

*CITY OF RED BAY
RED BAY, ALABAMA
AUDITED FINANCIAL STATEMENTS
AND SPECIAL REPORTS
SEPTEMBER 30, 2006*

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

CITY OF RED BAY
 RED BAY, ALABAMA
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FINANCIAL SECTION

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**INDEPENDENT AUDITORS' REPORT
ON
THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

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, 2006, 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.

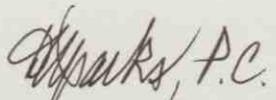
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Red Bay, Red Bay, Alabama, as of September 30, 2006, 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 June 4, 2007, 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
June 4, 2007

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, 2006. 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 \$1,009,267, and the ending cash balances increased by \$996,085. The cash balance increase represents a 62% increase from the prior year. Primarily due to the City receiving insurance proceeds and grants to rebuild the City Hall and Police Department. The total net asset increase represents a 73% increase from the prior year.

The City had \$4,827,597 in total Governmental Funds revenues. This is an increase of \$2,247,589, or approximately 47% from the prior year. The sales tax revenues account of \$1,415,532 represents 29% of total revenues. Charges for services, such as privilege license and garbage and dump collections account for \$709,405 or 15% of total revenues.

The City had \$3,857,599 in total Governmental Funds expenses, which represents an increase of \$1,354,642 from the prior fiscal year. This is primarily due to the City's increase in grant expenditures.

Among major funds, the 2002 Improvement Fund received \$15,477 in interest income and \$0 in expenditures. The 2002 Improvement Fund's fund balance increased \$15,447 from the prior year.

Among major funds, the Fire Insurance Fund had \$1,917 in federal grants, \$811,425 in insurance proceeds, and \$6,127 in interest income. Expenditures totaled \$82,108.

Among major funds, the Debt Service Fund paid out a total of \$428,556 in debt principal and interest related expenditures. This represents an increase of \$86,173 from the prior

year. Recorded a total of \$16,981 in interest and dividend income. The fund balance increased \$13,371 from the prior 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

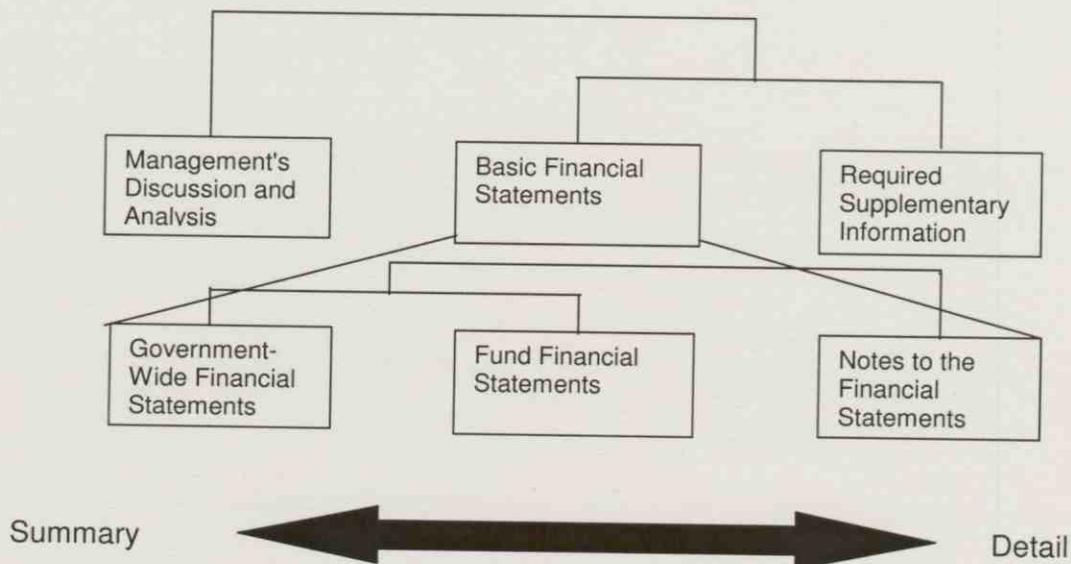


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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"> • 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 \$3,696,288 as of September 30, 2006.

