

CITY OF RED BAY
RED BAY, ALABAMA
AUDITED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SPECIAL REPORTS
FOR THE YEAR ENDED
SEPTEMBER 30, 2009

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

CITY OF RED BAY
 RED BAY, ALABAMA
 TABLE OF CONTENTS
 SEPTEMBER 30, 2009

FINANCIAL SECTION	1
INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	3-8
BASIC FINANCIAL STATEMENTS	9
Government-Wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet-Governmental Funds	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Assets-Proprietary Fund	16
Statement of Revenues, Expenditures and Changes in Fund Net Assets-Proprietary Fund	17
Statement of Cash Flows-Proprietary Fund	18
Notes to Financial Statements	19-29
SPECIAL REPORTS	30
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-32
Schedule of Findings and Responses	33-34

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Mayor and City Council
Red Bay, Alabama

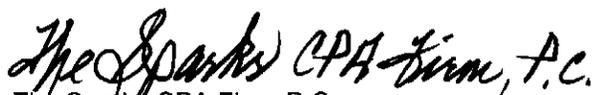
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Bay, Alabama, as of and for the year ended September 30, 2009, which collectively comprise the City's basic 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, 2009, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2010, 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 3 through 8 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.



The Sparks CPA Firm, P.C.
Certified Public Accountants
April 30, 2010

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 ended September 30, 2009. 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 \$6,104,290 (net assets). Of this amount, \$694,490 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 \$6,104,290 and \$2,148,130, respectively, at fiscal year-end.

The governmental activities increased by \$840,169 and the business-type activities decreased by \$120,792.

At the close of the current fiscal year, the City's general fund reported an ending fund balance of \$644,969, an increase of \$164,051 in comparison with the prior year. Of this fund balance total, \$547,869 is unreserved and, therefore, available for spending at the City discretion, \$36,903 is reserved for education expenses and \$60,197 is reserved for economic development.

Among major funds, the Occupational Tax Fund reported a decrease in fund balance of \$48,029. The Debt Service Fund and the Airport Subdivision Project reported an increase in fund balance of \$97,446 and \$29,104 respectfully. The Sewer Fund reported a decrease of \$120,792. The combined other governmental funds reported a decrease of \$50,016.

The City borrowed funds in the amount of \$86,481. Of this amount \$35,909 was used to purchase two new police cars and \$50,572 was used to pay the remaining invoices for the Corridor V Project. Total debt decreased by \$157,706 during the current fiscal year to a total of \$2,845,515.

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, the governmental fund 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 \$6,104,290 as of September 30, 2009.

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, 2009.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 2,679,644	\$ 2,630,079	\$ 113,902	\$ 161,253	\$ 2,793,546	\$ 2,791,332
Capital assets, net	6,994,508	6,504,603	2,038,722	2,125,015	9,033,230	8,629,618
Total assets	<u>9,674,152</u>	<u>9,134,682</u>	<u>2,152,624</u>	<u>2,286,268</u>	<u>11,826,776</u>	<u>11,420,950</u>
Current liabilities	724,348	867,340	4,495	17,345	728,843	884,685
Long-term debt outstanding	2,845,514	3,002,220	-	-	3,002,220	3,002,220
Total liabilities	<u>3,569,862</u>	<u>3,869,560</u>	<u>4,495</u>	<u>17,345</u>	<u>3,731,063</u>	<u>3,886,905</u>
Net assets:						
Invested in capital assets, net of related debt	4,531,749	3,845,424	5,257	5,257	4,537,006	3,850,681
Restricted	878,050	780,604	-	-	878,050	780,604
Unrestricted	694,491	639,094	2,142,873	2,263,665	2,837,363	2,902,759
Total net assets	<u>\$ 6,104,290</u>	<u>\$ 5,265,122</u>	<u>\$ 2,148,130</u>	<u>\$ 2,268,922</u>	<u>\$ 8,252,419</u>	<u>\$ 7,534,044</u>

