

**BIRMINGHAM-JEFFERSON CIVIC CENTER
AUTHORITY AND AFFILIATE**

FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2009 AND 2008

PEARCE, BEVILL, LEESBURG, MOORE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Birmingham-Jefferson Civic Center Authority and Affiliate
Birmingham, Alabama

We have audited the accompanying consolidated financial statements of the business-type activities of the Birmingham-Jefferson Civic Center Authority and Affiliate, as of and for the year ended August 31, 2009, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents. These consolidated financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Birmingham-Jefferson Civic Center Authority and Affiliate as of August 31, 2008, were audited by other auditors whose report dated January 5, 2008, expressed an unqualified opinion on these statements. As discussed in Note 13, the Authority has restated its 2008 consolidated financial statements during the current year to adjust property, plant and equipment and net assets to actual. The other auditors reported on the 2008 consolidated financial statements before the restatement.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Birmingham-Jefferson Civic Center Authority and Affiliate, as of August 31, 2009, and the respective changes in financial position and cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Members:

- The American Institute of Certified Public Accountants
- The Alabama Society of Certified Public Accountants
- PCPS - The AICPA Alliance for CPA Firms
- National CPA Health Care Advisors Association

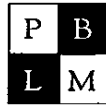
The management's discussion and analysis is not a required part of the basic consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010, on our consideration of the Authority'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 the 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 read in conjunction with this report in considering the results of our audit.

Pearce, Bevell, Leesburg, Moore, P.C.

January 13, 2010

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**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***

The Board of Directors
Birmingham-Jefferson Civic Center Authority and Affiliate
Birmingham, Alabama

We have audited the consolidated financial statements of the business-type activities of the Birmingham-Jefferson Civic Center Authority and Affiliate, as of and for the year ended August 31, 2009, which collectively comprise the Authority's consolidated financial statements and have issued our report thereon, dated January 13, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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 Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

Members:

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- The Alabama Society of Certified Public Accountants
- PCPS - The AICPA Alliance for CPA Firms
- National CPA Health Care Advisors Association

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Authority's consolidated 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 consolidated 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Birmingham-Jefferson Civic Center Authority's Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Pearce, Bevell, Leesburg, Moore, P.C.

January 13, 2010



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BIRMINGHAM-JEFFERSON CONVENTION COMPLEX

BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the Birmingham-Jefferson Civic Center Authority's (hereinafter referred to as the "Authority") financial performance provides an overview of the financial activities of the Authority for the fiscal years ended August 31, 2009 and 2008. This discussion and analysis was prepared by members of the Authority's Finance Department. Please read it in conjunction with the Authority's financial statements, which begin on page 9.

Financial Highlights

- The Authority's cash and cash equivalents balance at August 31, 2009 was \$6,825,056 representing a decrease of \$10,359,419 from August 31, 2008. The reason for the decrease was partly due to the continued funding of the Authority's capital improvement program. The major project for 2009 was the new skywalk and corridor system. This project cost in excess of \$9 million.
- The Authority's operating revenues decreased from \$47,522,839 in 2008 to \$41,581,837 in 2009. The Authority's operating expenses decreased from \$45,458,239 in 2008 to \$41,924,672 in 2009. The decrease in revenues was due in part to the overall downward trend in the economy and the reduction of business travel. However, expenses were drastically reduced as a result of the declining business levels.
- The Authority's special tax proceeds decreased from \$26,757,360 in 2008 to \$19,024,846 in 2009. The decrease was a result of the Jefferson County Commission completing their annual occupational tax funding commitment. The final scheduled payment was received in December 2008. Also, overall receipts were down for lodging, tobacco and liquor taxes due to the down economy.
- The Authority experienced an increase in net assets of \$7,965,388 in 2009.

Financial Statements

A condensed summary of the Authority's net assets at August 31, 2009 and 2008 is shown in Table 1 and a summary of the changes in net assets for the year ended August 31, 2009 and 2008 is shown in Table 2 below:

- Table 1 – Statements of Net Assets

	<u>2009</u>	<u>2008</u>
Assets	<u>\$ 224,449,251</u>	<u>\$ 232,092,478</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities	\$ 6,524,560	\$ 6,515,673
Payable from restricted assets	10,074,712	15,181,693
Long-term liabilities	<u>63,786,792</u>	<u>74,297,313</u>
Total Liabilities	80,386,064	95,994,679
Net Assets	<u>144,063,187</u>	<u>136,097,799</u>
Total Liabilities and Net Assets	<u>\$ 224,449,251</u>	<u>\$ 232,092,478</u>

