

*CITY OF RED BAY  
RED BAY, ALABAMA  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005*

*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**

Mayor and City Council  
Red Bay, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Red Bay'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. 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.

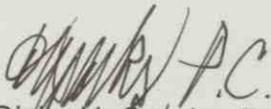
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Red Bay, Red Bay, Alabama, as of September 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2006, 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 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 reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 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 the 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 financial statements that collectively comprise The City of Red Bay's basic financial statements.



Dicky H. Sparks, P.C.  
Certified Public Accountant  
April 10, 2006

# **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, 2005. 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.

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 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 economically. This has allowed the City to maintain a steady growth in tax revenues without a tax increase.

Total City's total net assets increased \$48,103, and the ending cash balances increased by \$19,208. Each balance represents a 1% increase from the prior year.

The City had \$2,465,654 in total Governmental Funds revenues. The sales tax revenues account of \$1,395,033 represents 56% of total revenues. Charges for services, such as privilege license and garbage and dump collections account for \$645,894 or 26% of total revenues.

The City had \$2,502,957 in total Governmental Funds expenses, which represents a decrease of \$22,947 from the prior fiscal year.

Among major funds, the 2002 Improvement Fund had \$0 in revenues and \$6,925 in expenditures. The 2002 Improvement Fund's fund balance increased \$156 from the prior year.

Among major funds, the Occupational Tax Fund had \$352,469 in revenues, \$700 in expenditures and \$322,926 in transfers to the Debt Service Fund for warrant payments. The Occupational Tax Fund's fund balance increased \$28,843 from the prior year. The decrease in the Occupational Tax Fund was due primarily to a \$17,359 increase in the amount of occupational tax that was collected during the year.

## 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**

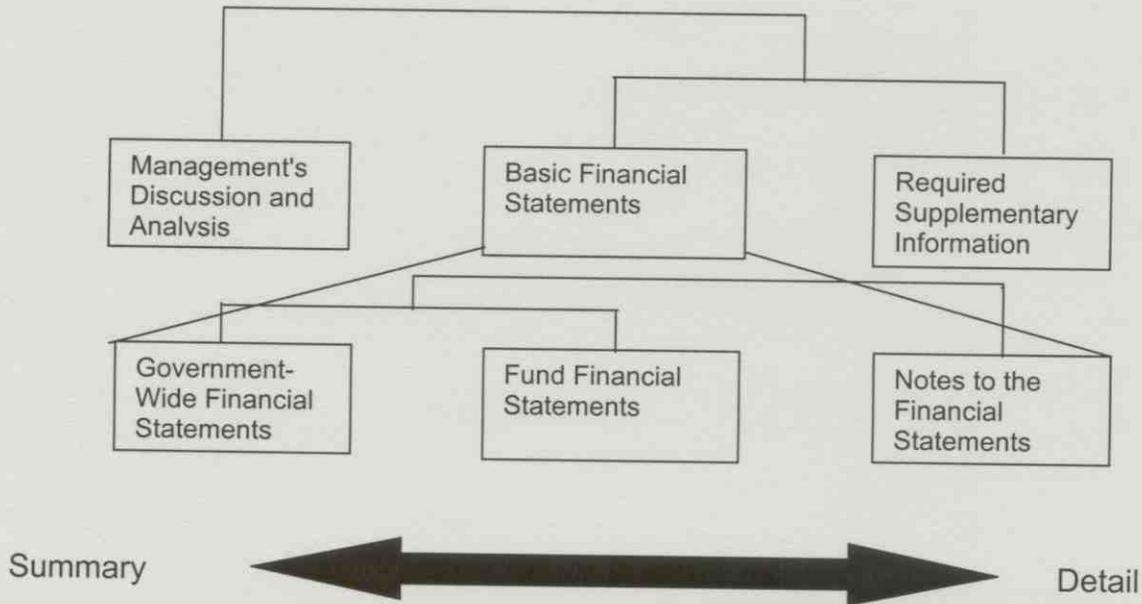


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in net assets</li> </ul>
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 \$2,687,021 as of September 30, 2005.