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, 2006.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 3,702,886	\$ 2,690,954	\$ 334,266	\$ 386,291	\$ 4,037,152	\$ 3,077,246
Capital assets, net	4,091,007	4,357,212	2,263,906	2,328,898	6,354,913	6,686,110
Total assets	<u>7,793,893</u>	<u>7,048,166</u>	<u>2,598,172</u>	<u>2,715,189</u>	<u>10,392,065</u>	<u>9,763,356</u>
Current liabilities	888,105	892,647	31,690	2,867	919,795	895,514
Long-term debt outstanding	3,209,500	3,468,500	-	-	3,209,500	3,468,500
Total liabilities	<u>4,097,605</u>	<u>4,361,147</u>	<u>31,690</u>	<u>2,867</u>	<u>4,129,295</u>	<u>4,364,014</u>
Net assets:						
Invested in capital assets, net of related debt	892,969	888,712	5,257	5,257	898,226	893,969
Restricted	851,863	578,493	-	-	851,863	578,493
Unrestricted	1,951,456	1,219,816	2,561,225	2,707,066	4,512,681	3,926,882
Total net assets	<u>\$ 3,696,288</u>	<u>\$ 2,687,021</u>	<u>\$ 2,566,482</u>	<u>\$ 2,712,323</u>	<u>\$ 6,262,770</u>	<u>\$ 5,399,344</u>

Changes in Net Assets – The City of Red Bay's total revenues for the fiscal year ended September 30, 2006 was \$4,827,597. The total cost for all services provided was \$3,857,599. The increase in net assets was \$1,009,267. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2006.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program Revenues						
Charges for Services	\$ 709,405	\$ 655,135	\$ 269,770	\$ 286,688	\$ 979,175	\$ 941,823
Operating Grants & Contributions	436,885	407,834	-	97,387	436,885	505,221
Capital Grants	1,721,238	114,279	-	-	1,721,238	114,279
Sales Taxes	1,415,532	1,395,033	-	-	1,415,532	1,395,033
Interest and Investment Earnings	48,289	7,727	6,290	6,484	54,579	14,211
Insurance Proceeds	816,483	-	-	-	816,483	-
Extraordinary Item – (Loss) on Fixed Assets	(320,235)	-	-	-	(320,235)	-
Contributed Revenue	-	-	-	17,183	-	17,183
Total Revenues	<u>\$ 4,827,597</u>	<u>\$ 2,580,008</u>	<u>\$ 276,060</u>	<u>\$ 407,742</u>	<u>\$ 5,103,657</u>	<u>\$ 2,987,750</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Expenses:						
General Government	\$ 668,647	\$ 615,457	\$ -	\$ -	\$ 668,647	\$ 615,457
Municipal Court	50,543	41,969	-	-	50,543	41,969
Public Safety	551,837	525,014	-	-	551,837	525,014
Public Works	2,147,751	925,373	-	-	2,147,751	925,373
Education	27,218	-	-	-	27,218	-
Culture and Recreation	204,764	165,632	-	-	204,764	165,632
Economic Development	41,249	63,496	-	-	41,249	63,496
Interest and Fiscal Charges	165,590	166,016	-	-	165,590	166,016
Sewer Fund	-	-	381,634	339,713	381,634	339,713
Total Expenses	<u>3,857,599</u>	<u>2,502,957</u>	<u>381,634</u>	<u>339,713</u>	<u>4,239,233</u>	<u>2,842,670</u>
Decrease/Increase in Net Assets	\$ <u>969,998</u>	\$ <u>77,051</u>	\$ <u>(105,574)</u>	\$ <u>68,029</u>	\$ <u>864,424</u>	\$ <u>145,080</u>

Governmental Activities – The following table presents the cost of seven major functional activities of the City: General Government, Municipal Court, Public Safety, Public Works, Education, 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	\$ 668,647	\$ 392,269
Municipal Court	50,543	41,637
Public Safety	551,837	(551,837)
Public Works	2,147,751	(535,492)
Education	27,218	(27,218)
Culture and Recreation	204,764	(154,067)
Economic Development	41,249	10,228

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 \$2,814,781, an increase of \$1,016,470.

