

**CITY OF RED BAY**  
**RED BAY, ALABAMA**  
**AUDITED FINANCIAL STATEMENTS,**  
**SUPPLEMENTARY INFORMATION AND**  
**SPECIAL REPORTS**  
**FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2008**

**The Sparks CPA Firm, P.C.**  
**Certified Public Accountants**

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CITY OF RED BAY  
 RED BAY, ALABAMA  
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***FINANCIAL SECTION***

## 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, Alabama, as of and for the year ended September 30, 2008, 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 opinions on these financial statements based on our audit.

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

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, Alabama, as of September 30, 2008, 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 January 30, 2009, on our consideration of the City of Red Bay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Sparks CPA Firm, P.C.  
Certified Public Accountants  
January 30, 2009

***REQUIRED SUPPLEMENTARY INFORMATION***

## 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, 2008. 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 assets of the City of Red Bay exceeded its liabilities at the close of the fiscal year by \$5,265,122 (net assets). Of this amount, \$639,094 is unrestricted and may be used to meet the City's ongoing obligation to citizens and creditors.

Governmental activities and business-type activities had net assets of \$5,265,122 and \$2,268,922, respectively, at fiscal year-end.

The governmental activities increased by \$822,083 and the business-type activities decreasing by \$153,687.

At the close of the current fiscal year, the City's general fund reported an ending fund balance of \$480,918, a decrease of \$163,824 in comparison with the prior year. Of this fund balance total, \$461,739 is unreserved and, therefore, available for spending at the City discretion, \$18,739 is reserved for education expenses and \$440 is reserved for economic development.

Among major funds, the Occupational Tax Fund and the nonmajor fund types reported a decrease in fund balance of \$2,859 and \$350,341 respectively. The Debt Service Fund and the Golden Road Sidewalk Project reported an increase in fund of \$103,971 and \$4,678.

The City borrowed funds in the amount of \$110,037 to purchase a new garbage truck. Total debt decreased by \$213,351 during the current fiscal year to a total of \$3,002,221.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. This report also contains required and additional supplementary information in addition to the basic financial statements themselves.

#### Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. 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.

The **statement of activities** presents information showing how the government's 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 only result in cash flows in future fiscal periods, e.g., uncollected taxes.

The governmental activities of the City are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include administration and finance, planning and development, public safety, public works, and parks and recreation, and education. The business-type activity is the sewer services provided by the City.

### **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 maintains one type of proprietary fund, the *Enterprise fund* to account for the Sewer Services the City provides. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

**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**

**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 \$5,265,122 as of September 30, 2008.

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.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. This was also true for the prior fiscal year.

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2008.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 2,630,079	\$ 3,019,399	\$ 161,253	\$ 308,215	\$ 2,791,332	\$ 3,327,614
Capital assets, net	6,504,603	5,377,460	2,125,015	2,151,076	8,629,618	7,528,536
Total assets	<u>9,134,682</u>	<u>8,396,859</u>	<u>2,286,268</u>	<u>2,459,291</u>	<u>11,420,950</u>	<u>10,856,150</u>
Current liabilities	867,340	848,282	17,345	36,682	884,685	884,964
Long-term debt outstanding	3,002,220	3,104,535	-	-	3,002,220	3,104,535
Total liabilities	<u>3,869,560</u>	<u>3,952,817</u>	<u>17,345</u>	<u>36,682</u>	<u>3,886,905</u>	<u>3,989,499</u>
Net assets:						
Invested in capital assets, net of related debt	3,845,424	2,272,923	5,257	5,257	3,850,681	2,278,180
Restricted	780,604	1,004,146	-	-	780,604	1,004,146
Unrestricted	639,094	1,166,970	2,263,665	2,417,352	2,902,759	3,584,322
Total net assets	<u>\$ 5,265,122</u>	<u>\$ 4,444,039</u>	<u>\$ 2,268,922</u>	<u>\$ 2,422,609</u>	<u>\$ 7,534,044</u>	<u>\$ 6,866,648</u>

**Governmental Activities** – Governmental activities increased the City of Red Bay's net assets by \$822,083 while the business type activities decreased the City's net assets by \$153,687. Governmental activities, then, accounted for 100% of the total growth in net assets of the City. Key elements of this increase are as follows:

Charges for services increased \$84,410 and operating and capital grants increased \$108,660 and \$336,926 respectively. Increase due ongoing capital projects. Interest income decreased significantly due to a sharp decrease in interest rates. Insurance proceeds decreased from the prior year due to the completion of the rebuild of the City Hall and the Police Department building.

Total expenses increased approximately 11% from the prior year. Primarily due to an increase in capital projects, thus creating an increase in public works and public safety expenditures.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program Revenues						
Charges for Services	\$ 964,421	\$ 880,011	\$ 311,635	\$ 299,997	\$ 1,589,898	\$ 1,180,008
Operating Grants & Contributions	532,777	424,117	-	-	218,935	424,117
Capital Grants	541,391	204,465	-	-	541,391	204,465
Sales Taxes	1,492,517	1,494,756	-	-	1,492,517	1,494,756
Interest and Investment Earnings	47,125	103,489	7,211	13,738	54,336	117,227
Insurance Proceeds	11,617	129,366	-	-	11,617	129,366
Gain (Loss) on Sale of Capital Assets	12,486	25,281	-	-	12,486	25,281
Transfers In	2,452,325	2,034,864	142,668	123,489	2,594,993	2,158,353
Total Revenues	<u>\$ 6,054,660</u>	<u>\$ 5,296,349</u>	<u>\$ 461,514</u>	<u>\$ 437,224</u>	<u>\$ 6,516,174</u>	<u>\$ 5,733,573</u>