Governmental Activities – Governmental activities increased the City of Red Bay's net assets by \$840,168 while the business type activities decreased the City's net assets by \$120,792. 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 decreased \$27,255 and operating and capital grants increased \$91,752 and \$123,534 respectively. Decrease due to the completion of several capital projects. Sales tax increased \$2,586. Interest income decreased significantly due to a decrease in interest rates. Insurance proceeds increased from the prior year due to collecting the remaining amount of insurance proceeds for the replacement cost of equipment for the police department and general government.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program Revenues						
Charges for						
Services	\$ 937,166	\$ 964,421	\$ 309,901	\$ 311,635	\$ 1,247,067	\$ 1,589,898
Operating Grants & Contributions	441,025	532,777	-	-	441,025	218,935
Capital Grants	417,857	541,391	143,380	-	561,237	541,391
Sales Taxes	1,495,103	1,492,517	-	-	1,495,103	1,492,517
Interest Earnings	29,778	47,125	2,048	7,211	31,826	54,336
Insurance Proceeds	23,397	11,617	-	-	23,397	11,617
Gain (Loss) on Sale of Capital Assets	(358)	12,486	(81,752)	-	(82,110)	12,486
Transfers In	2,686,322	2,452,325	153,670	142,668	2,839,992	2,594,993
Total Revenues	<u>\$ 6,030,290</u>	<u>\$ 6,054,660</u>	<u>\$ 527,247</u>	<u>\$ 461,514</u>	<u>\$ 6,557,537</u>	<u>\$ 6,516,174</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Expenses:						
General						
Government	\$ 752,650	\$ 726,813	\$ -	\$ -	\$ 752,650	\$ 726,813
Municipal Court	96,370	85,927	-	-	96,370	85,927
Public Safety	575,872	670,138	-	-	575,872	670,138
Public Works	745,397	941,072	-	-	745,397	941,072
Education	45,245	47,257	-	-	45,245	47,257
Culture and Recreation	193,149	201,513	-	-	193,149	201,513
Economic Development	4,343	30	-	-	4,343	30
Interest and Fiscal Charges	148,998	157,181	-	-	148,998	157,181
Transfers Out	2,628,097	2,402,646	211,895	192,347	2,839,992	2,594,993
Sewer Fund	-	-	436,144	422,854	-	422,854
Total Expenses	<u>5,190,121</u>	<u>5,232,577</u>	<u>648,039</u>	<u>615,201</u>	<u>5,838,160</u>	<u>5,847,778</u>
Decrease/Increase in Net Assets	\$ <u>840,168</u>	\$ <u>822,083</u>	\$ <u>(120,792)</u>	\$ <u>(153,687)</u>	\$ <u>719,377</u>	\$ <u>668,396</u>

General Government expenditures increased due to an increase in salary & wages, insurance and professional services. Municipal Court expenditures increased due to an increase in restitution and computer software services. Public Safety and Public Works expenditures decreased primarily due to a decrease in salary & wages and repair and maintenance on vehicles. Culture and Recreation expenditures decreased due to a decrease in salary and wages and supplies. The Economic Development expenditure increase was due to an increase in supplies.

The table below 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.

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2009</u>	<u>2008</u>		<u>2009</u>	<u>2008</u>	
Governmental Activities:						
General Government	\$ 752,650	726,813	10.22%	242,602	331,329	(26.78%)
Municipal Court	96,370	85,927	12.15%	19,170	30,227	(36.58%)
Public Safety	575,872	670,138	(14.07%)	(363,776)	(553,544)	(34.28%)
Public Works	745,397	941,072	(20.79)	(343,750)	(300,177)	14.52%
Education	45,245	47,257	(4.26%)	(45,245)	(47,257)	(4.26%)
Culture and Recreation	193,149	201,513	(4.15%)	(121,636)	(94,708)	25.27%
Economic Development	4,343	30	14,376.67%	(4,343)	(30)	14,376.67%
Interest and Fiscal Charges	148,998	157,181	(5.20%)	(148,998)	(157,181)	(5.20%)
Total	\$ <u>2,562,024</u>	<u>2,829,932</u>		<u>(765,976)</u>	<u>(791,341)</u>	
Business Type Activities:						
Sewer Fund	\$ 436,144	422,854	3.14%	17,137	(111,219)	84.59%
Total	\$ <u>436,144</u>	<u>422,854</u>		<u>17,137</u>	<u>(111,219)</u>	