The General Fund is the principal operating fund of the City. The increase in the fund balance of the General Fund for the fiscal year was \$29,158.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2006, The City of Red Bay's total capital assets was \$9,092,403. 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, 2006 was \$5,238,967, including \$127,867 of depreciation expense for the year. The balance in total net capital assets was \$4,091,007 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 10/01/05	Additions	Deletions	Balance 09/30/06
Land	\$ 237,571	-	-	\$ 237,571
Buildings	1,299,918	-	533,442	766,476
Improvements other than Buildings	1,325,501	134,809	-	1,460,310
Landfill	1,101,900	-	-	1,101,900
Mobile Equipment	744,302	20,542	21,504	743,340
Other Furniture & Equip.	137,581	29,547	112,333	54,795
Infrastructure-Roads	4,947,582	-	-	4,947,582
Infrastructure-Bridges	18,000	-	-	18,000
Total	\$ 9,812,355	184,898	667,279	\$ 9,329,974

Fixed Asset Accumulated

Accumulated Depreciation

Asset Classification	Balance 10/01/05	Additions	Deletions	Balance 09/30/06
Buildings	\$ 425,080	21,327	230,269	\$ 216,138
Improvements other than Buildings	555,721	33,131	-	588,852
Landfill	323,224	29,384	-	352,608
Mobile Equipment	549,855	37,698	13,200	574,353
Other Furniture & Equip.	119,956	6,327	100,574	25,709
Infrastructure-Roads	3,463,307	-	-	3,463,307
Infrastructure-Bridges	18,000	-	-	18,000
Total	\$ 5,455,143	127,867	344,043	\$ 5,238,967

Debt Administration – At September 30, 2006, The City of Red Bay had \$3,209,500 in long-term debt outstanding. This includes general obligation bonds, and other obligations under capital lease. Of this debt, \$180,000 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

	<u>Balance 10/1/2005</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/2006</u>	<u>Due Within One Year</u>
Estimated Landfill Closure	123,500	1,000	-	124,500	-
Regions GO Warrants	1,495,000	-	260,000	1,235,000	180,000
Bank of New York Warrants	1,850,000	-	-	1,850,000	-
Total General Obligation Bonds	<u>3,345,000</u>	<u>-</u>	<u>-</u>	<u>3,085,000</u>	<u>-</u>
Total Other	123,500	1,000	-	124,500	-
Total All Long Term Debt	<u>3,468,500</u>	<u>-</u>	<u>260,000</u>	<u>3,209,500</u>	<u>180,000</u>

CURRENT AND FUTURE ITEMS OF IMPACT

The City is in the process of building a new City Hall due to the loss of the previous City Hall caused by fire. Due to the effective management practices by City employees there were no injuries and all of the vital records and accounting information were safeguarded.

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, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash	\$ 2,496,570	\$ 302,938	\$ 2,799,508
Cash with Fiscal Agents	99,059	-	99,059
Accrued Revenue	165,313	27,097	192,410
Accrued Interest Receivable	9,072	232	9,304
Inventory	-	3,999	3,999
Lease Receivable	762,881	-	762,881
Grant Receivable	53,456	-	53,456
Prepaid Expenses	27,334	-	27,334
Due From The Red Bay Water and Gas	9,436	-	9,436
Due From Other Funds	28,913	-	28,913
Bond Discount, Net	26,541	-	26,541
Bond Issue Costs, Net	24,311	-	24,311
Capital Assets, Net	<u>4,091,007</u>	<u>2,263,906</u>	<u>6,354,913</u>
Total assets	<u>7,793,893</u>	<u>2,598,172</u>	<u>10,392,064</u>
Liabilities			
Claims Payable	36,202	21,692	57,894
Other Accrued Liabilities	16,651	-	16,651
Due To Other Funds	18,915	9,998	28,913
Lease Payable	762,881	-	762,881
Grant Payable	53,456	-	53,456
Estimated Liability for Landfill Closure Costs	124,500	-	124,500
Long-Term Liabilities Due Within One Year	180,000	-	180,000
Long-Term Liabilities Due in More Than One Year	<u>2,905,000</u>	<u>-</u>	<u>2,905,000</u>
Total Liabilities	<u>4,097,605</u>	<u>31,690</u>	<u>4,129,295</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	892,969	5,257	898,226
Restricted For:			
Debt Service	851,863	-	851,863
Unrestricted Assets	<u>1,951,456</u>	<u>2,561,225</u>	<u>4,512,681</u>
Total Net Assets	<u>\$ 3,696,288</u>	<u>\$ 2,566,482</u>	<u>\$ 6,262,770</u>