Table 2 – Statements of Activities

	<u>2009</u>	<u>2008</u>
Total Operating Revenues	\$ 60,606,683	\$ 74,280,199
Total Operating Expenses	<u>50,724,704</u>	<u>54,243,931</u>
Operating income	9,881,979	20,036,268
Total non-operating expenses (net)	<u>1,916,591</u>	<u>2,662,259</u>
Change in net assets	<u>\$ 7,965,388</u>	<u>\$ 17,374,009</u>

Summary of Cash Flow Activities – The following shows a summary of the major sources and uses of cash and cash equivalents. Cash equivalents are considered highly liquid investments with maturity of three months or less:

	<u>2009</u>
Cash provided by operating activities	\$ 20,328,112
Cash used by capital and related Financing activities	(19,088,347)
Cash used by investing activities	<u>(17,820,724)</u>
Cash and Cash Equivalents:	
Beginning of year	<u>35,142,506</u>
End of year	<u>\$ 18,561,547</u>

The Authority's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Authority is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Capital Acquisition and Construction Activities

During 2008 – 2009, the Authority completed or substantially completed the following major capital activities: purchase of land - \$2.3 million, skywalk and meeting room upgrades -- \$10.1 million, concert hall renovations - \$9.5 million, arena improvements - \$2.3 million, hotel renovations - \$6.5 million.

Bonds Payable Outstanding

In 1992, the Authority issued \$18,805,938 of Series 1992 Bonds dated December 1, 1992, maturing annually from 1993 through 2022, with interest coupons ranging from 3.00 percent to 6.80 percent.

Balance outstanding August 31, 2009 - \$9,642,383

In 1996, the Authority issued \$12,471,257 of Series 1996 Bonds dated February 1, 1996, maturing from 2000 through 2010, with interest coupons ranging from 4.10 percent to 5.25 percent.

Balance outstanding August 31, 2009 - \$1,880,000

In 2002, the Authority issued \$64,565,000 of Series 2002A Bonds dated January 1, 2002, maturing annually from 2003 through 2012, with interest coupons ranging from 2.00 percent to 5.25 percent.

Balance outstanding August 31, 2009 - \$8,215,000

In 2002, the Authority issued \$12,350,000 of Series 2002C Bonds dated July 1, 2002 maturing from 2003 through 2014, with interest coupons ranging from 1.375 percent to 4.00 percent.

Balance outstanding August 31, 2009 - \$10,495,000

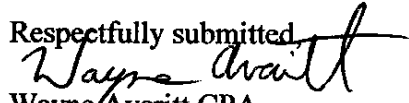
In 2005, the Authority issued \$43,630,000 of Series 2005A Bonds dated December 20, 2005, maturing annually from 2006 through 2023, with interest coupons ranging from 3.50 percent to 4.63 percent.

Balance outstanding August 31, 2009 - \$37,025,000

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Director of Finance, Birmingham-Jefferson Civic Center Authority, 2100 Richard Arrington Jr. Blvd. N., Birmingham, Alabama 35202 or call 205-458-8479.

Respectfully submitted,



Wayne Averitt, CPA

Director of Finance

**BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF NET ASSETS
AUGUST 31, 2009 AND 2008**

ASSETS	2009	2008
Current assets:		
Cash and cash equivalents	\$ 6,825,056	\$ 17,184,475
Restricted Cash	11,736,491	17,958,031
Accounts receivable	1,355,942	2,226,841
Inventory	465,272	488,625
Prepaid expenses	<u>209,021</u>	<u>504,771</u>
Total current assets	20,591,782	38,362,743
Investments	8,805,551	5,687,952
Property, plant and equipment, net	187,689,536	176,645,831
Restricted assets	6,073,893	9,747,205
Deferred charges and other assets:		
Unamortized bond issuance cost	<u>1,288,489</u>	<u>1,648,747</u>
	<u>\$ 224,449,251</u>	<u>\$ 232,092,478</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 2,165,677	\$ 3,591,216
Accrued expenses	1,678,961	1,729,035
Deposits and advance ticket sales	1,975,052	704,958
Current portion of notes payable	425,000	-
Current portion of unearned income	243,377	234,337
Current portion of lease obligations	<u>36,493</u>	<u>256,127</u>
Total current liabilities	6,524,560	6,515,673

**BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF NET ASSETS - CONTINUED
AUGUST 31, 2009 AND 2008**

	2009	2008
Current liabilities payable from restricted assets:		
Current portion of bonds payable	9,532,648	14,305,000
Accrued interest payable	<u>542,064</u>	<u>876,693</u>
 Total current liabilities payable from restricted assets	 10,074,712	 15,181,693
 Long-term liabilities:		
Bonds payable	50,514,427	60,921,610
Accreted interest payable	7,863,858	7,886,030
Unamortized bond discounts	(1,275,075)	(1,617,382)
Unamortized bond premiums	657,175	1,225,088
Notes payable	425,000	-
Unearned income	5,601,407	5,850,080
Lease obligations	<u>-</u>	<u>31,887</u>
 Total long-term liabilities	 <u>63,786,792</u>	 <u>74,297,313</u>
 Total liabilities	 80,386,064	 95,994,679
 Net assets:		
Invested in capital assets net of related debt	118,901,910	94,409,525
Restricted for debt service	17,123,422	11,133,186
Restricted for capital replacements and additions	686,963	2,823,148
Unrestricted	<u>7,350,892</u>	<u>27,731,940</u>
 Total net assets	 <u>144,063,187</u>	 <u>136,097,799</u>
	 <u>\$ 224,449,251</u>	 <u>\$ 232,092,478</u>

The notes to the financial statements are an integral part of this statement.

**BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

	2009	2008
OPERATING REVENUES		
Special tax proceeds	\$ 19,024,846	\$ 26,757,360
Revenues from operations	<u>41,581,837</u>	<u>47,522,839</u>
 Total operating revenues	 60,606,683	 74,280,199
OPERATING EXPENSES		
Salaries and employee benefits	17,657,618	17,246,176
Utilities	6,548,898	7,293,053
Repairs and maintenance	1,248,413	1,695,627
Rent	130,209	8,004
Management fees	2,330,886	1,725,386
Contract services and labor	5,032,729	5,027,937
Capital equipment	435,147	1,237,114
Cost of services	3,299,706	2,588,884
General, administrative and other operating expenses	<u>5,241,066</u>	<u>8,636,058</u>
Total operating expenses before depreciation	41,924,672	45,458,239
 Depreciation	 <u>8,800,032</u>	 <u>8,785,692</u>
 Total operating expenses	 <u>50,724,704</u>	 <u>54,243,931</u>
 Operating income	 9,881,979	 20,036,268

**BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

	2009	2008
NON-OPERATING REVENUES (EXPENSES)		
Interest income	606,797	1,569,510
Interest expense	(2,649,884)	(4,250,206)
Other income	243,377	243,377
Amortization of bond cost	<u>(116,881)</u>	<u>(224,940)</u>
 Total non-operating expenses, net	 <u>(1,916,591)</u>	 <u>(2,662,259)</u>
 Change in net assets	 7,965,388	 17,374,009
 Net assets - beginning of year (as previously reported for 2008)	 136,097,799	 113,931,866
 Prior period adjustment	 <u>-</u>	 <u>4,791,924</u>
 Net assets - end of year (restated for 2008)	 <u>\$ 144,063,187</u>	 <u>\$ 136,097,799</u>

The notes to the financial statements are an integral part of this statement.

**BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 42,452,736
Receipts from deposits and advance ticket sales	1,270,094
Special tax proceeds	20,691,514
Payments to vendors	(13,614,601)
Payments to employees	(17,676,617)
Payments for other operating activities	<u>(12,795,014)</u>
Net cash provided by operating activities	20,328,112

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Principal paid on special tax bonds	(15,405,141)
Interest paid on special tax bonds	(3,006,685)
Principal paid on notes payable and lease obligations	<u>(676,521)</u>
Net cash used for capital and related financing activities	(19,088,347)

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition and construction of capital assets	(16,769,027)
Interest received on investments	606,797
Purchases of investments	(6,799,795)
Proceeds from sales of investments	5,137,557
Receipt of unearned income	<u>3,744</u>
Net cash used by investing activities	<u>(17,820,724)</u>

Net decrease in cash and cash equivalents (16,580,959)

Cash and cash equivalents - beginning of year 35,142,506

Cash and cash equivalents - end of year \$ 18,561,547

**BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2009**

Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	7,965,388
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,800,032
Unrealized loss on sale of investments	551,283
Amortization of bond issuance costs	360,258
Changes in assets and liabilities:	
Decrease in accounts receivable	870,899
Decrease in inventory	23,353
Decrease in prepaid expenses	295,750
Decrease in accrued taxes	1,666,668
Decrease in accounts payable	(1,425,539)
Decrease in accrued absences	(31,075)
Decrease in accrued expenses	(18,999)
Increase in advance deposits and ticket sales	<u>1,270,094</u>
	<u>\$ 20,328,112</u>
 Supplemental disclosure of noncash activities:	
 Acquisition of capital assets with long-term debt	 <u>\$ 1,275,000</u>

The notes to the financial statements are an integral part of this statement.

**BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	
Adjustments to reconcile change in net assets to net cash provided by operating activities:	\$ 17,374,009
Special tax proceeds	(26,757,360)
Interest income	(1,569,510)
Interest expense	4,250,206
Other income	(243,377)
Amortization	224,940
Depreciation	8,785,692
Decrease in accounts receivable	674,608
Decrease in inventory	65,022
Increase in prepaid expenses	(148,000)
Decrease in deferred charges and other assets	221,940
Increase in accounts payable	745,956
Increase in accrued expenses	168,789
Decrease in deposits and advance ticket sales	<u>(314,364)</u>
 Total adjustments	 <u>(13,895,458)</u>
Net cash provided by operating activities	3,478,551

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Bond issue cost	(224,940)
Increase in accrued interest payable	70,187
Repayments of bonds, notes and other obligations	(14,692,369)
Interest paid on bonds and notes	(4,250,206)
Special tax proceeds used to finance acquisition and construction of capital assets	26,757,360
Earned income from lease-lease back	<u>243,377</u>
Net cash provided by capital and related financing activities	7,903,409

**BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2008**

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in restricted assets	6,868,604
Increase in investments	(5,680,051)
Interest received from investments	1,569,510
Purchase of capital assets	(14,843,176)
Decrease in unearned income	<u>(234,337)</u>
Net cash used in investing activities	<u>(12,319,450)</u>
Decrease in cash and cash equivalents	(937,490)
Cash and cash equivalents - beginning of year	<u>18,121,965</u>
Cash and cash equivalents - end of year	<u>\$ 17,184,475</u>

The notes to the financial statements are an integral part of this statement.

BIRMINGHAM-JEFFERSON CIVIC CENTER AUTHORITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Birmingham-Jefferson Civic Center Authority and Affiliate ("the Authority") was created by the legislation of the State of Alabama, as a public corporation authorized to construct, maintain, operate and manage a civic center in the City of Birmingham, Jefferson County, Alabama. Jefferson County and the City of Birmingham appropriate specific tax proceeds to enable the Authority to make annual principal and interest payments on its bonds outstanding.

Basis of Presentation

The Authority has adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38. GASB Statement No. 34 establishes a fundamentally new financial reporting model for state and local governments. Financial reporting requirements include a management's discussion and analysis; basic financial statements consisting of government-wide and fund financial statements; required supplementary information; and other supplementary information.

Government-wide statements: The Statements of Net Assets and the Statements of Activities display information about the primary government (the Authority). These statements include the financial activities of the overall government (except for fiduciary activities and component units, of which the Authority has none). All significant interfund receivables and payables have been eliminated in the consolidated financial statements. These statements distinguish between the *governmental* and *business-type* activities of the Authority. The Authority only has business-type activities.

Fund financial statements: Fund financial statements are not included as the nature of the Authority's operations does not require additional funds outside of the one enterprise fund in which all activity takes place. As such, the Authority does not utilize fund accounting.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from non-exchange transactions.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes and donations.

All governmental and business-type activities and enterprise funds of the Authority follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables

Receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Deferred Charges and Other Assets

Deferred charges and other assets consist primarily of bond discounts, bond premiums and bond issuance costs. Bond discounts, bond premiums and costs of issuance are capitalized and amortized over the life of the bond issue using the straight-line method. The difference in using the straight-line method and the interest method of amortizing such costs is not material to the results of operations.

Inventory

Inventory consists of food, beverage and supplies and is carried at the lower of cost (first-in, first-out) or market. Inventory includes food and beverages for sale in the restaurant and lounges, as well as a base supply of linens, china and silverware used in the Hotel's facilities.

Fixed Assets

Purchased property, plant, and equipment is stated at historical cost or estimated historical cost if actual historical cost is not available. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of 15 to 50 years for buildings and 3 to 15 years for furniture, fixtures and equipment. The Authority capitalizes all fixed assets in excess of \$10,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Revenues, Expenditures, and Expenses

The Birmingham-Jefferson Civic Center and the Sheraton Birmingham Hotel recognize revenues when customers are billed. Expenses are all attributed to business-type activities as the Authority is operated as one Enterprise Fund.

Use of Estimates

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

Fair Value

The Authority estimates the fair value of accounts receivable and payable, accrued expense and notes payable approximates carrying value due to the short term nature of these instruments.