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 \$1,955,295, an increase of \$192,555 from the prior 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 \$2,142,873, a decrease of \$120,792. The decrease was due to the increase in contract services, utilities and repair and maintenance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2009, The City of Red Bay's total capital assets for its governmental and business type activities was \$9,033,230 (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 10/01/08	Additions	Deletions	Reclassify	Balance 09/30/09
Land	\$ 327,127	-	-	-	\$ 327,127
Buildings	2,036,477	23,573	-	-	2,060,050
Improvements other than Buildings	2,251,772	587,172	-	-	2,838,944
Equipment	-	80,945	-	189,674	270,619
Landfill	1,101,900	-	-	-	1,101,900
Mobile Equipment	1,223,447	45,447	9,075	(189,674)	1,070,145
Other Furniture & Equip.	93,265	-	-	-	93,265
Infrastructure-Roads	5,023,582	-	-	-	5,023,582
Infrastructure-Bridges	18,000	-	-	-	18,000
Total Capital Assets	\$ 12,075,570	737,137	9,075	-	\$ 12,803,632

Accumulated Depreciation

Asset Classification	Balance 10/01/08	Additions	Deletions	Reclassify	Balance 09/30/09
Buildings	\$ 287,244	40,503	-	-	\$ 327,747
Improvements other than Buildings	679,361	68,966	-	-	748,327
Equipment	-	5,812	-	84,120	89,932
Landfill	411,376	29,384	-	-	440,760
Mobile Equipment	672,231	89,473	8,167	(84,120)	669,417
Other Furniture & Equip.	37,234	9,523	-	-	46,757
Infrastructure-Roads	3,465,524	2,660	-	-	3,468,184
Infrastructure-Bridges	18,000	-	-	-	18,000
Total Acc. Depreciation	5,570,970	246,321	8,167	-	5,809,124
Governmental Activity Capital Assets, net	\$ 6,504,601				\$ 6,994,508

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

Building additions of \$23,573 was for the construction of the pavilion for the farmer's market. Improvements other than buildings consisted of a new roof for the senior citizen's building and the completion of three drainage projects. The majority of the mobile consisted of two new police cars, weather sirens, police equipment, two pool covers, a pump, benches, and a vacuum system for the fun park. The City also sold a police car and a van totaling \$9,075.

**Business Type Activities:
Capital Asset Values**

Asset Classification	Balance 10/01/08	Additions	Deletions	Balance 09/30/09
Land	\$ 30,278	-	-	\$ 30,278
Sewer System	4,598,703	176,058	195,370	4,579,391
Total Capital Assets	\$ 4,628,981	176,058	195,370	\$ 4,609,669

Asset Classification	Balance 10/01/08	Additions	Deletions	Balance 09/30/09
Sewer System	\$ 2,503,966	179,599	112,618	\$ 2,570,947
Total Acc. Depreciation	2,503,966	179,599	112,618	2,570,947
Business Type Activity Capital Assets, net	\$ 2,125,015			\$ 2,038,722

The Sewer Department purchased additional sewer pumps, provided some electrical upgrades at the lagoon and completed the Sunshine Mill Sewer project.

Debt Administration – At September 30, 2009, The City of Red Bay had \$2,845,515 in long-term debt outstanding. This includes general obligation bonds and other notes payable. The City issued new debt in the amount of \$87,481 during the fiscal year for the financing of two new police cars, and the completion of the Corridor V Project. Of this debt, \$307,121 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 10/1/08	Issued	Retired	Balance 9/30/09	Due Within One Year
Estimated Landfill Closure	\$ 126,500	1,000	-	\$ 127,500	\$ -
Community Spirit Bank	160,721	86,481	39,187	208,014	97,121
Regions GO Warrants	865,000	-	205,000	660,000	210,000
Bank of New York Warrants	1,850,000	-	-	1,850,000	-
Total General Obligation Bonds	3,002,221	87,481	244,187	2,845,514	307,121
Less Total Other	126,500	1,000	-	127,500	-
Total All Long Term Debt	\$ 2,875,721	86,481	244,187	\$ 2,718,014	\$ 307,121

CURRENT AND FUTURE ITEMS OF IMPACT

The City is in the process of incurring major expenditures for repairs to the City's sewer system. In October of 2009, the City issued General Obligation Warrants in the amount of \$716,769.