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

CITY OF RED BAY
Statement of Activities
September 30, 2006

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	\$ 668,647	566,528	317,065	177,322	392,269	\$	392,269
Municipal Court	50,543	92,180	-	-	41,637		41,637
Public Safety	551,837	-	-	-	(551,837)		(551,837)
Public Works	2,147,751	-	68,343	1,543,916	(535,492)		(535,492)
Education	27,218	-	-	-	(27,218)		(27,218)
Culture and Recreation	204,764	50,697	-	-	(154,067)		(154,067)
Economic Development and Assistance	41,249	-	51,477	-	10,228		10,228
Interest and Fiscal Charges	165,590	-	-	-	(165,590)		(165,590)
Total Governmental Activities	3,857,599	709,405	436,885	1,721,238	(990,071)		(990,071)
Business-Type:							
Sewer Fund	381,634	269,770	-	-	(111,864)		(111,864)
Total Primary Government	\$ 4,239,233	979,175	436,885	1,721,238	(990,071)	\$	(1,101,935)
General Revenues:							
Taxes:							
Sales Taxes					\$ 1,415,532	- \$	1,415,532
Interest and Investment Earnings					48,289	6,290	54,579
Insurance Proceeds					816,483	-	816,483
Extraordinary Item - (Loss) on Fixed Assets					(320,235)	-	(320,235)
Transfers In					2,061,570	98,699	2,160,269
Transfers Out					(2,021,303)	(138,966)	(2,160,269)
Total					2,000,336	(33,977)	1,966,359
Change in Net Assets					1,010,265	(145,841)	864,424
Net Assets at Beginning of Year					\$ 2,686,023	2,712,323	\$ 5,398,346
Net Assets at End of Year					\$ 3,696,288	2,566,482	\$ 6,262,770

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

CITY OF RED BAY
 Balance Sheet Governmental Funds
 September 30, 2006

	Major Funds					Total Governmental Funds
	2002 General Fund	2002 Improvement Fund	Fire Insurance Fund	Debt Service Fund	Other Governmental Funds	
ASSETS						
Cash	\$ 245,012	551,743	737,362	434,884	527,569	\$ 2,496,570
Cash with Fiscal Agent	-	-	-	99,059	-	99,059
Accrued Revenue	129,250	-	-	-	-	165,313
Lease Receivable	762,881	-	-	-	36,063	762,881
Accrued Interest Receivable	419	1,040	-	7,069	545	9,073
Grant Receivable	47,456	-	-	-	6,000	53,456
Prepaid Expenses	27,334	-	-	-	-	27,334
Due From The Red Bay Water and Gas	9,436	-	-	-	-	9,436
Due From Other Funds	28,913	-	-	-	-	28,913
Bond Discount, Net	-	-	-	26,541	-	26,541
Debt Issue Cost, Net	-	-	-	24,311	-	24,311
Total Assets	\$ 1,250,700	552,783	737,362	591,864	570,177	\$ 3,702,886
LIABILITIES & FUND BALANCES						
Liabilities:						
Claims Payable	\$ 32,147	-	-	-	4,055	\$ 36,202
Lease Payable	762,881	-	-	-	-	762,881
Grant Payable	47,456	-	-	-	6,000	53,456
Due To Other Funds	500	-	-	-	18,415	18,915
Accrued Liabilities	16,651	-	-	-	-	16,651
Total Liabilities	\$ 859,635	-	-	-	28,470	\$ 888,105

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

CITY OF RED BAY
 Balance Sheet Governmental Funds
 September 30, 2006

	Major Funds					Total Governmental Funds
	General Fund	2002 Improvement Fund	Fire Insurance Fund	Debt Service Fund	Other Governmental Funds	
General Fund	391,065	-	-	-	-	391,065
Special Revenue Funds	-	552,783	737,362	-	541,707	1,831,852
Debt Service Funds	-	-	-	591,864	-	591,864
Total Fund Balances	391,065	552,783	737,362	591,864	541,707	2,814,781
Total Liabilities & Fund Balances	\$ 1,250,700	552,783	737,362	591,864	570,177 \$	3,702,886

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, 2006

Total Fund Balance-Governmental Funds	\$ 2,814,781
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 09-30-06	4,091,007
Liabilities not due and payable in the current period are not reported in the funds:	
Long-term Liabilities	<u>(3,209,500)</u>
Total Net Assets Governmental Activities	\$ <u>3,696,288</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
 For the Year Ended September 30, 2006