NOTE 2 - CASH AND INVESTMENTS

The Authority maintains cash in depository accounts and investments. Investments consist of certificates of deposit, with maturities ranging from three to twelve months, and United States Government securities. Certificates of deposit are recorded at cost which approximates market value. Account balances at August 31 are as follows:

	2009	2008
Cash	\$ 6,825,056	\$ 17,184,475
Certificates of deposit	7,408,521	5,687,952
United States Government securities	<u>1,397,030</u>	<u>-</u>
	<u>\$ 15,630,607</u>	<u>\$ 22,872,427</u>

The Authority maintains its cash accounts with high credit quality financial institutions. The Authority had cash and certificate of deposit balances on deposit with four financial institutions at August 31, 2009 and 2008 that exceeded balances insured by the FDIC and are secured by collateral through the Alabama State Treasury's Security of Alabama Funds Enhancement (SAFE) Program. Under the SAFE program, the Authority's funds are protected through a collateral pool administered by the Alabama State Treasury. Certain banks holding deposits belonging to the state, counties, cities, or agencies of any of these entities must pledge securities as collateral against these deposits. In the event of the failure of a bank, securities pledged by that bank would be liquidated by the State Treasurer to replace the public deposits. If the securities pledged failed to produce adequate funds for that purpose, every bank participating in the pool would share the liability for the remaining balance.

NOTE 3 - FAIR VALUE MEASUREMENTS

SFAS No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy consists of three broad levels, described as follows:

Level 1 – Inputs consist of unadjusted quoted prices for identical assets in active markets that the Authority has the ability to access.

Level 2 – Inputs consist of 1) quoted prices for similar assets in active markets, 2) quoted prices for identical or similar assets in inactive markets, 3) inputs other than quoted prices that are observable, and 4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term.

Level 3 – Inputs consist of unobservable inputs where there is little or no market activity, and the reporting entity makes estimates and assumptions related to the pricing of the asset including assumptions regarding risk.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of Deposit and United States Government Securities – The carrying amount approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All of the Authority's investments are Level 1 investments.

NOTE 4 - CAPITAL ASSETS

Capital assets consisted of the following at August 31:

	2009	2008
Land and improvements	\$ 38,933,915	\$ 36,539,776
Exhibition hall	69,754,077	59,625,911
Mechanical plant	3,953,673	3,018,705
Concert hall and theater	31,439,506	21,870,945
Arena	28,431,683	26,115,342
Hotel	80,537,791	73,946,832
Medical forum	28,331,902	28,087,516

	2009	2008
Parking deck	9,458,906	9,458,906
Office building	3,266,053	3,266,053
Equipment	45,489,117	45,265,850
Restaurant	702,938	702,938
Message center	157,680	157,680
Construction in progress	<u>8,535,452</u>	<u>21,092,502</u>
	348,992,693	329,148,956
Less: accumulated depreciation	<u>(161,303,157)</u>	<u>(152,503,125)</u>
	<u>\$ 187,689,536</u>	<u>\$ 176,645,831</u>

NOTE 5 – RESTRICTED ASSETS

The 1992, 1996, 2002 and 2005 Bond Resolutions (see Note 6) require that certain funds be maintained by a trustee as long as any of the bonds remain outstanding. Additionally, in accordance with the terms of the Management Agreement, the Hotel maintains a restricted cash fund account which must be held and invested by BJCC. The interest bearing account is for the purpose of establishing a reserve for replacements and additions to furniture and equipment.

Restricted assets at August 31 consisted of the following:

	2009	2008
Cash and cash equivalents	\$ 11,736,491	\$ 17,958,031
Taxes receivable	802,090	2,468,758
United States Government securities	<u>5,271,803</u>	<u>7,278,447</u>
	<u>\$ 17,810,384</u>	<u>\$ 27,705,236</u>

Restricted asset accounts at August 31 were comprised of the following:

	2009	2008
Taxes Receivable		
Special Tax Proceeds Fund - Under the terms of certain agreements, Jefferson County and the City of Birmingham are to deposit the Authority's share of special privilege or license taxes collected. This fund will be maintained until the bonds have been paid in full. The bond indenture requires semiannual transfers to the Bond Fund.	\$ 802,090	\$ 2,468,758