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Expenses:						
General						
Government	\$ 726,813	\$ 659,429	\$ -	\$ -	\$ 726,813	\$ 659,429
Municipal Court	85,927	54,957	-	-	85,927	54,957
Public Safety	670,138	630,267	-	-	670,138	630,267
Public Works	941,072	796,404	-	-	941,072	796,404
Education	47,257	28,924	-	-	47,257	28,924
Culture and Recreation	201,513	211,890	-	-	201,513	211,890
Economic Development	30	2,495	-	-	30	2,495
Interest and Fiscal Charges	157,181	163,701	-	-	157,181	163,701
Transfers Out	2,402,646	2,000,430	192,347	157,923	2,594,993	2,158,353
Sewer Fund	-	-	422,854	423,174	422,854	423,174
Total Expenses	<u>5,232,577</u>	<u>4,548,497</u>	<u>615,201</u>	<u>581,097</u>	<u>5,847,778</u>	<u>5,129,594</u>
Decrease/Increase in Net Assets	\$ <u>822,083</u>	\$ <u>747,852</u>	\$ <u>(153,687)</u>	\$ <u>(143,873)</u>	\$ <u>668,396</u>	\$ <u>603,979</u>

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2008	2007		2008	2007	
Governmental Activities:						
General Government	\$ 726,813	659,429	10.22%	331,329	457,006	(27.72%)
Municipal Court	85,927	54,957	56.35%	30,227	60,635	(50.15%)
Public Safety	670,138	630,267	6.33%	(553,544)	(630,267)	(12.17%)
Public Works	941,072	796,404	18.17%	(300,177)	(632,718)	(52.56%)
Education	47,257	28,924	63.38%	(47,257)	(28,924)	63.38%
Culture and Recreation	201,513	211,890	(4.90%)	(94,708)	(150,545)	(37.09%)
Economic Development	30	2,495	(98.8%)	(30)	49,040	(99.94%)
Interest and Fiscal Charges	157,181	163,701	(3.98%)	(157,181)	(163,701)	(3.98%)
Total	\$ <u>2,829,932</u>	<u>2,548,067</u>		<u>(791,341)</u>	<u>(1,039,474)</u>	
Business Type Activities:						
Sewer Fund	\$ 422,854	423,174	(.08%)	(111,219)	(123,177)	(9.70%)
Total	\$ <u>422,854</u>	<u>423,174</u>		<u>(111,219)</u>	<u>(123,177)</u>	(9.70%)

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Red Bay uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the close of the fiscal year, The City of Red Bay's governmental funds reported a combined fund balance of \$1,762,740, a decrease of \$408,375 from the prior year.

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 \$163,824, primarily due to increase in general governmental expenditures. The Occupational Tax Fund's fund balance decreased \$2,859 and the Debt Service Fund's fund balance increased \$103,971. The Golden Road Sidewalk Project accounts for financial resources to be used for the construction of sidewalks. Expenditures from this fund for capital outlay were \$406,749. This project was completed during the fiscal year.

**Proprietary Fund** – The City of Red Bay's proprietary fund provides the same information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund at the end of the fiscal year amounted to \$2,263,665, a decrease of \$153,687. The decrease was due to the increase in salaries and benefits, and depreciation expense.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** – As of September 30, 2008, The City of Red Bay's total capital assets for its governmental and business type activities was \$8,629,618 (net of accumulated depreciation). This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and sewer equipment.

Shown below are two tables that show the activity for Capital Assets and Accumulated Depreciation from the prior year to this fiscal year.

#### Governmental Activities: Capital Asset Values

Asset Classification	Balance 10/01/07	Additions	Deletions	Balance 09/30/08
Land	\$ 319,627	7,500	-	\$ 327,127
Buildings	1,817,922	218,555	-	2,036,477
Improvements other than Buildings	1,513,841	737,931	-	2,251,772
Landfill	1,101,900	-	-	1,101,900
Mobile Equipment	948,480	289,968	15,000	1,223,448
Other Furniture & Equip.	80,049	13,216	-	93,265
Infrastructure-Roads	4,947,582	76,000	-	5,023,582
Infrastructure-Bridges	18,000	-	-	18,000
<b>Total Capital Assets</b>	<b>\$ 10,747,401</b>	<b>1,343,170</b>	<b>15,000</b>	<b>\$ 12,075,571</b>

Asset Classification	Balance 10/01/07	Additions	Deletions	Balance 09/30/08
Buildings	\$ 248,543	38,701	-	\$ 287,244
Improvements other than Buildings	627,300	52,061	-	679,361
Landfill	381,992	29,384	-	411,376
Mobile Equipment	603,513	79,533	10,815	672,231
Other Furniture & Equip.	27,286	9,948	-	37,234
Infrastructure-Roads	3,463,307	2,217	-	3,465,524
Infrastructure-Bridges	18,000	-	-	18,000
<b>Total Acc. Depreciation</b>	<b>5,369,941</b>	<b>211,844</b>	<b>10,815</b>	<b>5,570,970</b>
<b>Governmental Activity Capital Assets, net</b>	<b>\$ 5,377,460</b>			<b>\$ 6,504,601</b>

Major capital asset events during the current fiscal year included the following:

The land was donated for the construction of one of the two community shelters that were constructed during the fiscal year. Total building additions of \$218,555, consisted of the final payment on the

construction of the new police department building and the construction of the two community shelters. Improvements other than buildings consisted of the construction of the new skate board park, the renovations at the library, the new sidewalks and the three drainage projects. The majority of the mobile consisted of a new garbage truck, fire truck, utility truck and van, the GIS mapping system and various security and surveillance equipment. The City also sold various equipment totaling \$15,000. The city paved 7<sup>th</sup> Avenue, Sykes Drive, and the entrance to the two community shelters during the fiscal year.

**Business Type Activities:  
Capital Asset Values**

Asset Classification	Balance 10/01/07	Additions	Deletions	Balance 09/30/08
Land	\$ 30,278	-	-	\$ 30,278
Sewer System	4,439,350	159,353	-	4,598,703
Total Capital Assets	\$ 4,469,628	159,353	-	\$ 4,628,981

Asset Classification	Balance 10/01/07	Additions	Deletions	Balance 09/30/08
Sewer System	\$ 2,318,552	185,414	-	\$ 2,503,966
Total Acc. Depreciation	2,318,552	185,414	-	2,503,966
Business Type Activity Capital Assets, net	\$ 2,151,076			\$ 2,125,015

The Sewer Department purchased additional sewer pumps.