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, 2005.

	Governmental Activities
Current assets	\$ 2,690,954
Capital assets, net	4,357,212
Total assets	<u>7,048,166</u>
Current liabilities	892,647
Long-term debt outstanding	3,468,500
Total liabilities	<u>4,361,147</u>
Net assets:	
Invested in capital assets, net of related debt	888,712
Restricted	578,493
Unrestricted	1,219,816
Total net assets	<u>\$ 2,687,021</u>

**Changes in Net Assets** – The City of Red Bay's total revenues for the fiscal year ended September 30, 2005 was \$2,473,381. The total cost for all services provided was \$2,502,957. The decrease in net assets was \$29,576. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2005.

Revenues:	Amount
Program Revenues	
Charges for Services	\$ 645,894
Operating Grants & Contributions	310,448
Capital Grants	114,279
General Revenues	
Sales Taxes	1,395,033
Interest and Investment Earnings	7,727
Total Revenues	<u>2,473,381</u>
Expenses:	
General Government	615,457
Municipal Court	41,969
Public Safety	525,014
Public Works	925,373
Culture and Recreation	165,632
Economic Development	63,496
Interest and Fiscal Charges	166,016
Total Expenses	<u>2,502,957</u>
Decrease in Net Assets	<u>\$ 29,576</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.

	Total Costs	Net Costs
General Government	\$ 615,457	\$ 218,771
Municipal Court	41,969	55,002
Public Safety	525,014	(525,014)
Public Works	925,373	(970,395)
Culture and Recreation	165,632	(32,416)
Economic Development	63,496	(12,267)

## 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 \$1,798,309, an decrease of \$1,900.

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 \$79,384.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** – As of September 30, 2005, The City of Red Bay's total capital assets was \$9,812,355. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and construction in progress. Total accumulated depreciation as of September 30, 2005 was \$5,455,143, including \$123,065 of depreciation expense for the year. The balance in total net capital assets was \$4,357,212 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	Balance 10/01/04	Additions	Deletions	Balance 09/30/05
Land	\$ 237,571			237,571
Buildings	1,299,918	15,786		1,315,704
Improvements other than Buildings	1,309,715			1,309,715
Landfill	1,101,900			1,101,900
Mobile Equipment	699,283	71,167		770,450

Other Furniture & Equip.	111,433		111,433
Infrastructure-Roads	4,947,582		4,947,582
Infrastructure-Bridges	18,000		18,000
Total	<u>\$ 9,725,402</u>	<u>86,953</u>	<u>9,812,355</u>

**Fixed Asset Accumulated**

**Accumulated Depreciation**

Asset Classification	Balance 10/01/04	Additions	Deletions	Balance 09/30/05
Buildings	\$ 399,271	25,877		425,148
Improvements other than Buildings	524,090	32,297		556,387
Landfill	293,840	29,384		323,224
Mobile Equipment	533,280	32,099		565,379
Other Furniture & Equip.	100,290	3,408		103,698
Infrastructure-Roads	3,463,307			3,463,307
Infrastructure-Bridges	18,000			18,000
Total	<u>\$ 5,332,078</u>	<u>123,065</u>		<u>5,455,143</u>

**Debt Administration** – At September 30, 2005, The City of Red Bay had \$3,468,500 in long-term debt outstanding. This includes general obligation bonds, other and obligations under capital lease. Of this debt, \$260,000 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**

	Balance 10/1/2004	Issued	Retired	Balance 9/30/2005	Due Within One Year
Estimated Landfill Closure	122,500	1,000		123,500	
FAB GO Warrants	1,575,000		80,000	1,495,000	260,000
Bank of New York Warrants	1,850,000			1,850,000	0
Total General Obligation Bonds	<u>3,425,000</u>			<u>3,425,000</u>	
Total Other	122,500	1,000	0	123,500	
Total All Long Term Debt	<u>3,425,000</u>	<u>0</u>	<u>80,000</u>	<u>3,345,000</u>	<u>260,000</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.

