

