**Debt Administration** – At September 30, 2008, The City of Red Bay had \$3,002,221 in long-term debt outstanding. This includes general obligation bonds and other notes payable. The City's total debt increased by \$110,037 during the fiscal year for the financing of the new garbage truck. Of this debt, \$246,394 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 10/1/07	Issued	Retired	Balance 9/30/08	Due Within One Year
Estimated Landfill Closure	\$ 125,500	1,000	-	\$ 126,500	\$ -
Community Spirit Bank	74,035	110,037	23,351	160,721	36,394
Regions GO Warrants	1,055,000	-	190,000	865,000	210,000
Bank of New York Warrants	1,850,000	-	-	1,850,000	-
Total General Obligation Bonds	3,104,535	111,037	213,351	3,002,221	246,394
Less Total Other	125,500	1,000	-	126,500	-
Total All Long Term Debt	\$ 2,979,035	110,037	213,351	\$ 2,875,721	\$ 246,394

**CURRENT AND FUTURE ITEMS OF IMPACT**

The City is in the process of incurring major expenditures for repairs to the City's sewer system. The City estimates these costs to be between \$700,000 and \$750,000. The City plans to secure grants and USDA loans to help with the expenditures.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide 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, 2008

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b>Assets</b>			
Cash and Cash Equivalents	\$ 1,498,224	\$ 132,406	\$ 1,630,629
Cash with Fiscal Agents	84,689	-	84,689
Accrued Revenue	164,615	26,793	191,408
Accrued Interest Receivable	4,023	25	4,048
Inventory	-	2,028	2,028
Lease Receivable	702,723	-	702,723
Grant Receivable	85,482	-	85,482
Prepaid Expenses	37,529	-	37,529
Due From Other Governments	5,776	-	5,776
Due From Other Funds	11,395	-	11,395
Bond Discount, Net	17,405	-	17,405
Bond Issue Costs, Net	15,141	-	15,141
Capital Assets			
Land	327,127	30,278	357,405
Capital Assets, Net	6,177,476	2,094,737	8,272,213
Total Capital Assets	<u>6,504,603</u>	<u>2,125,015</u>	<u>8,629,618</u>
Total Assets	<u>9,131,604</u>	<u>2,286,268</u>	<u>11,417,871</u>
<b>Liabilities</b>			
Claims Payable	138,683	4,228	142,911
Accrued Liabilities	21,581	1,722	23,302
Due To Other Funds	-	11,395	11,395
Due To State Agencies	1,275	-	1,275
Lease Payable	702,723	-	702,723
Estimated Liability for Landfill Closure Costs	126,500	-	126,500
Long-Term Liabilities Due Within One Year	246,394	-	246,394
Long-Term Liabilities Due in More Than One Year	2,629,326	-	2,629,326
Total Liabilities	<u>3,866,482</u>	<u>17,345</u>	<u>3,883,826</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,845,424	5,257	3,850,681
Restricted For:			
Debt Service	780,604	-	780,604
Unrestricted Assets	639,094	2,263,665	2,902,759
<b>Total Net Assets</b>	<u>\$ 5,265,122</u>	<u>\$ 2,268,922</u>	<u>\$ 7,534,044</u>

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

**CITY OF RED BAY**  
Statement of Activities  
September 30, 2008

Functions/Programs	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 Activities</b>							
General Government	\$ 726,813	717,951	340,191	-	331,329		\$ 331,329
Municipal Court	85,927	116,154	-	-	30,227		30,227
Public Safety	670,138	4,664	102,930	9,000	(553,544)		(553,544)
Public Works	941,072	51,263	89,656	499,976	(300,177)		(300,177)
Education	47,257	-	-	-	(47,257)		(47,257)
Culture and Recreation	201,513	74,390	-	32,415	(94,708)		(94,708)
Economic Development and Assistance	30	-	-	-	(30)		(30)
Interest and Fiscal Charges	157,181	-	-	-	(157,181)		(157,181)
<b>Total Governmental Activities</b>	<b>2,829,932</b>	<b>964,421</b>	<b>532,777</b>	<b>541,391</b>	<b>(791,341)</b>		<b>(791,341)</b>
<b>Business-Type Activities</b>							
Sewer Fund	422,854	311,635	-	-	(111,219)		(111,219)
<b>Total Primary Government</b>	<b>\$ 3,252,786</b>	<b>1,276,056</b>	<b>532,777</b>	<b>541,391</b>	<b>(791,341)</b>	<b>(111,219)</b>	<b>\$ (902,560)</b>
<b>General Revenues:</b>							
Taxes:							
Sales Taxes	\$ 1,492,517						\$ 1,492,517
Interest and Investment Earnings	47,125				7,211		54,336
Insurance Proceeds	11,617				-		11,617
Gain (Loss) on Sale of Assets	12,486				-		12,486
Transfers In	2,452,325				142,668		2,594,993
Transfers Out	(2,402,646)				(192,347)		(2,594,993)
Total	1,613,424				(42,468)		1,570,956
Change in Net Assets	822,083				(153,687)		668,396
Net Assets at Beginning of Year	4,443,039				2,422,609		6,865,648
Net Assets at End of Year	5,265,122				2,268,922		7,534,044