***BASIC  
FINANCIAL STATEMENTS***

**CITY OF RED BAY**  
Statement of Net Assets  
September 30, 2005

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	
<b>Assets</b>			
Cash and Investments	\$ 1,419,892	\$ 330,723	\$ 1,750,616
Cash with Fiscal Agents	179,652	0	179,652
Accrued Revenue	180,707	27,669	208,375
Accrued Interest Receivable	2,428	2,472	4,900
Due From General Fund	0	25,427	25,427
Lease Receivable	791,261	0	791,261
Grant Receivable	21,396	0	21,396
Prepaid Expenses	26,178	0	26,178
Due From The Red Bay Water and Gas	9,436	0	9,436
Bond Discount, Net	31,110	0	31,110
Bond Issue Costs, Net	28,895	0	28,895
Capital Assets, Net	4,357,212	2,328,898	6,686,110
Total assets	<u>7,048,166</u>	<u>2,715,189</u>	<u>9,763,356</u>
<b>Liabilities</b>			
Claims Payable	25,530	2,867	28,397
Other Accrued Liabilities	29,033	0	29,033
Due to Sewer Fund	25,427	0	25,427
Lease Payable	791,261	0	791,261
Grant Payable	21,396	0	21,396
Estimated Liability for Landfill Closure Costs	123,500	0	123,500
Long-Term Liabilities Due Within One Year	260,000	0	260,000
Long-Term Liabilities Due in More Than One Year	3,085,000	0	3,085,000
Total Liabilities	<u>4,361,147</u>	<u>2,867</u>	<u>4,364,014</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	888,712	5,257	893,969
Restricted For:			
Debt Service	578,493	0	578,493
Unrestricted Assets	1,219,816	2,707,066	3,926,882
<b>Total Net Assets</b>	<u>\$ 2,687,021</u>	<u>\$ 2,712,323</u>	<u>\$ 5,399,343</u>

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

**CITY OF RED BAY**  
Statement of Activities  
September 30, 2005

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
<b>Governmental:</b>							
General Government	\$ 615,457	\$ 518,519	\$ 324,950		228,012	\$	228,012
Municipal Court	41,969	96,971			55,002		55,002
Public Safety	525,014				(525,014)		(525,014)
Public Works	925,373		31,656	20,709	(873,009)		(873,009)
Culture and Recreation	165,632	39,645		93,570	(32,416)		(32,416)
Economic Development and Assistance	63,496		51,229		(12,267)		(12,267)
Interest and Fiscal Charges	166,016				(166,016)		(166,016)
Total Governmental Activities	2,502,957	655,135	407,834	114,279	(1,325,708)		(1,325,708)
<b>Business-Type:</b>							
Sewer Fund	339,713	286,688	97,387			44,362	44,362
Total Business-Type Activities	339,713	286,688	97,387			44,362	44,362
Total Primary Government	\$ 2,842,671	\$ 941,824	\$ 505,221	\$ 114,279	\$ (1,325,708)	\$ 44,362	\$ (1,281,347)
General Revenues:							
Taxes:							
Sales Taxes					\$ 1,395,033	\$	\$ 1,395,033
Interest and Investment Earnings					7,727	6,484	14,211
Contributed Revenue						17,183	17,183
Transfers In					123,759	59,327	183,084
Transfers Out					(59,327)	(123,759)	(183,086)
Total General Revenues and Transfers					1,467,192	(40,766)	1,426,426
Change in Net Assets					141,483	3,596	145,079
Net Assets at Beginning of Year					\$ 2,545,538	2,708,727	\$ 5,254,265
Net Assets at End of Year					\$ 2,687,021	\$ 2,712,323	\$ 5,399,344

