

CITY OF RED BAY
RED BAY, ALABAMA
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Dicky H. Sparks, P.C.
Certified Public Accountant

THE CITY OF RED BAY
RED BAY, ALABAMA
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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT
ON
THE PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTAL INFORMATION AND
SUPPLEMENTAL INFORMATION

Mayor and City Council
Red Bay, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The City of Red Bay, Red Bay, Alabama, as of and for the year ended September 30, 2004, which collectively comprise the basic financial statements of the city's primary government as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of The City of Red Bay, Red Bay, Alabama, which consist of all funds, organizations, institutions, agencies, departments and offices that comprise the city's legal entity.

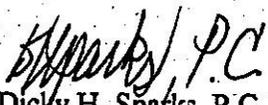
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The City of Red Bay, Red Bay, Alabama, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, The City of Red Bay, Red Bay, Alabama, Implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective October 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 18, 2005, on our consideration of The City of Red Bay, Red Bay, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Management's Discussion and Analysis on pages 4 through 12 are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the primary governments financial statements that collectively comprise The City of Red Bay, Red Bay, Alabama, basic financial statements.


Dicky H. Sparks, P.C.
Certified Public Accountant
February 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

This section of the City of Red Bay's annual financial report represents a discussion and analysis of the City's financial performance during the fiscal year ending September 30, 2004. The intent of this discussion and analysis is to look at the City's performance as a whole. This should be read in conjunction with the notes to the basic financial statements and the financial statements, which follow this section.

This discussion and analysis is a new element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The City has elected not to present comparative data.

The City of Red Bay is located in northwestern Alabama along U.S. Highway 24. The population, according to the 2004 census, is 3,451. Manufacturing and Retail Trade drive the local economic base.

FINANCIAL HIGHLIGHTS

The City of Red Bay is financially stable. The City has committed itself to financial excellence for many years by using sound financial planning, and strong internal controls. The City is committed to maintaining sound fiscal management to meet the challenges of the future.

The City of Red Bay continues to grow both economically and in population. This has allowed the City to maintain a steady growth in tax revenues without a tax increase.

Total City's total net assets increased \$216,771, which represents a 4% increase from the prior fiscal year. The City's ending cash balances, for all funds, increased by \$412,612, which represents a 22% increase from the prior fiscal year.

The City had \$2,493,928 in total Governmental Funds revenues. The sales tax revenues account of \$1,287,772 represents 52% of total revenues. Charges for services, such as privilege license and garbage and dump collections account for \$744,608 or 30% of total revenues.

The City had \$2,525,904 in total Governmental Funds expenses, which represents a decrease of \$829,360 or 33% decrease from the prior fiscal year.

Among major funds, the 2002 Improvement Fund had \$0 in revenues and \$13,609 in expenditures. The 2002 Improvement Fund's fund balance decreased \$295,783 from the prior year. The reason for the decrease in the 2002 Improvement Fund was paving and reseal projects.

Among major funds, the Occupational Tax Fund had \$335,110 in revenues, \$166 in expenditures and \$241,331 in transfers to the Debt Service Fund for warrant payments. The Occupational Tax Fund's fund balance decreased \$129,754 from the prior year. The decrease in the Occupational Tax Fund was due to an increase in the warrant payment.

Infrastructure (Roads and Bridges) was added during this fiscal year in the amount of \$1,484,515 net of accumulated depreciation. There was also prior accumulated depreciation adjusted on in the amount of \$2,942,956 for all other asset classes. Both of these adjustments were made to conform to GASB 34.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consist of four parts discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise of three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Figure 1 – Required Components of the City's Annual Report