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, 2009

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and Cash Equivalents	\$ 1,627,380	\$ 68,575	\$ 1,695,955
Cash with Fiscal Agents	80,720	-	80,720
Accrued Revenue	160,926	30,989	191,915
Accrued Interest Receivable	14,028	971	14,999
Inventory	-	8,698	8,698
Lease Receivable	670,622	-	670,622
Grant Receivable	54,313	4,669	58,982
Prepaid Expenses	47,208	-	47,208
Due From Other Governments	1,053	-	1,053
Bond Discount, Net	12,837	-	12,837
Bond Issue Costs, Net	10,557	-	10,557
Capital Assets			
Land	327,127	30,278	357,405
Capital Assets, Net	6,667,381	2,008,444	8,675,825
Total Capital Assets	<u>6,994,508</u>	<u>2,038,722</u>	<u>9,033,230</u>
Total Assets	<u>9,674,152</u>	<u>2,152,624</u>	<u>11,826,776</u>
Liabilities			
Claims Payable	35,214	1,978	37,192
Accrued Liabilities	18,512	2,517	21,029
Lease Payable	670,622	-	670,622
Estimated Liability for Landfill Closure Costs	127,500	-	127,500
Long-Term Liabilities Due Within One Year	307,121	-	307,121
Long-Term Liabilities Due in More Than One Year	2,410,893	-	2,410,893
Total Liabilities	<u>3,569,862</u>	<u>4,495</u>	<u>3,574,357</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,531,749	5,257	4,537,006
Restricted For:			
Debt Service	878,050	-	878,050
Unrestricted Assets	694,491	2,142,873	2,837,364
Total Net Assets	<u>\$ 6,104,290</u>	<u>\$ 2,148,130</u>	<u>\$ 8,252,419</u>

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

CITY OF RED BAY
Statement of Activities
September 30, 2009

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
Governmental Activities							
General Government	\$ 752,650	693,103	302,149	-	242,602		\$ 242,602
Municipal Court	96,370	115,540	-	-	19,170		19,170
Public Safety	575,872	7,070	138,876	66,150	(363,776)		(363,776)
Public Works	745,397	51,440	-	350,207	(343,750)		(343,750)
Education	45,245	-	-	-	(45,245)		(45,245)
Culture and Recreation	193,149	70,013	-	1,500	(121,636)		(121,636)
Economic Development and Assistance	4,343	-	-	-	(4,343)		(4,343)
Interest and Fiscal Charges	148,998	-	-	-	(148,998)		(148,998)
Total Governmental Activities	2,562,024	937,166	441,025	417,857	(765,976)		(765,976)
Business-Type Activities							
Sewer Fund	436,144	309,901	-	143,380		17,137	17,137
Total Primary Government	\$ 2,998,168	1,247,067	441,025	561,237	(765,976)	17,137	\$ (748,839)
General Revenues:							
Taxes:							
Sales Taxes					\$ 1,495,103		\$ 1,495,103
Interest and Investment Earnings					29,778	2,048	31,826
Insurance Proceeds					23,397	-	23,397
Gain (Loss) on Sale of Assets					(358)	(81,752)	(82,110)
Transfers In					2,686,322	153,670	2,839,992
Transfers Out					(2,628,097)	(211,895)	(2,839,992)
Total					1,606,145	(137,930)	1,468,216
Change in Net Assets					840,169	(120,792)	719,378
Net Assets at Beginning of Year					\$ 5,264,121	2,268,922	\$ 7,533,043
Net Assets at End of Year					\$ 6,104,290	2,148,130	\$ 8,252,420