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

**CITY OF RED BAY**  
 Balance Sheet Governmental Funds  
 September 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	2002 Improvement Fund	Occupational Tax Fund	Debt Service Fund	Other Governmental Funds	
<b>ASSETS</b>						
Cash and Investments	\$ 259,839	535,960	79,085	338,836	206,173	\$ 1,419,892
Cash with Fiscal Agent				179,652		179,652
Accrued Revenue	145,782		34,925			180,707
Lease Receivable	791,261					791,261
Accrued Interest Receivable	662	1,376			390	2,428
Grant Receivable	21,396					21,396
Prepaid Expenses	26,178					26,178
Due From The Red Bay Water and Gas	9,436					9,436
Bond Discount, Net				31,110		31,110
Debt Issue Cost, Net				28,895		28,895
Total Assets	\$ 1,254,554	\$ 537,336	\$ 114,010	\$ 578,493	\$ 206,563	\$ 2,690,956
<b>LIABILITIES &amp; FUND BALANCES</b>						
Liabilities:						
Claims Payable	\$ 25,530	\$	\$	\$	\$	\$ 25,530
Lease Payable	791,261					791,261
Grant Payable	21,396					21,396
Due to Sewer Fund	25,427					25,427
Accrued Liabilities	29,033					29,033
Total Liabilities	892,647					892,647

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

**CITY OF RED BAY**  
 Balance Sheet Governmental Funds  
 September 30, 2005

	Major Funds					Total Governmental Funds
	2002 Improvement Fund	Occupational Tax Fund	Debt Service Fund	Other Governmental Funds		
General Fund	361,907					361,907
Special Revenue Funds		114,010		206,563		857,909
Debt Service Funds	537,336		578,493			578,493
Total Fund Balances	361,907	114,010	578,493	206,563		1,798,309
Total Liabilities & Fund Balances	\$ 1,254,554 \$	\$ 114,010 \$	\$ 578,493 \$	\$ 206,563 \$		\$ 2,690,956

Fund Balances:

Unreserved:

General Fund  
 Special Revenue Funds  
 Debt Service Funds  
 Total Fund Balances  
 Total Liabilities & Fund Balances

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

**CITY OF RED BAY**  
 Reconciliation of Governmental Funds Balance Sheet  
 to the Statement of Net Assets  
 September 30, 2005

Total Fund Balance-Governmental Funds	\$ 1,798,309
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 09-30-05	4,357,212
Liabilities not due and payable in the current period are not reported in the funds:	
Long-term Liabilities	<u>(3,468,500)</u>
Net Assets of Governmental Activities	<u>\$ 2,687,021</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 Balances  
 Governmental Funds  
 September 30, 2005

	General Fund	2002 Improvement Fund	Occupational Tax Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Sales and Property Taxes	\$ 999,047	\$	\$ 352,469	\$	\$ 43,517	\$ 1,395,033
Licenses, Commissions and Fees	148,144					148,144
Fines and Forfeitures					96,971	96,971
State Shared Revenues	324,950				51,229	376,179
State Grants	114,279					114,279
Charges for Services	389,498				4,750	394,248
Use of Money and Property	22,906				8,750	31,656
Miscellaneous Revenue	6,532					6,532
Total Revenues	2,005,356		352,469		205,217	2,563,042
<b>EXPENDITURES</b>						
General Government	573,560				41,969	615,529
Public Safety	510,213				460	510,673
Public Works	790,634				86,159	876,792
Culture & Recreation	131,879	2,955	700			135,534
Economic Development & Assistance					63,496	63,496
Debt Service:						
Principal Payments				165,000		165,000
Interest	485			165,531		166,016
Fiscal Charges				2,699		2,699
Debt Issue Costs				9,153		9,153
Capital Outlay	2,048	3,970			80,936	86,954
Total Expenditures	2,008,819	6,925	700	342,383	273,019	2,631,846
Excess (deficiency) of Revenues						
Over (under) Expenditures	\$ (3,463)	\$ (6,925)	\$ 351,769	\$ (342,383)	\$ (67,803)	\$ (68,804)