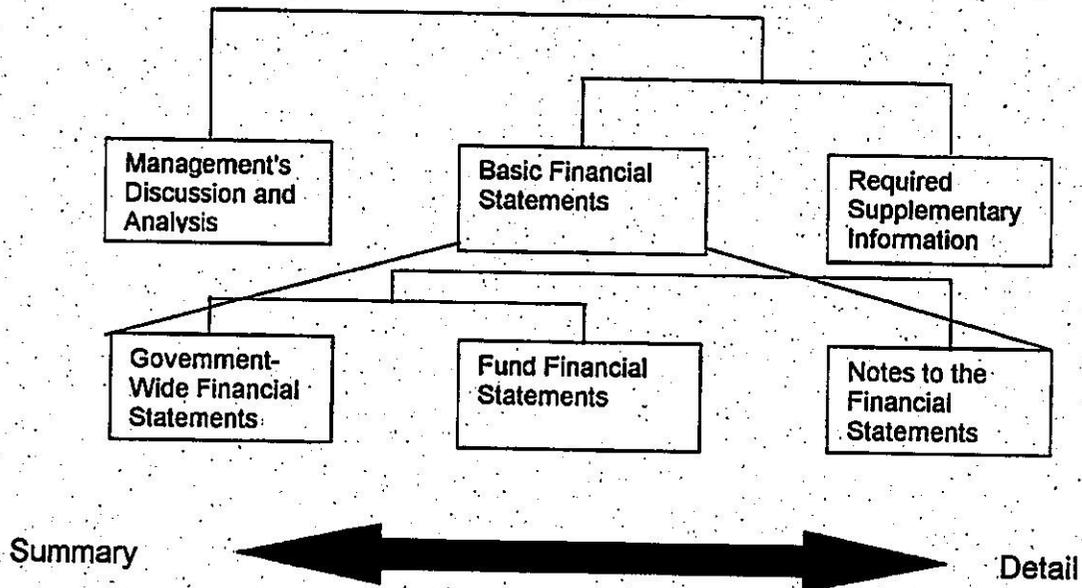


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

Figure 2 – Major Features of the City’s Government-Wide and Fund Financial Statements

	Government -Wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and component units	All activities of the City that are not business-type or fiduciary in nature	Activities of the City that operate similar to private businesses	The City is the trustee or agent for someone else’s resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short and long term	All assets and liabilities, both short and long term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City’s overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City’s operations in more detail than the government-wide statements. The *governmental funds* statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. *Proprietary fund* statements offer short and long-term financial information about the activities the government operates like business, such as the sewer system. *Fiduciary fund* statements provide information about the financial relationships-like the retirement plan for the City’s employees, in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide financial statements report the City's net assets and how they have changed.

The **statement of net assets** presents information on all City's assets and liabilities, with the difference between the two reported as net assets. This is one way to measure the City's financial health, or position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

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

Governmental activities-Most of the City's basic services are included here, such as the police, fire, public works, and parks department, and general administration. Sales and occupational taxes and state and federal grants finance most of these activities.

Business-type activities-The city charges fees to customers to help it cover the costs of certain services it provides. The City's sewer system is included here.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to keep track of specific sources of funding and spending for particular purposes. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on how cash and other financial assets that can be readily be converted to cash flow in and out and the balances left at year-end that are available for spending. The governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer

resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship or differences between them. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds are used to account for the City's charges to customers for services. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The City's enterprise funds (a type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets – Net assets may serve over time as a useful indicator of government's financial position. In the case of The City of Red Bay, assets exceeded liabilities by \$2,647,771 as of September 30, 2004.

By far, the largest portion of the City's net assets reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, and construction in progress) less related outstanding debt used to acquire such assets. The city uses these capital assets to provide services to its citizens.

The City's financial position is a product of several financial transactions including the net results of activities, the acquisitions and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2004.

	Governmental
	<u>Activities</u>
Current assets	\$ 2,616,384
Capital assets, net	<u>4,395,061</u>
Total assets	<u>7,011,445</u>

Current liabilities	342,663
Long-term debt outstanding	<u>4,021,011</u>
Total liabilities	<u>4,363,674</u>
Net assets:	
Invested in capital assets, net of related debt	847,801
Restricted	495,534
Unrestricted	<u>1,304,437</u>
Total net assets	\$ <u>2,647,771</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- Roads and Bridges were added to the City's inventory, due to accounting changes implemented by the "Governmental Accounting Standards Board". This resulted in additional capital assets being booked for the first time in the 2004 fiscal year.
- The City entered into a long-term capital lease agreement with Triple H Electronics for \$761,011 for a building.

Changes in Net Assets – The City of Red Bay's total revenues for the fiscal year ended September 30, 2004 was \$2,493,928. The total cost for all services provided was \$2,525,904. The decrease in net assets was \$31,976. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2004.

Revenues:	Amount
Program Revenues	
Charges for Services	\$ 744,608
Federal Grants	99,713
State Revenues	337,001
General Revenues	
Sales Taxes	1,287,772
Interest and Investment Earnings	24,834
Total Revenues	<u>2,493,928</u>
Expenses:	
General Government	764,848
Municipal Court	24,084
Public Safety	472,233
Public Works	665,695
Culture and Recreation	156,136
Economic Development	259,046
Capital Projects	13,775
Interest and Fiscal Charges	170,088
Total Expenses	<u>2,525,904</u>
Decrease in Net Assets	\$ <u>31,976</u>

Governmental Activities – The following table presents the cost of five major functional activities of the County: General Government, Public Safety, Public Works, Culture and Recreation, and Economic Development and Assistance.

The table also shows each function's net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on The City of Red Bay's taxpayers by each of these functions.

	<u>Total Costs</u>	<u>Net Costs</u>
General Government	\$ 764,848	\$ 167,008
Municipal Court	24,084	30,161
Public Safety	472,233	(467,493)
Public Works	665,695	(665,695)
Culture and Recreation	156,136	(16,557)
Economic Development	259,046	(208,143)
Capital Projects	13,775	(13,775)

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds – At the close of the fiscal year, The City of Red Bay's governmental funds reported a combined fund balance of \$1,800,209, an increase of \$147,213.