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

CITY OF RED BAY
Balance Sheet Governmental Funds
September 30, 2009

	Major Funds					Total Governmental Funds
	General Fund	Occupational Tax Fund	Debt Service Fund	Airport Subdivision Project	Other Governmental Funds	
Assets						
Cash and Cash Equivalents	\$ 465,927	196,358	760,363	47	204,686	\$ 1,627,380
Cash with Fiscal Agents	-	-	80,720	-	-	80,720
Accrued Revenue	129,989	30,936	-	-	-	160,926
Lease Receivable	670,622	-	-	-	-	670,622
Accrued Interest Receivable	230	-	13,575	-	224	14,028
Grant Receivable	50,563	-	-	3,750	-	54,313
Prepaid Expenses	47,208	-	-	-	-	47,208
Due From Other Governments	1,053	-	-	-	-	1,053
Bond Discount, Net	-	-	12,837	-	-	12,837
Bond Issue Cost, Net	-	-	10,557	-	-	10,557
Total Assets	\$ 1,365,592	227,294	878,050	3,797	204,910	\$ 2,679,642
Liabilities and Fund Balances						
Liabilities:						
Claims Payable	\$ 32,214	-	-	-	3,000	\$ 35,214
Lease Payable	670,622	-	-	-	-	670,622
Accrued Liabilities	17,787	-	-	-	725	18,512
Total Liabilities	\$ 720,623	-	-	-	3,725	\$ 724,347
Fund Balances:						
Reserved For:						
Debt Service	\$ -	-	878,050	-	-	\$ 878,050
Education	36,903	-	-	-	-	36,903
Economic Development	60,197	-	-	-	-	60,197
Unreserved:						
General Fund	547,869	-	-	-	-	547,869
Special Revenue Funds	-	227,294	-	-	173,178	400,472
Capital Project Funds	-	-	-	3,797	28,007	31,804
Total Fund Balances	644,969	227,294	878,050	3,797	201,185	1,955,295
Total Liabilities and Fund Balances	\$ 1,365,592	227,294	878,050	3,797	204,910	\$ 2,679,642

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, 2009

Total Fund Balance-Governmental Funds	\$ 1,955,295
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 09-30-09	6,994,509
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:	
Long-term Liabilities	(2,845,514)
Total Net Assets-Governmental Activities	<u>\$ 6,104,290</u>

CITY OF RED BAY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2009

	Major Funds					Total Governmental Funds
	General Fund	Occupational Tax Fund	Debt Service Fund	Airport Subdivision Project	Other Governmental Funds	
Revenues						
Sales, Property and Other Taxes	\$ 1,126,594	363,853	-	-	4,655	\$ 1,495,103
Licenses, Commissions and Fees	374,480	-	-	-	-	374,480
Fines and Forfeitures	-	-	-	-	115,540	115,540
State Shared Revenues	259,957	-	-	-	93,632	353,589
State Grants	4,000	-	-	-	63,650	67,650
Federal Grants	-	-	-	256,939	93,268	350,207
Charges for Services	385,331	-	-	-	4,300	389,631
Local Sources	7,561	-	-	93,939	37,376	138,876
Miscellaneous Revenue	5,928	-	-	-	146	6,074
Total Revenues	2,163,851	363,853	-	350,878	412,567	3,291,150
Expenditures						
General Government	713,251	-	-	-	64	713,315
Municipal Court	37,896	-	-	-	58,474	96,370
Public Safety	510,459	-	-	-	606	511,065
Public Works	615,247	-	-	-	26,523	641,770
Education	45,245	-	-	-	-	45,245
Culture and Recreation	142,340	10,974	-	-	1,283	154,597
Economic Development and Assistance	-	-	-	-	4,343	4,343
Debt Service:						
Principal Payments	39,187	-	205,000	-	-	244,187
Interest and Fiscal Charges	8,621	-	131,224	-	-	139,845
Amortization Expense	-	-	9,153	-	-	9,153
Capital Outlay	85,106	-	-	409,311	242,719	737,137
Total Expenditures	2,197,352	10,974	345,377	409,311	334,012	3,297,026
Excess of Revenues Over (Under) Expenditures	\$ (33,500)	352,879	(345,377)	(58,433)	78,555	\$ (5,876)
Other Financing Sources/Uses						
Transfers In	\$ 1,761,783	2,000	424,611	201,489	296,439	\$ 2,686,322
Insurance Proceeds	-	-	-	-	23,397	23,397
Proceeds From Sale of Assets	550	-	-	-	-	550
Loan Proceeds	86,481	-	-	-	-	86,481
Interest Income	6,310	2,647	18,178	-	2,609	29,744
Dividend Income	-	-	35	-	-	35
Transfers Out	(1,657,573)	(405,555)	-	(113,952)	(451,016)	(2,628,096)
Total Other Financing Sources and Uses	197,551	(400,908)	442,823	87,536	(128,571)	198,431
Net Change in Fund Balances	164,051	(48,029)	97,446	29,104	(50,016)	192,556
Fund Balances-Beginning	480,918	275,323	780,604	(25,307)	251,201	1,762,739
Fund Balances-Ending	\$ 644,969	227,294	878,050	3,797	201,185	\$ 1,955,295