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, 2005

	General Fund	2002 Improvement Fund	Occupational Tax Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>OTHER FINANCING SOURCES/USES</b>						
Intrafund Transfers In	1,363,545	4,548		422,849	102,825	1,893,766
Interest Income	1,598	2,533			1,104	5,235
Dividend Income				2,493		2,493
Intrafund Transfers Out	(1,441,063)		(322,926)		(65,345)	(1,829,333)
Total Other Financing Sources and Uses	(75,921)	7,080	(322,926)	425,342	38,584	72,161
Net Change in Fund Balances	(79,384)	156	28,843	82,959	(29,219)	3,357
Fund Balances - Beginning	441,290	537,180	85,167	495,534	235,781	1,794,952
Fund Balances - Ending	\$ 361,907	\$ 537,336	\$ 114,010	\$ 578,493	\$ 206,563	\$ 1,798,309

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, 2005

Net change in fund balances - Total Governmental Funds (Exhibit 4)	3,357
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 (\$123,065) exceeded capital outlays \$86,954 in the current period.	(36,111)
Intergovernmental Revenue which consists of grant monies and local match money paid from the governmental funds and transferred to the proprietary fund.	(119,828)
Intergovernmental Expenditures transferred to the proprietary fund.	129,066
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.	<u>165,000</u>
Change in net assets of governmental activities (Exhibit 2)	<u>141,483</u>

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

**CITY OF RED BAY**  
Statement of Net Assets  
Proprietary Fund  
September 30, 2005

	Enterprise Fund	
	Sewer Fund	Total
<b>Assets</b>		
Current Assets:		
Cash and Investments (Note 2)	\$ 330,723	\$ 330,723
Accrued Revenue	27,669	27,669
Accrued Interest Receivable	2,472	2,472
Due From General Fund	<u>25,427</u>	<u>25,427</u>
Total Current Assets	<u>386,292</u>	<u>386,292</u>
Noncurrent Assets:		
Capital Assets (Note 3)		
Land	14,278	14,278
Construction in Progress	504,439	504,439
Sewer System, Net	<u>1,810,181</u>	<u>1,810,181</u>
Total Noncurrent Assets	<u>2,328,898</u>	<u>2,328,898</u>
Total Assets	<u>2,715,190</u>	<u>2,715,189</u>
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable	<u>2,867</u>	<u>2,867</u>
Total Current Liabilities	<u>2,867</u>	<u>2,867</u>
Total Liabilities	<u>2,867</u>	<u>2,867</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	5,257	5,257
Unrestricted Assets	<u>2,707,066</u>	<u>2,707,066</u>
<b>Total Net Assets</b>	<u>\$ 2,712,323</u>	<u>\$ 2,712,323</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, 2005

	<b>Sewer Fund</b>	<b>Total</b>
<b>Operating Revenues</b>		
Charges for Services	\$ 286,688	\$ 286,688
Total Operating Revenues	286,688	286,688
<b>Operating Expenses</b>		
Salaries and Benefits	91,095	91,095
Services and Supplies	53,498	53,229
Utilities	18,730	18,730
Depreciation Expense	176,390	176,390
Total Operating Expenses	339,713	339,444
Operating Income (Loss)	(53,025)	(52,755)
<b>Nonoperating Revenues (Expenses)</b>		
Contributed Revenue	17,183	17,183
Local Match Monies	97,387	97,387
Interest Income	6,484	6,484
Total Nonoperating Revenue (Expenses)	121,053	23,667
Income (Loss) Before Transfers	68,029	(29,089)
Transfers In	59,327	59,327
Transfers Out	(123,759)	(123,759)
Change In Net Assets	3,596	3,596
Fund Balances - Beginning	2,708,727	2,708,727
Fund Balances - Ending	\$ 2,712,323	\$ 2,712,323