	2009	2008
Series 1996 Bonds		
Bond Fund - Created for the purpose of payment of the principal and interest on the bonds when due.	1,667,135	1,660,593
Series 2002 Bonds		
Bond Fund - Created for the purpose of payment of the principal and interest on the bonds when due.	1,815,907	6,508,342
Series 2005 Bonds		
Bond Fund - Created for the purpose of payment of the principal and interest on the bonds when due.	4,191,526	4,192,084
Concert Hall - Created for the purpose of capital improvements to the concert hall.	-	432,760
Reserve Fund		
Held by and invested by BJCC in an interest bearing account for the purpose of establishing a reserve for replacements and additions to furniture and equipment for the Hotel as indicated in the Management Agreement.	686,963	2,823,148
Fees in lieu of Taxes		
Pursuant to the terms of a pending lawsuit, charges collected in lieu of taxes are escrowed.	<u>8,646,763</u>	<u>9,619,551</u>
	<u>\$ 17,810,384</u>	<u>\$ 27,705,236</u>

NOTE 6 – BONDS PAYABLE

At August 31, bonds payable consists of the following:

	2009	2008
Refunding and capital outlay special tax bonds, Series 1992	\$ 3,380,352	\$ 3,380,352
Refunding and capital outlay special tax bonds, Series 1996	931,723	1,806,258
Refunding special tax bonds, Series 2002A	8,215,000	20,275,000
Refunding special tax bonds, Series 2002C	10,495,000	10,790,000
Refunding special tax bonds, Series 2005A	<u>37,025,000</u>	<u>38,975,000</u>
	60,047,075	75,226,610
Less: current installments	<u>9,532,648</u>	<u>14,305,000</u>
	<u>\$ 50,514,427</u>	<u>\$ 60,921,610</u>

1992 Series

The refunding and capital outlay special tax bonds, 1992 Series ("1992 Series"); outstanding at August 31, 2009 consist of capital appreciation bonds (original issue discount bonds). The capital appreciation bonds accrete interest payable at maturity and mature as follows:

Year Ending August 31	Original Principal Amount	Approximate Yield to Maturity	Interest Accreted to August 31, 2009
2015	\$ 530,904	6.75%	\$ 977,059
2016	496,800	6.75%	914,304
2017	464,904	6.75%	855,576
2018	429,648	6.80%	800,035
2019	401,856	6.80%	748,286
Thereafter	<u>1,056,240</u>	6.80%	<u>1,966,771</u>
	<u>\$ 3,380,352</u>		<u>\$ 6,262,031</u>

1996 Series

The refunding and capital outlay special tax bonds, 1996 Series ("1996 Series"); outstanding at August 31, 2009 consist of capital appreciation bonds (original issue discount bonds). The capital appreciation bonds accrete interest payable at maturity and mature as follows:

Year Ending August 31	Original Principal Amount	Approximate Yield to Maturity	Interest Accreted to August 31, 2009
2009	\$ 828,191	5.20%	\$ 831,809
2010	<u>103,532</u>	5.25%	<u>116,468</u>
	<u>\$ 931,723</u>		<u>\$ 948,277</u>

2002 Series

The special tax refunding bonds, 2002A Series ("2002A Series") bear interest at varying rates from 2.00% to 5.25%, payable on January 1 and July 1 of each year. Future debt service payments for the 2002A Series are as follows:

Year Ending August 31	Principal and Interest
2010	\$ 2,940,162
2011	2,934,553
2012	<u>2,924,863</u>
	8,799,578
Less: interest	<u>584,578</u>
	<u>\$ 8,215,000</u>

The special tax refunding bonds, 2002C Series ("2002C Series") bear interest at varying rates from 1.375% to 5.00%, payable on September 1 and March 1 of each year. Future debt service payments for the 2002C Series are as follows:

Year Ending August 31	Principal and Interest
2010	\$ 2,175,545
2011	2,399,095
2012	2,399,770
2013	2,396,250
2014	<u>2,395,000</u>
	11,765,660
Less: interest	<u>1,270,660</u>
	<u>\$ 10,495,000</u>

2005 Series

On December 14, 2005, the Authority issued \$43,630,000 of special refunding tax bonds. The Series 2005A bonds ("2005A Series") are dated July 1, 2006 and mature annually through 2023. The 2005A Series were issued by for the purpose of providing funds to pay the cost of acquiring and constructing certain capital improvements of the Authority's facilities, refunding debt of the Authority incurred for land acquisition, and paying expenses incidental to the issuance the 2005A Series.