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

**CITY OF RED BAY**  
Balance Sheet Governmental Funds  
September 30, 2008

	Major Funds					Total Governmental Funds
	General Fund	Occupational Tax Fund	Debt Service Fund	Golden Road Sidewalk Project	Other Governmental Funds	
<b>Assets</b>						
Cash and Cash Equivalents	\$ 350,069	242,529	660,374	-	245,252	\$ 1,498,224
Cash with Fiscal Agents	-	-	84,689	-	-	84,689
Accrued Revenue	128,742	35,873	-	-	-	164,615
Lease Receivable	702,723	-	-	-	-	702,723
Accrued Interest Receivable	555	-	2,995	-	472	4,023
Grant Receivable	75,563	-	-	-	9,920	85,483
Prepaid Expenses	37,529	-	-	-	-	37,529
Due From Other Governments	5,776	-	-	-	-	5,776
Due From Other Funds	14,473	-	-	-	-	14,473
Bond Discount, Net	-	-	17,405	-	-	17,405
Bond Issue Cost, Net	-	-	15,141	-	-	15,141
<b>Total Assets</b>	<b>\$ 1,315,430</b>	<b>278,402</b>	<b>780,604</b>	<b>-</b>	<b>255,644</b>	<b>\$ 2,630,080</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Claims Payable	\$ 110,208	-	-	-	28,475	\$ 138,683
Lease Payable	702,723	-	-	-	-	702,723
Due To Other Governments	-	-	-	-	1,275	1,275
Due To Other Funds	-	3,078	-	-	-	3,078
Accrued Liabilities	21,581	-	-	-	-	21,581
<b>Total Liabilities</b>	<b>\$ 834,512</b>	<b>3,078</b>	<b>-</b>	<b>-</b>	<b>29,750</b>	<b>\$ 867,340</b>
<b>Fund Balances:</b>						
<b>Reserved For:</b>						
Debt Service	-	-	780,604	-	-	\$ 780,604
Education	18,739	-	-	-	-	18,739
Industrial Development	440	-	-	-	-	440
<b>Unreserved:</b>						
General Fund	461,739	-	-	-	-	461,739
Special Revenue Funds	-	275,324	-	-	241,081	516,405
Capital Project Funds	-	-	-	-	(15,187)	(15,187)
<b>Total Fund Balances</b>	<b>480,918</b>	<b>275,324</b>	<b>780,604</b>	<b>-</b>	<b>225,894</b>	<b>1,762,740</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,315,430</b>	<b>278,402</b>	<b>780,604</b>	<b>-</b>	<b>255,644</b>	<b>\$ 2,630,080</b>

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, 2008

<b>Total Fund Balance-Governmental Funds</b>	\$ 1,762,740
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 governmental funds:	
Capital assets net of depreciation as of 09-30-08	6,504,602
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:	
Long-term Liabilities	(3,002,220)
<b>Total Net Assets-Governmental Activities</b>	<b>\$ <u>5,265,122</u></b>

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, 2008

	Major Funds					Total Governmental Funds
	General Fund	Occupational Tax Fund	Debt Service Fund	Golden Road Sidewalk Project	Other Governmental Funds	
<b>Revenues</b>						
Sales, Property and Other Taxes	\$ 1,069,567	417,383	-	-	5,569	\$ 1,492,519
Licenses, Commissions and Fees	368,547	-	-	-	-	368,547
Fines and Forfeitures	-	-	-	-	116,154	116,154
State Shared Revenues	314,297	-	-	-	50,807	365,104
State Grants	58,764	-	-	-	9,000	67,764
Federal Grants	62,850	-	-	325,399	147,077	535,326
Charges for Services	413,139	-	-	-	4,700	417,839
Local Sources	8,270	-	-	-	148,965	157,235
Miscellaneous Revenue	10,618	-	-	-	-	10,618
<b>Total Revenues</b>	<b>2,306,054</b>	<b>417,383</b>	<b>-</b>	<b>325,399</b>	<b>482,272</b>	<b>3,531,108</b>
<b>Expenditures</b>						
General Government	689,042	-	-	-	191	689,233
Municipal Court	37,417	-	-	-	48,510	85,927
Public Safety	606,451	-	-	-	5,203	611,653
Public Works	729,257	-	-	-	129,424	858,681
Education	47,257	-	-	-	-	47,257
Culture and Recreation	165,347	2,779	-	-	-	168,126
Economic Development and Assistance	-	-	-	-	30	30
Debt Service:						
Principal Payments	23,352	-	190,000	-	-	213,352
Interest and Fiscal Charges	5,355	-	140,225	2,448	-	148,029
Amortization Expense	-	-	9,153	-	-	9,153
Capital Outlay	439,504	-	-	406,749	496,917	1,343,170
<b>Total Expenditures</b>	<b>2,742,981</b>	<b>2,779</b>	<b>339,378</b>	<b>409,197</b>	<b>680,276</b>	<b>4,174,611</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (436,927)</b>	<b>414,604</b>	<b>(339,378)</b>	<b>(83,798)</b>	<b>(198,004)</b>	<b>\$ (643,503)</b>
<b>Other Financing Sources/Uses</b>						
Transfers In	\$ 1,836,342	-	423,031	88,476	104,476	\$ 2,452,325
Insurance Proceeds	-	-	-	-	11,617	11,617
Proceeds From Sale of Assets	-	-	-	-	16,671	16,671
Loan Proceeds	110,037	-	-	-	-	110,037
Interest Income	12,413	5,017	19,809	-	9,377	46,616
Dividend Income	-	-	509	-	-	509
Transfers Out	(1,685,688)	(422,480)	-	-	(294,478)	(2,402,646)
<b>Total Other Financing Sources and Uses</b>	<b>273,103</b>	<b>(417,463)</b>	<b>443,349</b>	<b>88,476</b>	<b>(152,337)</b>	<b>235,128</b>
<b>Net Change in Fund Balances</b>	<b>(163,824)</b>	<b>(2,859)</b>	<b>103,971</b>	<b>4,678</b>	<b>(350,341)</b>	<b>(408,375)</b>
<b>Fund Balances-Beginning</b>	<b>644,742</b>	<b>278,183</b>	<b>676,634</b>	<b>(4,678)</b>	<b>576,235</b>	<b>2,171,116</b>
<b>Fund Balances-Ending</b>	<b>\$ 480,918</b>	<b>275,324</b>	<b>780,604</b>	<b>-</b>	<b>225,894</b>	<b>\$ 1,762,740</b>

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, 2008

<b>Net change in fund balances-total governmental funds</b>	<b>\$ (408,375)</b>
 Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Government funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful 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 of \$1,343,170 exceeded depreciation expense of (\$211,842) in the current period.	1,131,328
In the statement of activities, only 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.	(4,185)
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.	103,315
<b>Change in net assets of governmental activities</b>	<b>\$ <u>822,083</u></b>