The General Fund is the principal operating fund of the City. The decrease in the fund balance of the General Fund for the fiscal year was \$47,470. This decrease was primarily due to the more than expected cost on several projects that were on going during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2004, The City of Red Bay's total capital assets was \$9,623,746. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and construction in progress. This amount represents a decrease from the previous year. The majority of this decrease was due to the implementation of GASB 34. Total accumulated depreciation as of September 30, 2004 was \$5,228,685, including \$134,066 of depreciation expense for the year. The balance in total net capital assets was \$4,395,061 at year-end. Shown below are two tables that show the activity for Capital Assets and Accumulated Depreciation from the prior year to this fiscal year.

Fixed Asset Inventory Values

Asset Classification	<u>Balance 10/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 09/30/04</u>
Land	237,571			237,571
Buildings	1,299,918			1,299,918
Improvements other than Buildings	2,309,959			2,309,959
Mobile Equipment	699,283			699,283
Other Furniture & Equip.	111,433			111,433

Infrastructure-Roads	4,947,582	4,947,582
Infrastructure-Bridges	18,000	18,000
Total	<u>9,623,746</u>	<u>9,623,746</u>

Fixed Asset Accumulated

Accumulated Depreciation

Asset Classification	Balance 10/01/03	Additions	Deletions	Balance 09/30/04
Buildings	588,897	25,319		614,216
Improvements other than Buildings	430,717	41,227		471,944
Mobile Equipment	493,648	67,160		560,808
Other Furniture & Equip.	100,290			100,290
Infrastructure-Roads	3,463,307			3,463,307
Infrastructure-Bridges	17,760	360		18,120
Total	<u>5,094,619</u>	<u>134,066</u>		<u>5,228,685</u>

Debt Administration – At September 30, 2004, The City of Red Bay had \$3,547,500 in long-term debt outstanding. This includes general obligation bonds, other and obligations under capital lease. Of this debt, \$122,500 is due within one year.

Shown below is a table showing the activity on long term debt for this fiscal year. This table breaks down the debt by the type of issue.

Long Term Debt Analysis

General Obligation Bonds	Balance 10/1/2003	Issued	Retired	Balance 9/30/2004	Due Within One Year
Estimated Landfill Closure	121,500	1,000		122,500	122,500
NBC GO Warrants	1,735,000		160,000	1,575,000	165,000
Bank of New York Warrants	1,850,000			1,850,000	0
Total General Obligation Bonds	<u>3,585,000</u>	<u>0</u>	<u>160,000</u>	<u>3,425,000</u>	<u>165,000</u>
Total Other	<u>121,500</u>	<u>1,000</u>	<u>0</u>	<u>122,500</u>	<u>122,500</u>
Total All Long Term Debt	<u>3,585,000</u>	<u>0</u>	<u>160,000</u>	<u>3,425,000</u>	<u>165,000</u>

CURRENT AND FUTURE ITEMS OF IMPACT

There are currently no new industries that plan to locate new plants in the City.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the City of Red Bay at office at P.O. Drawer 2002, Red Bay, Alabama 35582.

***PRIMARY GOVERNMENT
FINANCIAL STATEMENTS***

CITY OF RED BAY
Statement of Net Assets
September 30, 2004

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and Investments	\$ 1,415,869	\$ 337,739	\$ 1,753,608
Cash with Fiscal Agents	157,452	0	\$ 157,452
Accrued Revenue	154,805	23,807	178,612
Accrued Interest Receivable	10,831	2,289	13,120
Capital Lease Receivable	761,011	0	761,011
Prepaid Expenses	24,656	0	24,656
Amount Available in Debt Service Fund (Note 4)	22,603	0	22,603
Bond Discount, Net	35,678	0	35,678
Bond Issue Costs, Net	33,480	0	33,480
Capital Assets, Net	<u>4,395,061</u>	<u>2,342,812</u>	<u>6,737,872</u>
Total assets	<u>7,011,445</u>	<u>2,706,647</u>	<u>9,718,092</u>
Liabilities			
Claims Payable	26,846	3,177	30,022
Other Accrued Liabilities	28,317	0	28,317
Capital Lease Payable	761,011	0	761,011
Estimated Liability for Landfill Closure Costs	122,500	0	122,500
General Obligation Bonds Payable	<u>3,425,000</u>	<u>0</u>	<u>3,425,000</u>
Total Liabilities	<u>4,363,674</u>	<u>3,177</u>	<u>4,366,851</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	847,801	11,835	859,636
Restricted For:			
Debt Service	495,534	0	495,534
Unrestricted Assets	<u>1,304,437</u>	<u>2,691,635</u>	<u>3,996,072</u>
Total Net Assets	<u>\$ 2,647,771</u>	<u>\$ 2,703,469</u>	<u>\$ 5,351,240</u>