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, 2005**

	<u>Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 282,643
Payments to Suppliers	(72,538)
Payments to Employees	(91,095)
Net Cash Provided (Used) by Operating Activities	<u>119,010</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Interfund Loans	25,427
Transfers Out	(123,759)
Net Cash Provided by Noncapital Financing Activities	<u>(98,332)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Contributed Capital	17,183
Received From Other Funds	156,714
Purchase and Construction of Capital Assets	(201,589)
Net Cash (Used) by Capital and Related Financing Activities	<u>(27,692)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and Dividends	6,484
Net Increase (Decrease) in Cash and Cash Equivalents	(7,014)
Balances-Beginning of the Year	337,739
Balances-End of the Year	<u>\$ 330,723</u>
Displayed As:	
Cash and Investments	\$ 330,723
	<u>\$ 330,723</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (53,025)
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation Expense	176,390
Change in Net Assets and Liabilities:	
Receivables, Net	(4,045)
Accounts and Other Payables	(310)
Net Cash Provided (Used) by Operating Activities	<u>\$ 119,010</u>

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**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  
Housing Authority of Red Bay

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, 2005

**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.

**CITY OF RED BAY**  
RED BAY, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

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.

*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.

*Debt Service Fund.* This fund accounts for the resources accumulated and payments made for principal and interest on general long-term debt associated 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.

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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 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, 2005, 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.

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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**

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 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%

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Compensated Absences

The Board had no formal policy or records of compensated absences as of September 30, 2005; 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, 2005:

	<u>Pooled Cash and Investments</u>	<u>Other</u>	<u>Total</u>
Bank Deposits	<u>\$1,700,137</u>	<u>\$230,131</u>	<u>\$1,930,268</u>
Total	<u>\$1,700,137</u>	<u>\$230,131</u>	<u>\$1,930,268</u>

	<u>Government-wide Statement of Net Assets</u>	<u>Proprietary Fund Statement of Net Assets</u>	<u>Total</u>
Pooled Cash and Investments	<u>\$1,599,545</u>	<u>\$330,723</u>	<u>\$1,930,268</u>
Total	<u>\$1,599,545</u>	<u>\$330,723</u>	<u>\$1,930,268</u>

As of September 30, 2005, the carrying amount of the City's bank deposits was \$1,930,268 and the respective bank balances totaled \$1,957,030. Of the total bank balance, \$200,272 was insured through the Federal Depository Insurance Corporation (FDIC). The amount of \$1,700,137 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 \$56,621 was uninsured.

**2-B. Lease Receivable and Lease Payable**

The City of Red Bay procured a loan to construct a building and upon its completion lease the building under a Lease/Purchase agreement to Triple H Electronics, Inc. The lease agreement became effective November 12, 2005. The total cost of the project was \$817,659.10. The lease/purchase agreement shall be for a period of 20 years. Monthly principal and interest payments in the amount of \$4,929.92 began on December 1, 2004 and will continue until December 1, 2009. At that time monthly principal and interest payments of \$5,258.31 will be made for the remaining 180 months.

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
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**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Triple H Electronics, Inc., is responsible for all ad valorem taxes and builder's risk insurance. The note balance at September 30, 2005 was \$791,261.

**NOTE 3-CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$237,571			\$237,571
Bridges	18,000			18,000
Roads	<u>4,947,582</u>			<u>4,947,582</u>
Total capital assets not being depreciated:	<u>5,203,153</u>			<u>5,203,153</u>
Capital assets being depreciated:				
Buildings	1,299,918	15,786		1,315,704
Improvements	1,309,715			1,309,715
Landfill	1,101,900			1,101,900
Mobile Equipment	699,283	71,167		770,450
Furniture	<u>111,433</u>			<u>111,433</u>
Total assets being depreciated:	<u>4,522,249</u>	<u>86,953</u>		<u>4,609,202</u>
Less accumulated depreciation for:				
Buildings	399,271	25,877		425,148
Improvements	524,090	32,297		556,387
Landfill	293,840	29,384		323,224
Roads	3,463,307			3,463,307
Bridges	18,000			18,000
Mobile Equipment	533,280	32,099		565,379
Furniture	<u>100,290</u>	<u>3,408</u>		<u>103,698</u>
Total accumulated depreciation:	<u>5,332,078</u>	<u>123,065</u>		<u>5,455,143</u>
Governmental activity capital assets, net	<u>\$4,393,324</u>	<u>(36,112)</u>		<u>4,357,212</u>