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, 2008

		<u>Business-Type Activities</u> <u>Enterprise Fund</u> <u>Major Fund</u>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$	132,406
Accrued Revenue		26,793
Accrued Interest Receivable		25
Inventory		2,028
Total Current Assets		<u>161,252</u>
Noncurrent Assets:		
Capital Assets		
Land		30,278
Sewer System, Net		2,094,737
Total Noncurrent Assets		<u>2,125,015</u>
<b>Total Assets</b>		<u>2,286,267</u>
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable		4,228
Accrued Liabilities		1,722
Due To Other Funds		11,395
Total Current Liabilities		<u>17,345</u>
<b>Total Liabilities</b>		<u>17,345</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt		5,257
Unrestricted		2,263,665
<b>Total Net Assets</b>	\$	<u>2,268,922</u>

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

**CITY OF RED BAY**  
Statement of Revenues, Expenditures and Changes in Fund Net Assets  
Proprietary Fund  
For the Year Ended September 30, 2008

	<b>Business-Type Activities Enterprise Fund Major Fund</b>
<b>Operating Revenues</b>	
Charges for Services	\$ 309,968
<b>Operating Expenses</b>	
Salaries and Benefits	118,963
Supplies	25,729
Professional Services	11,897
License and Fees	13,900
Gas, Oil, and Grease	20,672
Utilities	46,279
Depreciation Expense	185,414
<b>Total Operating Expenses</b>	422,854
<b>Operating Income (Loss)</b>	(112,886)
<b>Nonoperating Revenues (Expenses)</b>	
Miscellaneous Revenue	1,667
Interest Income	7,211
<b>Total Nonoperating Revenue (Expenses)</b>	8,878
<b>Income (Loss) Before Transfers</b>	(104,008)
Transfers In	142,668
Transfers Out	(192,347)
<b>Change in Net Assets</b>	(153,687)
<b>Net Assets-Beginning of Year</b>	2,422,609
<b>Net Assets-End of Year</b>	\$ 2,268,922

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, 2008

		<b>Business-Type Activities Enterprise Fund Major Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$	309,968
Payments to Suppliers		(128,653)
Payments to Employees		(118,963)
Net Cash Provided by Operating Activities		<u>62,352</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from Other Funds		142,668
Transfers to Other Funds		(192,347)
Net Cash Provided by Noncapital Financing Activities		<u>(49,679)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Capital Assets		(159,353)
Net Cash Used in Capital and Related Financing Activities		<u>(159,353)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividend Income		7,211
Net Cash Provided by Investing Activities		<u>7,211</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(139,469)
Cash and Cash Equivalents at Beginning of Year		271,875
Cash and Cash Equivalents at End of Year	\$	<u><u>132,406</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income (Loss)	\$	(112,886)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation Expense		185,413
Changes in Assets and Liabilities		
Accounts Receivable, Net		4,591
Other Receivables		4,570
Accrued Liabilities		(9,962)
Accounts Payable		(9,374)
Net Cash Provided (Used) by Operating Activities	\$	<u><u>62,352</u></u>

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

**CITY OF RED BAY**  
Notes To Financial Statements  
September 30, 2008

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 include general government, public safety, public works, education, culture and recreation, and economic development and assistance.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such the exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As of September 30, 2008 the City had no component units which were required to be included in these financial statements.

Related Organization: The City's officials are responsible for appointing the members of the board of the Red Bay Water and Gas; however, the City does not provide funding, has no obligation for the debt issued by the Red Bay Water and Gas board, and cannot impose its will upon the operations of the Board.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) fees, fines, and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the City's enterprise fund are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statements Presentation**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF RED BAY**  
Notes To Financial Statements  
September 30, 2008

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are generally recognized when a liability is incurred as under accrual accounting, however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due (matured).

Property taxes, when levied for, intergovernmental revenue when eligibility requirements are met, and interest associated with the current fiscal period are all considered to be susceptible to accrual (measurable) and so have been recognized as revenues of the current period, if available. All other revenue items are considered to be measurable and available only when cash is received by the City, or specifically identified.

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.

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.

*Occupational Tax Fund.* This fund accounts for the Occupational Tax monies collected by the City

*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.

*Golden Road Sidewalk Project.* This fund accounts for the financial resources to be used for major capital asset construction and or purchases for sidewalks.

The City reports the following major enterprise fund:

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

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

The *Capital Project Funds* are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The *Debt Service Fund* is used to account for funds reserved for debt service.

**CITY OF RED BAY**  
Notes To Financial Statements  
September 30, 2008

**Accounting Estimates**

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

**Budgetary Information**

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 financial statements.

**Cash Equivalents**

The City considers all cash on hand, certificates of deposits, money market accounts and highly liquid short-term investment funds with maturities of three months or less to be a cash equivalent.

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, 2008, 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.

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**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**Inventory and Prepaid Items**

Inventory is stated at the lower of cost or market, determined on a first-in, first-out basis. Proprietary fund type inventories are reported as expenditures when consumed rather than when purchased (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**

The City elects to use restricted assets before unrestricted assets when the situation arises where either can be used. Certain assets of the debt service fund are classified as restricted assets because their use is limited by applicable debt or other agreement.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental column of the government-wide financial statements. Purchased or constructed capital

**CITY OF RED BAY**  
**Notes To Financial Statements**  
**September 30, 2008**

assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. 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 reported as expenditures and no depreciation expense is reported in the governmental fund financial statements.

Capital assets of the City are depreciated using the straight-line method of depreciation. Depreciation expense is being computed on the straight-line method, using asset lives as follows:

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

**Compensated Absences**

The City does not have a formal policy or record of compensated absences as of September 30, 2008; thus, no determination could be made as to financial liability involved.

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity and Net Assets**

In the fund financial statements, governmental fund report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by out-side parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In the government-wide and proprietary fund statements, net assets are reported in three components- invested in capital assets net of related debt, restricted, and unrestricted. Invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or notes issued to acquire, construct or improve those assets. Restricted net assets are reported when constraints placed on net assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or by enabling legislation. Unrestricted net assets are net assets that do not meet the

**CITY OF RED BAY**  
Notes To Financial Statements  
September 30, 2008

definition of either of the first categories of net assets.