	General Fund	2002 Improvement Fund	Fire Insurance Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Sales and Property Taxes	\$ 1,027,264	-	-	-	388,268	\$ 1,415,532
Licenses, Commissions and Fees	212,029	-	-	-	-	212,029
Fines and Forfeitures	-	-	-	-	92,180	92,180
State Shared Revenues	317,065	-	-	-	51,477	368,542
State Grants	27,322	-	-	-	150,000	177,322
Federal Grants	1,443,577	-	1,917	-	98,423	1,543,917
Charges for Services	371,940	-	-	-	3,750	375,690
Use of Money and Property	-	-	-	-	68,343	68,343
Miscellaneous Revenue	25,703	-	-	-	3,803	29,506
Total Revenues	3,424,900	-	1,917	-	856,244	4,283,061
EXPENDITURES						
General Government	595,838	-	37,114	-	50,355	683,307
Public Safety	497,894	-	7,973	-	23,777	529,644
Public Works	2,044,947	-	-	-	53,088	2,098,035
Education	27,218	-	-	-	-	27,218
Culture and Recreation	171,838	-	-	-	2,499	174,337
Economic Development & Assistance	-	-	-	-	41,251	41,251
Debt Service:						
Principal Payments	-	-	-	260,000	-	260,000
Interest	7,386	-	-	158,204	-	165,590
Fiscal Charges	-	-	-	1,199	-	1,199
Debt Issue Costs	-	-	-	9,153	-	9,153
Capital Outlay	6,894	-	37,021	-	140,983	184,898
Total Expenditures	3,352,015	-	82,108	428,556	311,953	4,174,632

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
 For the Year Ended September 30, 2006

	General Fund	2002 Improvement Fund	Fire Insurance Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Excess of Revenues Over (under) Expenditures	\$ 72,885	-	(80,191)	(428,556)	544,291	\$ 108,429
OTHER FINANCING SOURCES/USES						
Transfers In	1,534,768	-	2,000	424,945	99,857	2,061,570
Insurance Proceeds	-	-	811,425	-	5,058	816,483
Proceeds From Sale of Assets	1	-	-	-	3,000	3,001
Interest Income	5,513	15,447	6,127	13,216	4,221	44,525
Dividend Income	-	-	-	3,765	-	3,765
Transfers Out	(1,584,009)	-	(2,000)	-	(435,294)	(2,021,303)
Total Other Financing Sources and Uses	(43,727)	15,447	817,553	441,926	(323,158)	908,041
Net Changes in Fund Balances	29,158	15,447	737,362	13,371	221,133	1,016,470
Fund Balances - Beginning	361,907	537,336	-	578,493	320,574	1,798,309
Fund Balances - Ending	\$ 391,065	552,783	737,362	591,864	541,707	\$ 2,814,781

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, 2006

Net change in fund balances - Governmental Funds (Exhibit 4) \$ 1,016,470

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 capital outlays \$184,898 exceeded depreciation expense (\$127,867) in the current period. 57,031

In the statement of activities, only the gain or loss on the disposition of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets being sold. (323,236)

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. 260,000

Change in net assets of governmental activities (Exhibit 2)

\$ 1,010,265

CITY OF RED BAY
Statement of Net Assets
Proprietary Fund
September 30, 2006

		Business-Type Activities Enterprise Fund Major Fund
Assets		
Current Assets:		
Cash	\$	302,938
Accrued Revenue		27,097
Accrued Interest Receivable		232
Inventory		3,999
Total Current Assets		334,266
Noncurrent Assets:		
Capital Assets		
Land		14,278
Sewer System, Net		2,249,628
Total Noncurrent Assets		2,263,906
Total Assets		2,598,172
Liabilities		
Current Liabilities:		
Accounts Payable		21,692
Due To The General Fund		9,998
Total Current Liabilities		31,690
Total Liabilities		31,690
Net Assets		
Invested in Capital Assets, Net of Related Debt		5,257
Unrestricted Assets		2,561,225
Total Net Assets	\$	2,566,482

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
For the Year Ended September 30, 2006

	Business-Type Activities Enterprise Fund Major Fund
Operating Revenues	
Charges for Services	\$ 269,557
Total Operating Revenues	269,557
Operating Expenses	
Salaries and Benefits	73,596
Services and Supplies	111,087
Utilities	28,594
Depreciation Expense	168,357
Total Operating Expenses	381,634
Operating Income (Loss)	(112,077)
Nonoperating Revenues (Expenses)	
Contributed Revenue	213
Interest Income	6,290
Total Nonoperating Revenue (Expenses)	6,503
Income (Loss) Before Transfers	(105,574)
Transfers In	98,699
Transfers Out	(138,966)
Changes In Net Assets	(145,841)
Net Assets - Beginning	2,712,323
Net Assets - Ending	\$ 2,566,482