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, 2009

Net change in fund balances-total governmental fund	\$ 192,556
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 \$737,137 exceeded depreciation expense of (\$246,321) in the current period.	490,816
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.	(908)
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.	157,705
Change in net assets of governmental activities	\$ <u>840,169</u>

CITY OF RED BAY
Statement of Net Assets
Proprietary Fund
September 30, 2009

		Business-Type Activities Enterprise Fund Major Fund
<hr/>		
Assets		
Current Assets:		
Cash and Cash Equivalents	\$	68,575
Accrued Revenue		30,989
Accrued Interest Receivable		971
Grant Receivable		4,669
Inventory		8,698
Total Current Assets		<u>113,902</u>
Noncurrent Assets:		
Capital Assets		
Land		30,278
Sewer System, Net		2,008,444
Total Noncurrent Assets		<u>2,038,722</u>
Total Assets		<u>2,152,624</u>
Liabilities		
Current Liabilities:		
Accounts Payable		1,978
Accrued Liabilities		2,517
Total Current Liabilities		<u>4,495</u>
Total Liabilities		<u>4,495</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt		5,257
Unrestricted		2,142,873
Total Net Assets	\$	<u>2,148,130</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, 2009

		Business-Type Activities Enterprise Fund Major Fund
Operating Revenues		
Charges for Services	\$	309,901
Operating Expenses		
Salaries and Benefits		110,491
Supplies and Maintenance		35,127
Professional Services		29,672
License and Fees		9,874
Gas, Oil, and Grease		6,574
Utilities		64,806
Depreciation Expense		179,599
Total Operating Expenses		436,143
Operating Income (Loss)		(126,242)
Nonoperating Revenues (Expenses)		
Loss on Sale of Equipment		(81,752)
Grant Revenue		143,380
Interest Income		2,048
Total Nonoperating Revenue (Expenses)		63,676
Income (Loss) Before Transfers		(62,566)
Transfers In		153,670
Transfers Out		(211,895)
Change In Net Assets		(120,792)
Net Assets-Beginning of Year		2,268,922
Net Assets-End of Year	\$	2,148,130

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, 2009

		Business-Type Activities Enterprise Fund Major Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$	309,901
Payments to Suppliers		(139,458)
Payments to Employees		(110,491)
Net Cash Provided by Operating Activities		<u>59,952</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds and Collections		108,453
Transfers from Other Funds		153,670
Transfers to Other Funds		(211,895)
Net Cash Provided by Noncapital Financing Activities		<u>50,227</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets		(176,058)
Net Cash Used in Capital and Related Financing Activities		<u>(176,058)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividend Income		2,048
Net Cash Provided by Investing Activities		<u>2,048</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(63,831)
Cash and Cash Equivalents at Beginning of Year		132,406
Cash and Cash Equivalents at End of Year	\$	<u><u>68,575</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$	(120,792)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation Expense		179,599
Changes in Assets and Liabilities		
Accounts Receivable, Net		4,669
Other Receivables		971
Accrued Liabilities		(2,517)
Accounts Payable		(1,978)
Net Cash Provided (Used) by Operating Activities	\$	<u><u>59,952</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, 2009

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, 2009 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 Works and Gas Board of the Town of Red Bay; however, the City does not provide funding, has no obligation for the debt issued by the Red Bay Water Works and Gas Board of the Town of Red Bay, 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, 2009

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.

Airport Subdivision Project. This fund accounts for the financial resources to be used for major capital asset drainage construction.

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, 2009

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, 2009, 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 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.

CITY OF RED BAY
Notes To Financial Statements
September 30, 2009

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, 2009; 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 definition of either of the first categories of net assets.

CITY OF RED BAY
Notes To Financial Statements
September 30, 2009

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 2009, 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 \$1,776,475 and the bank balance was \$1,797,297. 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, 2009, \$58,056 of the City's bank balance of \$1,797,297 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 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.

CITY OF RED BAY
Notes To Financial Statements
September 30, 2009

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 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 receivable and lease payable balance at September 30, 2009 was \$670,622.