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

CITY OF RED BAY
Statement of Activities
September 30, 2004

Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental:							
General Government	\$ 764,848	\$ 645,758	\$ 286,098		167,008		\$ 167,008
Municipal Court	24,084	54,245			30,161		30,161
Public Safety	472,233	4,740			(467,493)		(467,493)
Public Works	665,695				(665,695)		(665,695)
Culture and Recreation	156,136	39,866		99,713	(16,557)		(16,557)
Economic Development and Assistance	259,046		50,903		(208,143)		(208,143)
Capital Projects	13,775				(13,775)		(13,775)
Interest and Fiscal Charges	170,088				(170,088)		(170,088)
Total Governmental Activities	2,525,904	744,608	337,001	99,713	(1,344,582)		(1,344,582)
Business-Type:							
Sewer Fund	373,587	286,701				(86,886)	(86,886)
Total Business-Type Activities	373,587	286,701				(86,886)	(86,886)
Total Primary Government	\$ 2,899,491	\$ 1,031,309	\$ 337,001	\$ 99,713	\$ (1,344,582)	\$ (86,886)	\$ (1,431,468)
General Revenues:							
Taxes:							
Sales Taxes							
Interest and Investment Earnings					\$ 1,287,772		\$ 1,287,772
Contributed Revenue					24,834	6,537	31,372
Transfers In						26,207	26,207
Contributed Capital					1,477,700	191,351	1,669,051
Transfers Out						302,889	302,889
Total General Revenues and Transfers					(1,555,897)	(113,154)	(1,669,051)
Change in Net Assets					1,234,409	413,830	1,648,239
Net Assets at Beginning of Year, as Restated					(110,173)	326,944	216,771
Net Assets at End of Year					<u>2,757,944</u>	<u>2,376,525</u>	<u>5,134,469</u>
					<u>\$ 2,647,771</u>	<u>\$ 2,703,469</u>	<u>\$ 5,351,240</u>

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

CITY OF RED BAY
Balance Sheet Governmental Funds
September 30, 2004

	Major Funds						Other Governmental Funds	Total Governmental Funds
	General Fund	2002 Improvement Fund	Occupational Tax Fund	Sewer Extension Project	Debt Service Fund	Governmental Funds		
ASSETS								
Cash and Investments	\$ 342,421	526,606	59,481	7,679	246,321	233,360	\$ 1,415,869	
Cash with Fiscal Agent					157,452		\$ 157,452	
Accrued Revenue	129,119		25,685				154,805	
Capital Lease Receivable	761,011						761,011	
Accrued Interest Receivable	257	10,574					10,831	
Prepaid Expenses	24,656						24,656	
Bond Discount, Net					35,678		35,678	
Debt Issue Cost, Net					33,480		33,480	
Restricted Assets-Current					22,603		22,603	
Restricted Assets-Noncurrent								
Total Assets	<u>\$ 1,257,464</u>	<u>\$ 537,180</u>	<u>\$ 85,167</u>	<u>\$ 7,679</u>	<u>\$ 495,534</u>	<u>\$ 233,360</u>	<u>\$ 2,616,385</u>	
LIABILITIES & FUND BALANCES								
Liabilities:								
Claims Payable	\$ 26,846	\$	\$	\$	\$	\$	\$ 26,846	
Capital Lease Payable	761,011						761,011	
Accrued Liabilities	28,317						28,317	
Total Liabilities	<u>816,174</u>						<u>816,174</u>	
Fund Balances:								
Unreserved:								
General Fund	441,290	537,180	85,167	7,679	495,534	233,360	441,290	
Special Revenue Funds							863,385	
Debt Service Funds							495,534	
Total Fund Balances	<u>441,290</u>	<u>537,180</u>	<u>85,167</u>	<u>7,679</u>	<u>495,534</u>	<u>233,360</u>	<u>1,800,209</u>	
Total Liabilities & Fund Balances	<u>\$ 1,257,464</u>	<u>\$ 537,180</u>	<u>\$ 85,167</u>	<u>\$ 7,679</u>	<u>\$ 495,534</u>	<u>\$ 233,360</u>	<u>\$ 2,616,384</u>	

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

CITY OF RED BAY
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2004

\$ 1,800,209

Total Fund Balance-Governmental Funds	
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Capital assets net of depreciation as of 10-1-03	4,528,888
Less depreciation expense recorded during year	<u>(133,826)</u>
Liabilities not due and payable in the current period are not reported in the funds:	
Long-term Liabilities	<u>(3,547,500)</u>
	<u>\$ 2,647,771</u>