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, 2006

	Business-Type Activities Enterprise Fund Major Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 270,129
Payments to Suppliers	(120,953)
Payments to Employees	(73,596)
Net Cash Provided (Used) by Operating Activities	<u>75,580</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other Income	213
Transfers In	98,699
Transfers Out	(138,966)
Net Cash Provided by Noncapital Financing Activities	<u>(40,054)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Addition to Capital Assets	(103,265)
Inventories	(3,999)
Intergovernmental Receivables	35,425
Net Cash (Used) by Capital and Related Financing Activities	<u>(71,839)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends	8,530
Net Cash (Used) by Investing Activities	<u>8,530</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(27,783)
Balances-Beginning of the Year	330,723
Balances-End of the Year	<u>\$ 302,938</u>
Shown on the Combining Statement of Net Assets as:	
Cash and Cash Equivalents	<u>\$ 302,938</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (145,841)
Adjustments to Reconcile Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation Expense	168,357
Cash Provided (Used) by Changes in Operating Assets and Liabilities	
Accounts Receivable, Net	28,239
Inventories	(3,999)
Accounts Payable	28,824
Net Cash Provided (Used) by Operating Activities	<u>\$ 75,580</u>

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The City of Red Bay, Alabama (City) was incorporated under the laws of the state of Alabama. The City operates by ordinance under the Mayor-Council form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The accounting and reporting policies of the City relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the more significant accounting and reporting policies and practices used in the preparation of these financial statements:

For financial reporting purposes, the City of Red Bay, Alabama has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that excluding those relationships would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. The financial statements of the component unit may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government.

Based upon these criteria, the City of Red Bay does not have any component units.

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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, 2006

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.

Fire Insurance Fund. This fund accounts for the insurance proceeds received to rebuild and furnish the City Hall and Police Department.

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, 2006

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, 2006, 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, 2006

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, 2006

Compensated Absences

The Board had no formal policy or records of compensated absences as of September 30, 2006; thus, no determination could be made as to financial liability involved.

NOTE 2-DEPOSITS AND INVESTMENTS

2-A. Summary of Deposits and Investments

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. At year-end, the City's carrying amount of deposits was \$2,898,566 and the bank balance was \$3,109,593. The entire bank balance was covered by federal depository insurance or collateralized in accordance with state law. The collateral for public entities' deposits in financial institutions are held in the name of the Alabama State Treasurer under a program established by the Alabama State Legislature. Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. The City has funds on deposit at Citizens Bank, Bank Independent, Community Spirit Bank, Regions Bank, and Bank of New York.

Investments. The City of Red Bay's policy is to advertise for the qualified depository that will offer the highest interest rate on all its deposits. The City does not have any investments as of September 30, 2006.

Interest Rate Risk. The City did not have any investments during the year and limited its demand deposits during the year to federal depository insured accounts.

Credit Risk. The City has no investment policy that would limit its investment choices.

Custodial Credit Risk. Custodial credit risk is the risk that the City will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. The City had no investments in negotiable instruments during the year ended September 30, 2006.

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Concentration of Credit Risk. The City of Red Bay had no investments at September 30, 2006, but approximately 76% of the total demand deposits were at Citizens Bank.

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.

Triple H Electronics, Inc., is responsible for all ad valorem taxes and builder's risk insurance. The note balance at September 30, 2006 was \$762.881.

NOTE 3-CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$237,571	-	-	\$237,571
Total capital assets not being depreciated:	<u>237,571</u>	<u>-</u>	<u>-</u>	<u>237,571</u>
Capital assets being depreciated:				
Buildings	1,299,918	-	533,442	766,476
Improvements	1,325,501	134,809	-	1,460,310
Landfill	1,101,900	-	-	1,101,900
Mobile Equipment	744,302	20,542	21,504	743,340
Furniture	137,581	29,547	112,333	54,795
Bridges	18,000	-	-	18,000
Roads	4,947,582	-	-	4,947,582
Total assets being depreciated:	<u>9,574,784</u>	<u>184,898</u>	<u>667,279</u>	<u>9,092,403</u>