NOTE 4-INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers during the year ended September 30, 2009, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Funds	\$ 1,761,783	\$ 1,657,573
Occupational Tax Fund	2,000	405,555
Debt Service Fund	424,611	-
Airport Subdivision Project	201,489	113,952
Proprietary Fund	153,670	211,895
Nonmajor Governmental Funds	296,439	451,016
	<u>\$ 2,839,992</u>	<u>\$ 2,839,992</u>

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.

CITY OF RED BAY
Notes To Financial Statements
September 30, 2009

NOTE 5-CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 was as follows:

	Balances 10-01-08	Increase	Decrease	Balances 09-30-09
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 327,127	-	-	\$ 327,127
Total capital assets not being depreciated:	<u>327,127</u>	<u>-</u>	<u>-</u>	<u>327,127</u>
Capital assets being depreciated:				
Buildings	2,036,477	23,573	-	2,060,050
Improvements	2,251,772	587,172	-	2,838,944
Landfill	1,101,900	-	-	1,101,900
Mobile Equipment	1,223,448	126,392	9,075	1,340,765
Furniture	93,265	-	-	93,265
Bridges	18,000	-	-	18,000
Roads	5,023,582	-	-	5,023,582
Total capital assets being depreciated:	<u>11,748,444</u>	<u>737,137</u>	<u>9,075</u>	<u>12,476,506</u>
Less accumulated depreciation for:				
Buildings	287,244	40,503	-	327,747
Improvements	679,361	68,966	-	748,327
Landfill	411,376	29,384	-	440,760
Roads	3,465,524	2,660	-	3,468,184
Bridges	18,000	-	-	18,000
Mobile Equipment	672,231	95,285	8,167	759,349
Furniture	37,234	9,523	-	46,757
Total accumulated depreciation:	<u>5,570,970</u>	<u>246,321</u>	<u>8,167</u>	<u>5,809,124</u>
Governmental activity capital assets, net	<u>\$ 6,504,601</u>			<u>\$ 6,994,508</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	30,278	-	-	30,278
Total capital assets not being depreciated:	<u>30,278</u>	<u>-</u>	<u>-</u>	<u>30,278</u>
Capital assets being depreciated:				
Sewer System	4,598,703	176,058	195,370	4,579,391
Total assets being depreciated:	<u>4,598,703</u>	<u>176,058</u>	<u>195,370</u>	<u>4,579,391</u>
Less accumulated depreciation for:				
Sewer System	2,503,966	179,599	112,618	2,570,947
Total accumulated depreciation:	<u>2,503,966</u>	<u>179,599</u>	<u>112,618</u>	<u>2,570,947</u>
Business-type activity capital assets, net	<u>2,125,015</u>			<u>2,038,722</u>

CITY OF RED BAY
Notes To Financial Statements
September 30, 2009

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 39,335
Culture and Recreation	38,552
Public Safety	64,807
Public Works	<u>103,626</u>
Total Depreciation Expense-Governmental Activities	<u>246,320</u>

Business-type Activities:

Sewer	<u>179,599</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 179,599</u>

NOTE 6-LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2009 was as follows:

Description	Beginning Balance At 10-01-08	Additions	Reductions	Ending Balance At 09-30-09	Amount Due Within One Year
Estimated Liability for Landfill Closure & Post- closure Care Costs	\$ 126,500	1,000	-	\$ 127,500	-
Community Spirit Bank – Dozer	59,186	-	15,544	43,642	16,314
Community Spirit Bank – Garbage Truck	101,534	-	20,765	80,769	21,563
Community Spirit Bank – Police Cars	-	35,909	2,878	33,031	8,672
Community Spirit Bank – LOC Corridor V	-	50,572	-	50,572	50,572
Regions Bank (General Obligation Warrants – Series 1998)	865,000	-	205,000	660,000	210,000
Bank of New York Mellon (General Obligation Warrants – Series 2002)	<u>1,850,000</u>	-	-	<u>1,850,000</u>	-
Total	<u>\$ 3,002,220</u>	<u>87,481</u>	<u>244,187</u>	<u>\$ 2,845,514</u>	<u>307,121</u>