**NOTE 2-CASH, CASH EQUIVALENTS AND INVESTMENTS**

**Deposits and Investments**

The City is authorized to invest funds in, among other things, financial institutions and direct obligations of the Federal Government. During 2008, the City invested in certificates of deposit, interest-bearing checking accounts, and government sponsored agency securities.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. At year-end, the City's carrying amount of deposits was \$1,715,318 and the bank balance was \$1,799,458. The collateral for public entities' deposits in financial institutions is 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. At September 30, 2008, \$62,060 of the City's bank balance of \$1,799,458 was uninsured and uncollateralized. The City does not have a written investment policy covering credit risk. The City has funds on deposit at CB&S Bank, Bank Independent, Community Spirit Bank, Regions Bank, Valley State Bank and The Bank of New York Mellon.

**Investments**

The City is authorized to invest funds in, among other things, financial institutions and direct obligations of the Federal Government.

The City's 1998 General Obligation Warrants with Regions Bank is a Treasury Money Market Fund. This fund seeks current income consistent with stability of principal and liquidity. This fund invests primarily in U.S. Treasury obligations maturing in 397 days or less and in repurchase agreements collateralized by U.S. Treasury Obligations. Under normal circumstances, the fund invests at least 80% of the value of its assets in U.S. Treasury investments. The fund will provide shareholders with at least 60 days' prior notice of any changes in this policy. The fund also may invest in short-term AAA-rated securities of other investment companies, and engage in when issued and delayed delivery transactions. Consistent with the fund's AAA rating by S&P, the fund will maintain an average maturity of 60 days or less. To the extent that fund income is derived from investments in U.S. Treasury securities.

Investing in the fund involves risks common to any investment in securities. Although the fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the fund. In addition, the performance of the fund depends on the Adviser's ability to implement the fund's investment strategies. There is no guarantee that the fund will meet its goals. An investment in the fund is not a bank deposit and is not insured or guaranteed by the FDIC or any other government agency.

The fund's investment performance is subject to a variety of risks, including the following principal risks:

**Money Market Risk.** Prices of debt securities generally move in the opposite direction of interest rates. Generally, when market interest rates rise, the value of debt securities declines, and vice versa. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as

**CITY OF RED BAY**  
**Notes To Financial Statements**  
**September 30, 2008**

interest rates change. Money market funds try to minimize this risk by purchasing short-term securities.

**Credit Risk.** Credit risk refers to an issuer's ability to make payments of principal and interest when they are due. Investment grade debt securities are considered less risky than debt securities whose ratings are below investment grade; however, ratings are no guarantee of quality.

Prices of debt securities typically decline if the issuer's credit quality deteriorates. Lower grade debt securities may experience high default rates. Money market funds attempt to minimize these risks by investing in securities with high credit quality.

**Income Risk.** It is possible that the fund's income will decline over time because of a decrease in interest rates or other factors. Income risk is generally lower for longer-term debt instruments and higher for short-term debt instruments. Because interest rates vary, it is impossible to predict the income yield of the fund for any particular period.

**Security Selection Risk.** The particular securities that are selected by the Adviser for the fund may under perform the market or those securities selected by other funds with similar objectives.

**NOTE 3-LEASE RECEIVABLE AND LEASE PAYABLE**

The City of Red Bay procured a loan to construct a building and 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. The lease/purchase agreement shall be for a period of 20 years. Monthly principal and interest payments in the amount of \$4,930 began on December 1, 2004 and will continue until December 1, 2009. After this time period, the monthly principal and interest payments of \$5,258 will be made for the remaining 180 months. Triple H Electronics, Inc. is responsible for all ad valorem taxes and insurance. The ad valorem taxes are current and the insurance has been paid. The lease payable balance at September 30, 2008 was \$702,723.

**NOTE 4-INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

At September 30, 2008, interfund balances that resulted from various interfund transactions were as follows:

	Due From <u>Other Funds</u>	Due to <u>Other Funds</u>
General Fund	\$ 14,473	\$ -
Occupational Tax Fund	-	3,078
Proprietary Fund	-	11,395
	<u>\$ 14,473</u>	<u>\$ 14,473</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances resulted from the time lag from the General Fund to various other funds, pending receipt of program fees, appropriations, and other financing arrangements.

Interfund transfers during the year ended September 30, 2008, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Funds	\$ 1,836,342	\$ 1,685,688
Occupational Tax Fund	-	422,480
Debt Service Fund	423,031	-
Golden Road Sidewalk Project	88,476	-
Proprietary Fund	142,668	192,347

**CITY OF RED BAY**  
Notes To Financial Statements  
September 30, 2008

Nonmajor Governmental Funds	104,476	294,478
	\$ 2,594,993	\$ 2,594,993

Transfers are used to account for (1) financing by the general fund of programs accounted for in other funds, (2) monies collected in other funds and appropriated to the debt service fund to offset debt service expenditures, and (3) monies collected in other funds and appropriated to capital project funds to offset capital expenditures and grant match obligations.

**NOTE 5-CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2008 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	\$ 319,627	7,500	-	\$ 327,127
Total capital assets not being depreciated:	319,627	7,500	-	327,127
Capital assets being depreciated:				
Buildings	1,817,922	218,555	-	2,036,477
Improvements	1,513,841	737,931	-	2,251,772
Landfill	1,101,900	-	-	1,101,900
Mobile Equipment	948,480	289,968	15,000	1,223,448
Furniture	80,049	13,216	-	93,265
Bridges	18,000	-	-	18,000
Roads	4,947,582	76,000	-	5,023,582
Total capital assets being depreciated:	10,427,774	1,335,670	15,000	11,748,444
Less accumulated depreciation for:				
Buildings	248,543	38,701	-	287,244
Improvements	627,300	52,061	-	679,361
Landfill	381,992	29,384	-	411,376
Roads	3,463,307	2,217	-	3,465,524
Bridges	18,000	-	-	18,000
Mobile Equipment	603,513	79,533	10,815	672,231
Furniture	27,286	9,948	-	37,234
Total accumulated depreciation:	5,369,941	211,844	10,815	5,570,970
Governmental activity capital assets, net	\$ 5,377,460			\$ 6,504,601
<b>Business-type Activities:</b>				
Capital assets not being depreciated:				
Land	30,278	-	-	30,278
Total capital assets not being depreciated:	30,278	-	-	30,278
Capital assets being depreciated:				
Sewer System	4,439,350	159,353	-	4,598,703
Total assets being depreciated:	4,439,350	159,353	-	4,598,703
Less accumulated depreciation for:				