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
<b>Business-type Activities:</b>				
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	3,696,573	155,675		3,852,248
Mobile Equipment	<u>428,318</u>	<u>6,801</u>		<u>435,119</u>
Total assets being depreciated:	<u>4,124,891</u>	<u>162,476</u>		<u>4,287,367</u>
Less accumulated depreciation for:				
Improvements	1,578,167	136,768		1,714,935
Mobile Equipment	<u>218,190</u>	<u>39,622</u>		<u>257,812</u>
Total accumulated depreciation:	<u>1,796,357</u>	<u>176,390</u>		<u>1,972,747</u>
Business-type activity capital assets, net	<u>2,342,812</u>	<u>(13,914)</u>		<u>2,328,898</u>

Depreciation expense was charged to functions as follows:

General Government	\$30,045
Culture and Recreation	30,098
Public Safety	14,341
Public Works	<u>48,581</u>
Total	<u>\$123,065</u>

**NOTE 4-INTERFUND BALANCES AND ACTIVITY**

**4-A. Interfund Balances**

Balances due to/from other funds at September 30, 2005, consist of \$25,427, due to the Proprietary Fund from the General Fund for capital project expenditures.

**4-b. Interfund Transfers**

Transfers to/from other funds at September 30, 2005 consist of \$123,759, from the Proprietary Fund to the General Fund, and \$59,327 from the

**CITY OF RED BAY**  
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**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

General Fund to the Proprietary Fund. Both transfers were used to provide resources for match monies and capital project expenditures for the sewer extension grant.

**NOTE 5-Debt and Debt Service Requirements**

Description	Beginning Balance At <u>10-01-04</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance At <u>09-30-05</u>
Estimated Liability for Landfill Closure & Post-closure Care Costs	\$ 122,500	1,000	0	123,500
First American Bank (General Obligation Warrants – Series 1998)	1,575,000	0	80,000	1,495,000
Bank of New York (General Obligation Warrants – Series 2002)	<u>1,850,000</u>	<u>0</u>	<u>0</u>	<u>1,850,000</u>
Total	\$ <u>3,547,500</u>	<u>1,000</u>	<u>80,000</u>	<u>3,468,000</u>

Details of the above debt at September 30, 2005 are as follows:

**Estimated Liability for Landfill Closure and Post Closure 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 post closure 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 post closure 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 post closure care liability at September 30, 2005 of \$123,500 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 post closure care of \$354,500 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in the fiscal year 2005. The City has used 25 percent of the estimated capacity of the landfill as of September 30, 2005, 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.

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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**First American Bank – General Obligation Warrants Series 1998**

General Obligation Warrant - payable monthly from \$19,583 to \$20,106 for 165 months beginning 10/15/1998 through 06/15/2012, interest rate from 4.75% to 4.95%.

On February 18, 2005, the National Bank of Commerce changed its name to First American Bank. On March 15, 2006, Regions Bank acquired the corporate trust book of business from First American Bank (formerly National Bank of Commerce). The City's monthly payment to First American Bank is put into a Bond Fund in a Money Market Account. Semi-annually, in June and December, First American Bank transfers to Corporate Trust a principal and interest payment. During the audit period from October 1, 2004 thru September 30, 2005, it was discovered that First American Bank missed two mandatory redemptions scheduled for June 15, 2005 and December 15, 2005 in the amount of \$85,000 each. To correct this issue, Regions Bank processed a mandatory redemption for \$170,000 to correct the missed calls, with a call notice and call date of April 6, 2006. On that day, Regions Bank paid principal and accrued interest to bondholders for the missed calls. Because First American Bank missed the scheduled calls; they paid Regions Bank the accrued interest that was due April 6, 2006. As a result of the missed call on June 15, 2005 the City has reported a reduction in its current debt service requirement of \$80,000 instead of \$165,000. The \$85,000 missed call payment for June of 2005 has been added to the \$175,000 annual principal requirement for the fiscal year ending September 30, 2006.