Net Assets of Governmental Activities

CITY OF RED BAY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
September 30, 2004

	General Fund	2002 Improvement Fund	Occupational Tax Fund	Sewer Extension Project	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Sales and Property Taxes	\$ 941,177	\$	\$ 335,110	\$	\$	\$ 8,630	\$ 1,284,917
Licenses, Commissions and Fees	163,778						163,778
Fines and Forfeitures						54,245	54,245
State Shared Revenues	286,098			26,207		50,903	337,001
Federal Sources						50,000	76,207
Charges for Services	512,535			302,889		5,100	517,635
Intergovernmental Revenues							302,889
Use of Money and Property						49,713	49,713
Miscellaneous Revenue	8,951						8,951
Total Revenues	<u>1,912,539</u>		<u>335,110</u>	<u>329,096</u>		<u>218,591</u>	<u>2,795,334</u>
EXPENDITURES							
General Government	558,845					24,084	582,929
Public Safety	460,414						460,414
Public Works	579,458			375,373		30,754	985,585
Culture & Recreation	121,448					68,471	189,919
Economic Development & Assistance						30,265	30,265
Debt Service:							
Principal Payments					160,000		160,000
Interest					170,088		170,088
Fiscal Charges					2,828		2,828
Debt Issue Costs					14,240		14,240
Capital Outlay	3,350	13,609	166			14,385	31,510
Total Expenditures	<u>1,723,515</u>	<u>13,609</u>	<u>166</u>	<u>375,373</u>	<u>347,156</u>	<u>167,959</u>	<u>2,627,778</u>
Excess (deficiency) of Revenues	\$ 189,024	\$ (13,609)	\$ 334,944	\$ (46,277)	\$ (347,156)	\$ 50,632	\$ 167,556
Over (under) Expenditures							

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

CITY OF RED BAY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
September 30, 2004

OTHER FINANCING SOURCES/USES						
Intrafund Transfers In	1,159,971	20,765	53,200	216,657	299,819	1,750,412
Interest Income	2,537	19,642		1,636	2,591	26,406
Dividend Income				64		64
Intrafund Transfers Out	(1,399,002)	(12,194)			(88,080)	(1,797,229)
Total Other Financing Sources and Uses	<u>(236,494)</u>	<u>28,213</u>	<u>53,200</u>	<u>218,357</u>	<u>214,330</u>	<u>(20,346)</u>
Net Change in Fund Balances	(47,470)	14,604	6,923	(128,799)	264,962	147,213
Fund Balances - Beginning	488,760	522,576	756	286,592	125,848	1,652,996
Fund Balances - Ending	<u>\$ 441,290</u>	<u>\$ 537,180</u>	<u>\$ 7,679</u>	<u>\$ 157,793</u>	<u>\$ 390,810</u>	<u>\$ 1,800,209</u>

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

CITY OF RED BAY
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2004

Net change in fund balances - Total Governmental Funds (Exhibit 4) 147,212

Amounts reported for Governmental Activities in the Statement of Activities (Exhibit 2) are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated usefully lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation (\$133,826) exceeded capital outlays \$19,330 in the current period.

Intergovernmental Revenue which consists of local match money paid from the governmental funds and transferred to the proprietary fund. (114,496)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments exceeded debt proceeds. (302,889)

Change in net assets of governmental activities (Exhibit 2) 160,000

(110,173)

CITY OF RED BAY
Statement of Net Assets
Proprietary Fund
September 30, 2004

	<u>Enterprise Fund</u>	
	<u>Sewer Fund</u>	<u>Total</u>
Assets		
Current Assets:		
Cash and Investments (Note 2)	\$ 337,739	\$ 337,739
Accrued Revenue	23,807	23,807
Accrued Interest Receivable	2,289	2,289
Total Current Assets	<u>363,835</u>	<u>363,835</u>
Noncurrent Assets:		
Capital Assets (Note 3)		
Land	14,278	14,278
Construction In Progress	375,373	375,373
Sewer System, Net	1,953,161	1,953,161
Total Noncurrent Assets	<u>2,342,812</u>	<u>2,342,812</u>
Total Assets	<u>2,706,647</u>	<u>2,706,647</u>
Liabilities		
Current Liabilities:		
Accounts Payable	3,177	3,177
Total Current Liabilities	<u>3,177</u>	<u>3,177</u>
Total Liabilities	<u>3,177</u>	<u>3,177</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	11,835	11,835
Unrestricted Assets	2,691,635	2,691,635
Total Net Assets	<u>\$ 2,703,469</u>	<u>\$ 2,703,469</u>

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

CITY OF RED BAY
Statement of Revenues, Expenditures and Changes in Fund Net Assets
Proprietary Fund
September 30, 2004