**CITY OF RED BAY**  
Notes To Financial Statements  
September 30, 2008

Sewer System	<u>2,318,552</u>	<u>185,414</u>	<u>-</u>	<u>2,503,966</u>
Total accumulated depreciation:	<u>2,318,552</u>	<u>185,414</u>	<u>-</u>	<u>2,503,966</u>
Business-type activity capital assets, net	<u>2,151,076</u>			<u>2,125,015</u>

Depreciation expense was charged to functions as follows:

**Governmental Activities:**

General Government	\$ 37,580
Culture and Recreation	33,387
Public Safety	58,485
Public Works	<u>82,390</u>
Total Depreciation Expense-Governmental Activities	<u>211,842</u>

**Business-type Activities:**

Sewer	<u>185,414</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 185,414</u>

**NOTE 6-LONG-TERM DEBT**

Long-term liability activity for the year ended September 30, 2008 was as follows:

Description	Beginning Balance At 10-01-07	Additions	Reductions	Ending Balance At 09-30-08	Amount Due Within One Year
Estimated Liability for Landfill Closure & Post-closure Care Costs	\$ 125,500	1,000	-	\$ 126,500	-
Community Spirit Bank – Dozer	74,035	-	14,849	59,186	15,582
Community Spirit Bank – Garbage Truck	-	110,037	8,502	101,535	20,812
Regions Bank (General Obligation Warrants – Series 1998)	1,055,000	-	190,000	865,000	210,000
Bank of New York Mellon (General Obligation Warrants – Series 2002)	<u>1,850,000</u>	-	-	<u>1,850,000</u>	-
Total	<u>\$ 3,104,535</u>	<u>111,037</u>	<u>213,351</u>	<u>\$ 3,002,221</u>	<u>246,394</u>

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

Year ended September 30	Community Spirit Bank	Regions Bank	Bank of New York Mellon	Total
2009	\$ 36,394	210,000	-	\$ 246,394
2010	37,877	205,000	-	242,877
2011	39,421	220,000	-	259,421

**CITY OF RED BAY**

Notes To Financial Statements

September 30, 2008

2012	33,356	230,000	-	263,356
2013	13,372	-	-	13,372
2014-2018	-	-	1,600,000	1,600,000
2019-2023	-	-	250,000	250,000
Total	\$ 160,420	865,000	1,850,000	\$ 2,875,420

Details of the above debt at September 30, 2008 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 an operating expense in each period based on landfill capacity used as of each balance sheet date. The amount reported as landfill closure and post closure care liability at September 30, 2008 of \$126,500 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 \$351,500 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 2008. The City has used 26 percent of the estimated capacity of the landfill as of September 30, 2008, 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.

**Community Spirit Bank – Notes Payable**

Note Payable – payable monthly at \$1,498 for five years beginning on 05/06/2007 through 04/06/2012, at an interest rate of 4.60%. Debt was issued to purchase a used dozer.

Note Payable – payable monthly at \$2,007 for five years beginning on 05/10/2008 through 04/07/2013, at an interest rate of 3.55%. Debt was issued to purchase a new garbage truck.

**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%.

**Bank of New York Mellon – 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.

**NOTE 7-CONTINGENCIES AND COMMITMENTS**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. 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's management 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

**CITY OF RED BAY**  
Notes To Financial Statements  
September 30, 2008

loan amount at June 23, 2000, was \$618,632. The note balance at September 30, 2008 was \$433,031. 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.

At September 30, 2008 the city has commitments for sewer projects and sewer repairs estimated between \$700,000 to \$750,000 dollars over the next 18 to 24 months.

**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%, except police officers and they contribute 6.00% of their 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, 2008 and 2007 were \$123,649 and \$118,818. The latest actuarial valuation, dated September 30, 2007, for the City, as submitted by the Employees' Retirement System of Alabama, indicated the following:

Summary of Employee Census Data	<u>2007</u>	<u>2006</u>	<u>2004</u>
Number of Active Members:	30	31	30
Annual Compensation:	\$859,603	\$894,546	\$897,967
Number of Retired Members and Beneficiaries:	8	7	5
Annual Retirement Allowances:	\$75,492	\$66,188	\$48,589
Schedule of Funding Progress			
Actuarial Valuation Date	09/30/07	09/30/06	09/30/04
Actuarial Value of Assets (a)	\$1,332,739	\$1,173,425	\$820,284
Actuarial Accrued Liability Entry Age (b)**	\$1,923,330	\$1,841,310	\$1,571,417
Unfunded Actuarial Accrued Liability (b-a)	\$590,592	\$667,884	\$751,133
Funded Ratio (a/b)	69.3%	63.7%	52.2%
Covered Payroll	\$859,603	\$894,546	\$897,967
Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll {(b-a)/c}	68.7%	74.7%	83.6%
Reflects Liability for Cost of Living Benefit Increases Granted on or After October 1, 1978			
Methods:			
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level	Level	Level
	Percent	Percent	Percent
	Open	Open	Open
Remaining Amortization Period	10 Years	10 Years	12 Years
Asset Valuation Method	5 Year	5 Year	5 Year
	Smoothed	Smoothed	Smoothed
	Market	Market	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%-	4.61%-	4.61% -
	7.75%	7.75%	7.75%
*Includes Inflation at	4.5%	4.5%	4.5%
Cost of Living Adjustments	None	None	None