**Bank of New York – General Obligation Warrants Series 2002**

General Obligation Warrant - payable annually from \$90,420 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.

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

Year ended September 30	Landfill Closing Costs	First American Bank	Bank of New York	Total
2006	\$ 0	260,000	0	260,000
2007	0	180,000	0	180,000
2008	0	190,000	0	190,000
2009	0	210,000	0	210,000
2010	0	205,000	0	205,000
Thereafter	123,500	450,000	1,850,000	2,423,500
Total	\$ 123,500	1,495,000	1,850,000	3,468,500

**NOTE 6-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, 2005 was \$509,794. This note is a twenty-year note with the rate fixed at 5.65% for 10 years. The installment payments are monthly. Davis and Stockton Properties, LLC is liable to the City of Red Bay for the balance of the note.

**NOTE 7-Related Party Transactions**

During the past year, the City purchased various services and operating supplies from related parties. These purchases totaled \$9,120 from the General Fund.

**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,

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

necessary to provide benefits granted by law for members. The contributions to the plan as of September 30, 2005 were \$107,431. The latest actuarial valuation, dated September 30, 2004, for the City, as submitted by the Employees' Retirement System of Alabama, indicated the following:

Summary of Employee Census Data	2004	2003	2002
Number of Active Members:	30	28	28
Annual Compensation:	\$897,967	\$809,808	\$786,235
Number of Retired Members and Beneficiaries:	5	4	4
Annual Retirement Allowances:	\$48,589	\$40,906	\$40,906
Schedule of Funding Progress			
Actuarial Valuation Date	09/30/04	09/30/03	09/30/02
Actuarial Value of Assets (a)	\$820,284	\$671,172	\$523,118
Actuarial Accrued Liability Entry Age (b)**	\$1,571,417	\$1,405,397	\$1,214,750
Unfunded Actuarial Accrued Liability (b-a)	\$751,133	\$734,225	\$691,632
Funded Ratio (a/b)	52.2%	47.8%	43.1%
Covered Payroll	\$897,967	\$809,808	\$786,235
Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll {(b-a)/c}	83.6%	90.7%	88.0%
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	12 Years 5 Year	13 Years 5 Year	13 Years 5 Year
Asset Valuation Method	Smoothed Market	Smoothed Market	Smoothed Market
Actuarial Assumptions:			
Actuarial Gains and Losses are Amortized Over 30 Years			
Investment Rate of Return*	8.00%	8.00%	8.00%
Projected Salary Increases*	4.61%-7.75%	4.61% - 7.75%	4.61% - 7.75%
*Includes Inflation at	4.5%	4.5%	4.5%
Cost of Living Adjustments	None	None	None

**DICKY H. SPARKS, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**

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April 10, 2006

**REPORT ON COMPLIANCE AND 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**

Mayor and City Council  
The City of Red Bay  
Red Bay, Alabama

We have audited the financial statements of the governmental activities, the business-type 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, 2005, which collectively comprise the City of Red Bay, Red Bay, Alabama's basic financial statements and have issued our report thereon, dated April 10, 2006. 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

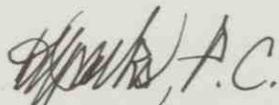
In planning and performing our audit, we considered the City of Red Bay, Red Bay, Alabama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. *Reportable conditions* involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect The City of Red Bay, Red Bay, Alabama's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are as follows, 2005-1. Bids for the purchase of a police vehicle could not be located. 2005-2. Due to a small office staff, a clear separation of duties could not be determined.

A *material weakness* is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe reportable condition 2005-2 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Red Bay, Red Bay, Alabama's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of 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.

This report is intended solely for the information and use of management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.



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