The 2005A Series bear interest at varying rates from 3.50 % to 4.50 %, payable on January 1, and July 1 of each year. Future debt service payments for the 2005A Series are as follows:

Year Ending August 31	Principal and Interest
2010	\$ 3,588,750
2011	3,590,706
2012	3,592,331
2013	3,593,244
2014	3,593,043
Thereafter	<u>32,318,238</u>
	50,276,312
Less: interest	<u>13,251,312</u>
	<u>\$ 37,025,000</u>

NOTE 7 – NOTE PAYABLE

The Authority acquired land during 2009 through a purchase agreement with the City of Birmingham. As a result of the agreement, the Authority paid \$425,000 at closing and is to make two equal payments of \$425,000 on May 30, 2010 and 2011. At August 31, 2009, the outstanding debt related to this purchase was \$850,000.

NOTE 8 – OPERATING LEASE

On January 15, 1997, the Authority entered into a lease-lease back arrangement to finance the cost of certain improvements to the Civic Center Facility (“the Facility”). Under the arrangement, the Authority created a Trust and leased (“the Headlease”) the Facility to a limited liability corporation, which in turn leased (“the Sublease”) the Facility to the Authority's Trust. The Trust granted the Authority the exclusive right and responsibility for operating the Facility

The terms of the Headlease and the Sublease contained provisions which allow the lessee to prepay the basic rent, which began on January 2, 1997 and continues through January 2, 2022, and the renewal option rent, which begins on January 2, 2022 and continues through January 2, 2037. On January 15, 1997, the Sublessee exercised its option to prepay the basic and renewal option rent. Simultaneous with the execution of the Headlease, the Authority entered into other agreements which are part of the lease-lease back transaction.

Under the Sublease agreement, the Sublessee has an option to purchase the Facility at a price equal to the Facility’s cost multiplied by 105%. However, management of the Authority believes the probability of executing the option to purchase is unlikely.

To finance the Headlease rent payment and lease term renewal payment, the Headlessee entered into a loan agreement with Hollandsched Bank - Unie, NV (“the Loan Participant”). As security for the loan, the Loan Participant was granted a first priority security interest, mortgage lien in the Facility, the Hotel and office complex facilities of the Headlessee and the Authority.

Additional financing for the Headlease and Sublease basic rent payment and term renewal payment was provided by NationsBank Credit Commercial Corporation (“the Investment Participant”) in exchange for all of the tax benefits of the lease transaction.

Accordingly, the Trust entered into a tax indemnification agreement with the Investment Participant. Under the agreement, the Trust and the Authority would indemnify the Investment Participant for any loss of tax benefits resulting from a failure to perform certain provisions of the various agreements subject to certain limitations and exclusions.

As a result of the lease-leaseback transaction, all rent payments received upon the exercise of the lease prepayment option were recorded as unearned income to be recognized annually on a straight line basis. The Authority recognizes \$243,377 each year and did so during the years ended August 31, 2009 and 2008. At August 31, 2009 and 2008, the related liability was \$5,841,040 and \$6,084,417, respectively.

NOTE 9 – CAPITAL LEASE OBLIGATION

On October 20, 2004, the Authority entered into a lease agreement for equipment, with a total cost of \$499,619. The lease requires monthly payments of \$9,147 for 60 months ending December 2009. At August 31, 2009, the outstanding balance of the capital lease is \$36,493.

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NOTE 10 – COMPENSATED ABSCENCES

Full-time employees of the Authority accrue annual vacation at the rate of one day per month during the first fifteen years of service; one and one-half days thereafter; and two days per month after twenty-five years of service. Employees are eligible to take earned vacation time after six months of service. The maximum amount of vacation an employee may carryover to the next year is forty days. Upon voluntary separation of employment from the Authority, employees will be compensated for a maximum of forty days of unused vacation. Amounts earned but not yet used totaled \$385,953 and \$348,035 at August 31, 2009 and 2008, respectively, and are included in accrued expenses on the Consolidated Statements of Net Assets.

Full-time and part-time employees of the Hotel who have completed the requisite vesting periods accrue Paid Time Off (“PTO”) that is equally divided between two types; Vacation PTO and Holiday/Sick PTO. The rate of accrual is based on years of service and is accrued at a fixed rate per hour worked. The maximum amount of PTO an employee may carryover to the next year is also based on years of service. Upon voluntary separation of employment from the Hotel after a minimum one year of service, the terminating employee is compensated for all vested and available Vacation PTO. Terminating employees are not compensated for remaining Holiday/Sick PTO. All PTO amounts earned but not yet used totaled \$458,937 and \$515,854 at August 31, 2009 and 2008, respectively, and are included in accrued expenses on the Consolidated Statements of Net Assets.