	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues		
Charges for Services	\$ 286,701	\$ 286,701
Total Operating Revenues	<u>286,701</u>	<u>286,701</u>
Nonoperating Revenues		
Contributed Revenue	26,207	26,207
Interest Income	6,537	6,537
Total Nonoperating Revenues	<u>32,744</u>	<u>32,744</u>
Total Revenues	<u>319,445</u>	<u>319,445</u>
Operating Expenditures		
Salaries and Benefits	183,849	183,849
Services and Supplies	18,551	18,551
Utilities	20,055	20,055
Depreciation Expense	145,522	145,522
Total Operating Expenditures	<u>367,978</u>	<u>367,978</u>
Operating Income (Loss)	(48,533)	(48,533)
Nonoperating Expenditures		
Other Supplies and Services	5,609	5,609
Total Nonoperating Expenditures	<u>5,609</u>	<u>5,609</u>
Income (Loss) Before Transfers	(54,142)	(54,142)
Transfers In	494,240	494,240
Transfers Out	(113,154)	(113,154)
Change In Net Assets	326,944	326,944
Fund Balances - Beginning	<u>2,364,691</u>	<u>2,364,691</u>
Fund Balances - Ending	<u>\$ 2,691,635</u>	<u>\$ 2,691,635</u>

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

CITY OF RED BAY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 286,701
Payments to Suppliers	(54,391)
Payments to Employees	(173,673)
Transfers In	494,239
Other Receipts	26,207
Net Cash Provided (Used) by Operating Activities	579,083
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers Out	(113,154)
Net Cash Provided by Noncapital Financing Activities	(113,154)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase and Construction of Capital Assets	(378,940)
Net Cash (Used) by Capital and Related Financing Activities	(378,940)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends	6,537
Net Increase (Decrease) in Cash and Cash Equivalents	86,989
Balances-Beginning of the Year	250,750
Balances-End of the Year	\$ 337,739
 Displayed As:	
Pooled Cash and Investments	\$ 337,739
	\$ 337,739
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 326,944
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	145,522
Change in Net Assets and Liabilities:	
Receivable, Net	(7,137)
Accounts and Other Payables	(293)
Net Cash Provided (Used) by Operating Activities	\$ 465,036

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The financial statements of The City of Red Bay, Red Bay, Alabama (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units with the exception of accounting for property, plant and equipment. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the Mayor and City Council. In defining the governmental reporting entity, the following entities have been excluded from the City of Red Bay Financial Statements due to the fact that they are public corporations:

Water Works and Gas Board of Red Bay
Industrial Development Board
Housing Authority of Red Bay
Medical Clinic Board
The Red Bay Hospital, Inc.
Red Bay Hospital Operating Board

In each of the above entities, oversight responsibility rests with the individual board and not with the City of Red Bay. The following criteria was used in this determination:

Selection of governing authority by an elected official of the governmental unit. Management appointed by and held accountable to the governmental unit. Ability of governmental unit to significantly influence operations including review and approval of budgets and budget amendments, authority to sign contracts, approval of hiring or retention of key managerial personnel, exercise of control over facilities and properties and determine the outcome or disposition of matters affecting the recipients of the services being provided.

Accountability for fiscal matters including:

Budgetary Authority;
Responsibility for funding deficits or controlling the use of surplus;
Control of the collection and disbursement of funds.

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

1-B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of Internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (1) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: the fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units (if applicable). Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major funds:

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

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

2002 Improvement Fund. This fund accounts for the City's capital project fund monies.

Occupational Tax Fund. This fund accounts for the local occupational collected by the areas businesses.

Sewer Extension Project. This fund accounts for the City's matching requirements for federal and state awards, and transfers to and from the General Fund associated with certain sewer extension expenditures.

Debt Service Fund. This fund accounts for the resources accumulated and payments made for principal and interest on general long-term debt associated with with equipment and facilities leased to the City.

The City reports the following major enterprise fund:

Sewer Fund. This fund accounts for the operation, maintenance, and development of sewer improvements.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The Government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using 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. nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the year-end. Sales taxes, franchise taxes, license and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing resources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the City 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.

Budgets

The City is not required to legally adopt a budget and does not do so. Therefore, no actual versus budgetary expenses were included as a part of these statements.

1-C. Assets, Liabilities, and Equity

Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at September 30, 2004, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

Cash and Cash Equivalent

The City considers cash and cash equivalents in proprietary funds to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be cash equivalent.

Receivables and Payables

All trade and sales tax receivables are shown net of an allowance for uncollectibles.

Inventories and Prepaid Items

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2001 consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The City's other major infrastructure network-bridges-has not yet been reported. 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.