CITY OF RED BAY
Notes To Financial Statements
September 30, 2009

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
2010	\$ 97,121	210,000	-	\$ 307,121
2011	48,358	220,000	-	268,358
2012	42,604	230,000	-	272,604
2013	19,931	-	235,000	235,000
2014	-	-	250,000	250,000
2015-2019	-	-	1,365,000	1,365,000
Total	\$ 208,014	660,000	1,850,000	\$ 2,718,014

Details of the above debt at September 30, 2009 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, 2009 of \$127,500 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 \$353,720 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 2009. The City has used 26 percent of the estimated capacity of the landfill as of September 30, 2009, 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.
 Note Payable – payable monthly at \$796 for four years beginning on 06/21/2009 through 05/21/2013, at an interest rate of 3.01%. Debt was issued to purchase two new police cars.
 Note Payable – Line of Credit with an interest rate of 3.19%, due 01/22/2010. Debt was issued for the Corridor V Project.

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.

CITY OF RED BAY
Notes To Financial Statements
September 30, 2009

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 loan amount at June 23, 2000, was \$618,632. The note balance at September 30, 2009 was \$399,880. 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.

In October of 2009, the City issued General Obligation Warrants in the amount of \$716,769. The City has also been approved to receive Stimulus Funds under the American Recovery and Reinvestment Act (ARRA) for sewage upgrades.

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, 2009 and 2008 were \$106,300 and \$123,649. The latest actuarial valuation, dated September 30, 2008, for the City, as submitted by the Employees' Retirement System of Alabama, indicated the following:

Summary of Employee Census Data	<u>2008</u>	<u>2007</u>	<u>2006</u>
Number of Active Members:	29	30	31
Annual Compensation:	\$920,800	\$859,603	\$894,546
Number of Retired Members and Beneficiaries:	10	8	7
Annual Retirement Allowances:	\$89,142	\$75,492	\$66,188
Schedule of Funding Progress			
Actuarial Valuation Date	09/30/08	09/30/07	09/30/06
Actuarial Value of Assets (a)	\$1,332,739	\$1,332,739	\$1,173,425
Actuarial Accrued Liability Entry Age (b)**	\$1,482,594	\$1,923,330	\$1,841,310
Unfunded Actuarial Accrued Liability (b-a)	\$705,398	\$590,592	\$667,884
Funded Ratio (a/b)	67.8%	69.3%	63.7%
Covered Payroll	\$920,800	\$859,603	\$894,546
Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll {(b-a)/c}	76.6%	68.7%	74.7%
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	11 Years	10 Years	12 Years

CITY OF RED BAY
Notes To Financial Statements
September 30, 2009

Summary of Employee Census Data	<u>2008</u>	<u>2007</u>	<u>2006</u>
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year 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

NOTE 9-RELATED PARTY

The City of Red Bay purchased goods in the amount of \$24,422 from a local business owned by a councilmember. The City of Red Bay is a guarantor on the building noted in Note 7, which is co-owned by a councilmember. The building was built eight years ago, before the election of the councilmember.

NOTE 10-SUBSEQUENT EVENT

The City of Red Bay issued General Obligation Warrants in the amount of \$716,769 in October of 2009. The American Recovery and Reinvestment Act Funds (ARRA) will provide a principal forgiveness of debt in the amount of \$261,769, thus making the total loan repayment amount \$455,000.

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, 2009, which collectively comprise the City of Red Bay's basic financial statements and have issued our report thereon, dated April 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2009-1 and 2009-2, to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiencies described in the accompanying schedule of findings and responses as 2009-1 and 2009-2, to be significant deficiencies.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Red Bay in a separate letter dated April 30, 2010.

The City of Red Bay's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Red Bay's responses 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
April 30, 2010

CITY OF RED BAY
 Schedule of Findings and Responses
 For the Year Ended September 30, 2009

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
Airport Subdivision Project	Unqualified
Aggregate remaining fund information	Unqualified
Business-Type Activities	Unqualified

Internal control over financial reporting:

Material weakness (es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Section 2: Financial Statement Findings

Significant Deficiency-Material Weakness

2009-1. Criteria or Specific Requirement:

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

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.

CITY OF RED BAY
Schedule of Findings and Responses
For the Year Ended September 30, 2009

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

2009-2. 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.

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.