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
Less accumulated depreciation for:				
Buildings	425,080	21,327	230,269	216,138
Improvements	555,721	33,131	-	588,852
Landfill	323,224	29,384	-	352,608
Roads	3,463,307	-	-	3,463,307
Bridges	18,000	-	-	18,000
Mobile Equipment	549,855	37,698	13,200	574,353
Furniture	119,956	6,327	100,574	25,709
Total accumulated depreciation:	<u>5,455,143</u>	<u>127,867</u>	<u>344,043</u>	<u>5,238,967</u>
Governmental activity capital assets, net	<u>\$4,357,212</u>			<u>\$4,091,007</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	<u>\$14,278</u>	<u>-</u>	<u>-</u>	<u>\$14,278</u>
Total capital assets not being depreciated:	<u>14,278</u>	<u>-</u>	<u>-</u>	<u>14,278</u>
Capital assets being depreciated:				
Sewer System	<u>4,287,367</u>	<u>103,365</u>	<u>-</u>	<u>4,390,732</u>
Total assets being depreciated:	<u>4,287,367</u>	<u>103,365</u>	<u>-</u>	<u>4,390,732</u>
Less accumulated depreciation for:				
Sewer System	1,714,935	141,700	-	1,856,635
Mobile Equipment	257,812	26,657	-	284,469
Total accumulated depreciation:	<u>1,972,747</u>	<u>168,357</u>	<u>-</u>	<u>2,141,104</u>
Business-type activity capital assets, net	<u>\$2,328,898</u>			<u>\$2,263,906</u>

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Depreciation expense was charged to functions as follows:

General Government	\$ 25,531
Culture and Recreation	30,427
Public Safety	22,193
Public Works	<u>49,716</u>
Total	\$ <u>127,867</u>

The decrease in the Governmental Activities Net Assets of \$667,279 represents the cost of the assets that was lost in the fire on May 13, 2006 that totally destroyed the City Hall and Police Department building and contents.

NOTE 4-INTERFUND BALANCES AND ACTIVITY

4-A. Interfund Balances

Balances due to/from other funds at September 30, 2006, consist of \$9,998 due from the Proprietary Fund to the General Fund and \$18,915 due from other non-major governmental funds to the General Fund.

4-b. Interfund Transfers

Transfers in at September 30, 2006 totaled \$2,061,570. Of this amount \$1,961,713 was transferred into the General Fund, 2002 Improvement Fund, Fire Insurance Fund and the Debt Service Fund from other major and non-major governmental funds. A total of \$99,857 was transferred into other governmental funds from other major and non-major governmental funds.

Transfers out at September 30, 2006 totaled \$2,021,303. A total of \$1,586,009 was transferred out of the General Fund, Fire Insurance Fund, and the Debt Service Fund to other major and non-major governmental funds. A total of \$435,294 was transferred out of the other governmental funds to other major and non-major governmental funds.

At September 30, 2006 the Governmental Funds transferred \$98,699 to the Proprietary Fund. The Proprietary Fund transferred \$138,966 to the Governmental Funds.

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 5-Debt and Debt Service Requirements

Description	Beginning Balance At			Ending Balance At
	10-01-05	Additions	Reductions	09-30-06
Estimated Liability for Landfill Closure & Post-closure Care Costs	\$ 123,500	1,000	-	\$ 124,500
Regions Bank (General Obligation Warrants – Series 1998)	1,495,000	-	260,000	1,235,000
Bank of New York (General Obligation Warrants – Series 2002)	1,850,000	-	-	1,850,000
Total	\$ 3,468,500	1,000	260,000	\$ 3,209,500

Details of the above debt at September 30, 2006 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, 2006 of \$124,500 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 \$353,500 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 2006. The City has used 25 percent of the estimated capacity of the landfill as of September 30, 2006, 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.

Regions 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%.

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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 Regions Bank is put into a Bond Fund in a Money Market Account. Semi-annually, in June and December, Regions 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 December of 2005 has been added to the \$175,000 annual principal requirement for the fiscal year ending September 30, 2006. This resulted in a reduction of principal of \$260,000 for the 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.

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

Year ended September 30	Landfill Closing Costs	Regions Bank	Bank of New York	Total
2007	\$ -	180,000	-	\$ 180,000
2008	-	190,000	-	190,000
2009	-	210,000	-	210,000
2010	-	205,000	-	205,000
2011	-	220,000	-	220,000
Thereafter	<u>124,500</u>	<u>230,000</u>	<u>1,850,000</u>	<u>2,204,500</u>
Total	<u>\$ 124,500</u>	<u>1,235,000</u>	<u>1,850,000</u>	<u>\$ 3,209,500</u>

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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, 2006 was \$486,082. 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

None were noted during the fiscal year ended September 30, 2006.