Capital assets are depreciated using the straight-line method of depreciation. A full year's depreciation expense should be taken for all purchases and sales of capital assets during the fiscal year. The estimated useful lives are as follows:

<u>Asset Class</u>	<u>Capitalization Thresholds</u>	<u>Estimated Useful Lives</u>	<u>Salvage Value</u>
Land	N/A	N/A	N/A
Infrastructure	N/A	N/A	30%
Buildings	\$50,000	40 years	20%
Improvements other than Buildings	\$25,000	20 years	20%
Heavy Equipment	\$5,000	10 years	10%
Vehicles and Equipment	\$5,000	5 years	10%
Office Equipment	\$5,000	3 years	1%
Furniture and Fixtures	\$5,000	7 years	10%

Compensated Absences

The Board had no formal policy or records of compensated absences as of September 30, 2004; thus, no determination could be made as to financial liability involved.

NOTE 2-DEPOSITS AND INVESTMENTS

2-A. Summary of Deposits and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of September 30, 2004:

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Pooled Cash and Investments	Other	Total
Bank Deposits	\$1,200,445	\$710,615	\$1,911,060
Total	<u>\$1,200,445</u>	<u>\$710,615</u>	<u>\$1,911,060</u>

	Government-wide Statement of Net Assets	Proprietary Fund Statement of Net Assets	Total
Pooled Cash and Investments	\$1,573,321	\$337,739	\$1,911,060
Total	<u>\$1,573,321</u>	<u>\$337,739</u>	<u>\$1,911,060</u>

As of September 30, 2004, the carrying amount of the City's bank deposits was \$1,911,160 and the respective bank balances totaled \$1,938,684. Of the total bank balance, \$730,444 was insured through the Federal Depository Insurance Corporation (FDIC). The amount of \$1,198,213 was collateralized with pooled securities held by the financial institutions' trust departments. These securities are held in the name of the financial institution and not that of the City. The remaining balance of \$10,027 was uninsured.

NOTE 3-CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 was as follows:

	Beginning Balances	Increase	Decrease	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$237,571			\$237,571
Roads	<u>4,947,582</u>			<u>4,947,582</u>
Total capital assets not being depreciated:	<u>5,185,153</u>			<u>5,185,153</u>
Capital assets being depreciated:				
Buildings	1,299,918			1,299,918
Improvements	2,309,959			2,309,959
Bridges	18,000			18,000
Mobile Equipment	699,283			699,283
Furniture	<u>111,433</u>			<u>111,433</u>
Total assets being depreciated:	<u>4,438,593</u>			<u>4,438,593</u>

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Less accumulated depreciation for:			
Buildings	588,897	25,319	614,216
Improvements	430,717	41,227	471,944
Roads	3,463,307		3,463,307
Bridges	17,760	360	18,120
Mobile Equipment	493,648	67,160	560,808
Furniture	100,290	0	100,290
Total accumulated depreciation:	<u>5,094,619</u>	<u>134,066</u>	<u>5,228,685</u>
Governmental activity capital assets, net	<u>\$4,529,127</u>	<u>(134,066)</u>	<u>\$4,395,061</u>
Business-type Activities:			
Capital assets not being depreciated:			
Land	<u>\$14,278</u>		<u>\$14,278</u>
Total capital assets not being depreciated:	<u>14,278</u>		<u>14,278</u>
Capital assets being depreciated:			
Improvements	3,321,200	375,373	3,696,573
Mobile Equipment	428,318		428,318
Total assets being depreciated:	<u>3,749,518</u>	<u>375,373</u>	<u>4,124,891</u>
Less accumulated depreciation for:			
Improvements	1,456,031	122,136	1,578,167
Mobile Equipment	194,804	23,386	218,190
Total accumulated depreciation:	<u>1,650,835</u>	<u>145,522</u>	<u>1,796,357</u>
Business-type activity capital assets, net	<u>2,112,961</u>	<u>(145,522)</u>	<u>2,342,812</u>

Depreciation expense was charged to functions as follows:

General Government	\$32,075
Culture and Recreation	34,688
Public Safety	11,819
Public Works	55,484
Total	<u>\$134,066</u>

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE 4-Debt and Debt Service Requirements

Description	Beginning Balance At 10-01-03	Additions	Reduction s	Ending Balance At 09-30-04
Estimated Liability for Landfill Closure & Post-closure Care Costs	\$ 121,500	1,000	0	122,500
National Bank of Commerce (General Obligation Warrants – Series 1998)	1,735,000	0	160,000	1,575,000
Bank of New York (General Obligation Warrants – Series 2002)		0	0	
	<u>1,850,000</u>			<u>1,850,000</u>
Total	\$ <u>3,706,500</u>	<u>1,000</u>	<u>160,000</u>	<u>3,547,500</u>

Details of the above debt at September 30, 2004 are as follows:

Estimated Liability for Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the City to place a final cover on its solid waste landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as a liability in the general long term debt based on landfill capacity used of each balance sheet date. The amount reported as landfill closure and postclosure care liability at September 30, 2004 of \$122,500 represents the cumulative amount reported to date based on the estimated capacity of the landfill used to date. The City will recognize the remaining estimated cost of closure and postclosure care of \$357,500 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in the fiscal year 2004. The City has used 25 percent of the estimated capacity of the landfill as of September 30, 2004, and expects to close the landfill in the year 2020. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

National Bank of Commerce – General Obligation Warrants Series 1998

General Obligation Warrant - payable monthly from \$16,411.80 to 21,006.58 for 165 months beginning 10/15/1998 through 06/15/2012, interest rate from 4.75% to 4.95%.