***SUPPLEMENTARY INFORMATION***

**CITY OF RED BAY**  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2008

Federal Grantor Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Entity Identifying Number	Federal Expenditures
<b>Department of Housing and Urban Development</b>			
Pass-Through Program From:			
Alabama Department of Economic and Community Affairs			
Community Development Block Grants/State's Program			
Total Department of Housing and Urban Development	14.228	LR CM PF 07 018	\$ <u>69,607</u>
<b>Department of the Interior</b>			
Pass-Through Program From:			
Alabama Department of Economic and Community Affairs			
Land and Water Conservation Fund Grants			
Total Department of the Interior	15.916	07 LW 908	<u>50,000</u>
<b>Department of Justice</b>			
Pass-Through Program From:			
Alabama Department of Economic and Community Affairs			
Total Department of Justice	16.738	07 DH 05 026	<u>27,500</u>
<b>U.S. Department of Transportation</b>			
Pass-Through Program From:			
Alabama Department of Transportation			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	APD-355 (505) STPTE-TE06 (913)	35,350 <u>325,399</u>
Total U.S. Department of Transportation			<u>360,749</u>
<b>Department of Homeland Security and Federal Emergency Management Agency</b>			
Pass-Through Program From:			
State of Alabama Emergency Management Hazard Mitigation Grant (HMGP)			
	97.039	FEMA-HMGP-1605-0199 FEMA-HMGP-1605-0198	6,300 <u>21,170</u>
Total Department of Homeland Security			<u>27,470</u>
<b>Total Expenditures of Federal Awards</b>			<b>\$ <u>535,326</u></b>

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Red Bay and is presented on the modified accrual basis of accounting. 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 financial statements.



***SPECIAL REPORTS***

**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 as of and for the year ended September 30, 2008, which collectively comprise the City of Red Bay's basic financial statements and have issued our report thereon, dated January 30, 2009. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Red Bay's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, 2008-1 and 2008-2, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-1 and 2008-2 to be a material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Red Bay's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-1 and 2008-2.

We noted certain matters that we reported to management of the City of Red Bay in a separate letter dated January 30, 2009.

The City of Red Bay's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Red Bay's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council and others within the entity, and federal awarding agencies and pass-through entities is not intended to be and should not be used by anyone other than these specified parties.

The Sparks CPA Firm, P.C.  
Certified Public Accountants  
January 30, 2009

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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  
Red Bay, Alabama

**Compliance**

We have audited the compliance of the City of Red Bay, Alabama, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The City of Red Bay, Alabama's major federal programs are identified in the summary of auditors' 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, Alabama's management. Our responsibility is to express an opinion on the City of Red Bay, Alabama'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; 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, Alabama'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 of the City of Red Bay, Alabama's compliance with those requirements.

In our opinion, the City of Red Bay, Alabama 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, 2008.

**Internal Control over Compliance**

The management of the City of Red Bay, Alabama, 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, Alabama'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, City Council and others within the entity, 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.

The Sparks CPA Firm, P.C.  
Certified Public Accountants  
January 29, 2009

**CITY OF RED BAY**  
 Schedule of Findings and Questioned Costs  
 For the Year Ended September 30, 2008

**Section 1: Summary of Auditors' Results**

*Financial Statements:*

Type of auditors' report issued on the financial statements:

Governmental Activities	Unqualified
General Fund	Unqualified
Occupational Tax Fund	Unqualified
Debt Service Fund	Unqualified
Golden Road Sidewalk Project	Unqualified
Aggregate remaining fund information	Unqualified
Business-Type Activities	Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no  
 Significant deficiency(ies) identified that are not  
 Considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards:*

Internal control over major programs:

Material weakness(es) identified?  yes  no  
 Significant deficiency(ies) identified that are not  
 Considered to be material weaknesses?  yes  none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be  
 Reported in accordance with section 510(a) of  
 OMB Circular A-133?

yes  no

Identification of major programs:

U.S. Department of Transportation, pass-through program from, Alabama Department of Transportation,  
 Highway Planning and Construction (Federal-Aid Highway Program), CFDA # 20.205.

Dollar threshold used to distinguish between type A  
 and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes  no

**Section 2: Financial Statement Findings**

Significant Deficiency-Material Weakness

2008-1 Criteria or Specific Requirement:

A critical aspect of effective financial management is the maintenance of accurate accounting records.

**CITY OF RED BAY**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Condition:

The City does not have the accounting software necessary to implement all aspects of full accrual financial statements in accordance with Governmental Accounting Standards Board Statement 34.

Context:

The City does not have the software capabilities to apply generally accepted accounting principles in recording the entity's financial transactions.

Effect:

The risk that inaccurate information may be reported and increase the possibility of the loss or misappropriation of public funds.

Cause:

The lack of the appropriate software to prepare the entity's financial statements in accordance with Governmental Accounting Standards Board Statement 34.

Recommendation:

The City should provide the accounting personnel with the proper training and the appropriate software to ensure that the financial transactions are recorded, presented and disclosed in accordance with generally accepted accounting principles.

Views of Responsible Officials:

We understand that the expense of acquiring new software and maintaining the training necessary for the accounting personnel can be costly to the City. We will establish adequate procedures to ensure that financial transactions are recorded, presented and disclosed in accordance with generally accepted accounting principles.

**Significant Deficiency-Material Weakness**

**2008-2 Criteria or Specific Requirement:**

A segregation of duties is considered necessary to insure that financial data is initiated, recorded, and processed consistent with the assertions of management in the financial statements.

Condition:

The size of the City's staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Context:

The City Clerk maintains the general ledger, collects cash, writes and signs checks and handles certificates of deposit transaction. This lack of segregation of duties could result in misappropriation of funds that would not be timely discovered.

Effect:

Lack of segregation of duties.

**CITY OF RED BAY**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Cause:

The small size of the administrative staff.

Recommendation:

The City should have a segregation of duties among accounting functions; however, we recognize that the expense of acquiring the additional employees might be prohibitive. The situation dictates that the Mayor and City Council be involved in the financial affairs of the City to provide oversight and independent review functions to mitigate the lack of segregation of duties.

Views of Responsible Officials:

The Mayor and City Council are aware of the lack of segregation of duties due to the small office staff. As a result, the Mayor and Council are involved in the financial affairs of the City and provide oversight and independent review functions.

**Section 3: Federal Award Findings and Questioned Costs**

No matters were reported.