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, 2006 were \$111,208. The latest actuarial valuation, dated September 30, 2005, for the City, as submitted by the Employees' Retirement System of Alabama, indicated the following:

Summary of Employee Census Data	2005	2004	2003
Number of Active Members:	28	30	28
Annual Compensation:	\$839,336	\$897,967	\$809,808
Number of Retired Members and Beneficiaries:	6	5	4
Annual Retirement Allowances:	\$60,960	\$48,589	\$40,906
Schedule of Funding Progress			
Actuarial Valuation Date	09/30/05	09/30/04	09/30/03
Actuarial Value of Assets (a)	\$1,004,213	\$820,284	\$671,172
Actuarial Accrued Liability Entry Age (b)**	\$1,633,295	\$1,571,417	\$1,405,397

CITY OF RED BAY
RED BAY, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Unfunded Actuarial Accrued Liability (b-a)	\$629,082	\$751,133	\$734,225
Funded Ratio (a/b)	61.5%	52.2%	47.8%
Covered Payroll	\$839,336	\$897,967	\$809,808
Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll {(b-a)/c}	74.9%	83.6%	90.7%
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	11 Years 5 Year	12 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 Cost of Living Adjustments	4.5% None	4.5% None	4.5% None

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

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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, 2006, which collectively comprise the City of Red Bay, Red Bay, Alabama's basic financial statements and have issued our report thereon, dated June 4, 2007. 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

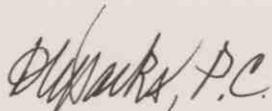
In planning and performing our audit, we considered the City of Red Bay, Red Bay, Alabama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control 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, 2006-1. 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 2006-1 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
June 4, 2007

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

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council
The City of Red Bay
Red Bay, Alabama 35582

Compliance

We have audited the compliance of the City of Red Bay, Red Bay, Alabama, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City of Red Bay's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Red Bay's management. Our responsibility is to express an opinion on the City of Red Bay's compliance based on our audit.

We conducted our audit of compliance 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Red Bay's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Red Bay's compliance with those requirements.

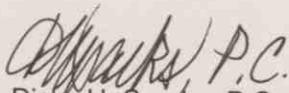
In our opinion, the City of Red Bay complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control over Compliance

The management of the City of Red Bay is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Red Bay's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our Consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities 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
June 4, 2007

CITY OF RED BAY

Red Bay, Alabama

Schedule of Expenditures of Federal Awards
For the Year Ending September 30, 2006

Federal Grantor/Pass - Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Housing and Urban Development:			
Pass-Through Program From:			
Alabama Department of Economic and Community Affairs	14.228	LR CM PF 02 008	\$ 92,423
Community Development Block Grants/State's Program			
Total Department of Housing and Urban Development			\$ 92,423
U.S. Department of Transportation			
Pass-Through Program From:			
Alabama Department of Transportation Highway Planning and Construction (Federal-Aid Highway Program)	20.205	APD-0355(505) STPTE-TE06	\$ 1,443,577 6,000
Total U.S. Department of Transportation			\$ 1,449,577
General Services Administration			
Pass-Through Program From:			
Alabama Department of Economic and Community Affairs	39.003		\$ 1,917
Donation of Federal Surplus Personal Property			
Total General Services Administration			\$ 1,917
Total Expenditures of Federal Awards			\$ 1,543,917

Notes to Schedule:

- The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

CITY OF RED BAY
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2006

Section 1: Summary of Auditors' Results

Financial Statements:

- | | | |
|----|---|--|
| 1. | Type of auditors' report issued on the basic government financial statements:
Governmental Activities
General Fund
2002 Improvement Fund
Fire Insurance Fund
Debt Service Fund
Aggregate remaining fund information | Unqualified
Unqualified
Unqualified
Unqualified
Unqualified
Unqualified |
| 2. | Material noncompliance relating to the basic government financial statements? | No |
| 3. | Internal control over financial reporting: | |
| | a. Material weakness identified? | Yes |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|----|--|-------------|
| 4. | Type of auditors' report issued on compliance for Major federal program: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any findings disclosed that are required to be Reported in accordance with Section 510(a) of Circular A-133? | No |
| 7. | Federal Program identified as major program:

20.205 U.S. Department of Transportation | |

- | | | |
|-----|---|-----------|
| 8. | The dollar threshold used to distinguish between Type A and type B programs: | \$300,000 |
| 9. | Auditee qualified A low-risk auditee? | No |
| 10. | Prior year audit findings and questioned cost relative to federal awards which would required the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

No matters were reported.