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Bank of New York – General Obligation Warrants Series 2002

General Obligation Warrant - payable annually from \$90,42 to 262,750 for 17 years beginning 07/01/2003 through 07/01/2019, interest rate from 4.60% to 5.10%. For the first ten years, an interest only payment of \$90,420 per year will be required. No principle reduction will occur until after this ten-year period. The first principle reduction occurs July 1, 2013.

Annual principal requirements for the next five years are as follows:

Year ended September 30	Landfill Closing Costs	National Bank of Commerce	Bank of New York	Total
2004	\$ 0	165,000	0	165,000
2005	0	175,000	0	175,000
2006	0	180,000	0	180,000
2007	0	190,000	0	190,000
2008	0	210,000	0	210,000
Thereafter	<u>122,500</u>	<u>777,500</u>	<u>1,850,000</u>	<u>2,750,000</u>
Total	<u>\$ 122,500</u>	<u>1,697,500</u>	<u>1,850,000</u>	<u>3,670,000</u>

NOTE 5-Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial. As of June 23, 2000, the City co-endorsed a note on the behalf of Goldmont Housing Supply, Inc. an Alabama corporation to assist the corporation's efforts to secure funding from the State of Alabama Industrial Development Authority. The property and building serve as collateral for the co-signature on the City's behalf. The capital costs for the project were \$811,381. The loan amount at June 23, 2000, was \$618,632. The note balance at September 30, 2004 was \$531,095. This note is a twenty-year note with the rate fixed at 5.65% for 10 years. The installment payments are monthly. The note is the primary liability of Goldmont Housing Supply, Inc.

NOTE 6-Related Party Transactions

During the past year, the City purchased various services and operating supplies from related parties. These purchases totaled \$26,479 from the General Fund, and \$2,278 from the Sewer Fund.

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE 7-In Lieu of Taxes

In lieu of tax consists of current year receipts from The Water Works and Gas Board.

NOTE 8-Employee Retirement

The City began providing retirement benefits in December 1997 to its employees through the Employees' Retirement System of Alabama. Each employee contributes to the plan at a rate of 5.00% of his or her compensation. The employer also contributes to the plan at a rate determined by an actuary, necessary to provide benefits granted by law for members. The contributions to the plan as of September 30, 2004 were \$107,431. The latest actuarial valuation, dated September 30, 2003, for the City, as submitted by the Employees' Retirement System of Alabama, indicated the following:

Summary of Employee Census Data	2003	2002	2001
Number of Active Members:	28	28	33
Annual Compensation:	\$809,808	\$786,235	\$816,443
Number of Retired Members and Beneficiaries:	4	4	4
Annual Retirement Allowances:	\$40,906	\$40,906	\$40,906
Schedule of Funding Progress			
Actuarial Valuation Date	09/30/03	09/30/02	09/30/01
Actuarial Value of Assets (a)	\$671,172	\$523,118	\$428,918
Actuarial Accrued Liability Entry Age (b)**	\$1,405,397	\$1,214,750	\$1,195,512
Unfunded Actuarial Accrued Liability (b-a)	\$734,225	\$691,632	\$766,594
Funded Ratio (a/b)	47.8%	43.1%	35.9%
Covered Payroll	\$809,808	\$786,235	\$816,443
Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll {(b-a)/c}	90.7%	88.0%	93.9%
** Reflects Liability for Cost of Living Benefit Increases Granted on or After October 1, 1978			
Methods:			
Actuarial Cost Method	Entry Age Level	Entry Age Level	Entry Age Level
Amortization Method	Percent Open	Percent Open	Percent Open
Remaining Amortization Period	13 Years 5 Year Smoothed	13 Years 5 Year Smoothed	14 Years 5 Year Smoothed
Asset Valuation Method	Market	Market	Market
Actuarial Assumptions:			
Actuarial Gains and Losses are Amortized Over 30 Years			
Investment Rate of Return*	8.00%	8.00%	8.00%

**CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Projected Salary Increases*	4.61%- 7.75%	4.61% - 7.75%	4.61% - 7.75%
*Includes Inflation at Cost of Living Adjustments	4.5% None	4.5% None	4.5% None