NOTE 11 – PENSION AND SAVINGS PLAN

The Authority is the sponsor of a defined contribution pension and savings plan (“the Plan”) for the benefit of all employees who have completed one half year of continuous service and have attained the age of 21. The Authority contributes 7% of annual compensation of eligible employees to the Plan. Employees participating in the Plan may make after-tax contributions ranging up to 10 % of their compensation. Participants are immediately vested in their voluntary contributions plus earnings thereon. Vesting in the employer contribution account is based on years of service. Participants are fully vested after seven years of service. The Authority's policy is to fund pension cost accrued. Total pension expense for the years ended August 31, 2009 and 2008 was \$341,720 and \$284,888, respectively.

The Hotel has a defined contribution pension plan (the “401k”) which provides that eligible employees may defer payments of taxes on a portion of their salary by making contributions to the 401k through payroll deductions. Individual employee benefits under the 401k are based upon the amount accumulated for each eligible employee as a result of the Hotel's contributions, up to four percent of the employees' contributions, and any voluntary contribution made by the employee. The total pension expense for the years ended August 31, 2009 and 2008 was \$140,720 and \$151,082, respectively.

NOTE 12 - CONTINGENCIES

The Authority has been named in a lawsuit which does not involve an actual claim against the Authority but rather challenges the constitutionality of two legislative acts, which levy taxes for the benefit of the Authority. The lawsuit is styled *The City of Birmingham, Alabama, et al* ("the Plaintiff") vs. *the Birmingham-Jefferson Civic Center Authority, et al*, Case No. CV-03-6523 and CV-04-0532. This lawsuit is currently pending in the Circuit Court of Jefferson County, Alabama. The lawsuit was initially brought by the City of Birmingham and Jefferson County as a Declaratory Judgment action wherein the Plaintiffs asked the court for an interpretation of Act No. 2003-357 ("the Act") which was enacted at the 2003 Regular Session of the Alabama Legislature. This Act authorizes the Authority to impose and collect a fee or charge in lieu of taxes that would otherwise be levied on certain transactions engaged in at the facilities of the Authority. The Declaratory Judgment action raised two issues: The first issue challenged the constitutionality of the Act and that issue was originally decided in favor of the Plaintiffs by the Circuit Court. On appeal to the Alabama Supreme Court, the Supreme Court issued its final non-appealable decision, which rejected the claims of the Plaintiffs and held the Act to be constitutionally enacted by the Alabama Legislature. This ruling by the Alabama Supreme Court validated the Act.

The second issue raised in the Declaratory Judgment action questions which events at the Civic Center are within the scope of the Act and therefore subject to the fee in lieu of taxes collected by the Authority, and which events are outside the scope of the Act and therefore are subject to taxes levied by the state, county or municipality with respect to transactions related to the event.

The second issue is still pending in the Circuit Court and the parties are currently engaged in discussions, which will allow clear definitions as to which events are subject to taxes and which are subject to fees in lieu of taxes. The Authority is currently collecting fees in lieu of taxes on events which it believes are within the scope of the Act, and within the guidelines being discussed by the parties to the litigation.

A settlement has been finalized with the City of Birmingham in regard to this issue and the Authority is negotiating with Jefferson County. It is believed that a settlement will be reached and this suit will be dismissed.

The Authority is involved in various other lawsuits. The lawsuits are in the early stages of litigation, and no gain or loss contingency can be estimated. Consequently, no financial statement accruals have been recorded. In the opinion of the Authority's legal counsel, the potential, adverse impact of these lawsuits would not have a material effect on the financial statements.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

In 2009, the Authority became aware of certain accounting issues related to its property, plant and equipment and net asset balances. The Authority conducted an inquiry into these issues as well as a more complex evaluation of accounting practices and internal control processes throughout the property, plant and equipment and net asset records. As a result of this process, certain errors were detected and the Authority is restating their previously issued financial statements for the year ended August 31, 2008.

Set forth below is a comparison of the previously reported and reissued consolidated statement of net assets for the year ended August 31, 2008.

	Previously Reported	Restated
Consolidated Statement of Net Assets		
Current assets	\$ 20,404,712	\$ 20,404,712
Property, plant and equipment - net	171,853,907	176,645,831
Other assets	<u>35,041,935</u>	<u>35,041,935</u>
TOTAL	<u>\$227,300,554</u>	<u>\$232,092,478</u>
Current liabilities	\$ 21,697,366	\$ 21,697,366
Long-term liabilities	74,297,313	74,297,313
Stockholders' equity	<u>131,305,875</u>	<u>136,097,799</u>
TOTAL	<u>\$227,300,544</u>	<u>\$232,092,478</u>