

THE CITY OF
TUSCUMBIA
ALABAMA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED
SEPTEMBER 30, 2007

CITY OF TUSCUMBIA, ALABAMA

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Tuscumbia, Alabama

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tuscumbia, Alabama as of and for the year ended September 30, 2007, 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 Tuscumbia, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tuscumbia, Alabama as of September 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 39 through 41 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.



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City of Tuscumbia, Alabama
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tuscumbia, Alabama's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "The Watkins Johnsey Professional Group, P.C.".

The Watkins Johnsey Professional Group, P.C.
September 22, 2008

Management's Discussion and Analysis

As management of the City, we offer readers of the City's financial statements this narrative and analysis of the financial activities of the City for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here and the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2007 by \$3,865,535.
- The unrestricted net assets of the governmental activities are \$1,869,140 and may be used to meet the ongoing obligations of the governmental activities.
- Total revenues of the governmental activities for fiscal year 2007 are \$7,416,773 and expenses are \$6,412,263 creating an increase in net assets of \$1,004,510 for the year.
- The General Fund reported a fund balance of \$850,579. The fund balance increased \$266,662 from the prior year.
- The City's total long-term debt decreased \$324,094 during fiscal year 2007.

Overview of the Financial Statements

The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial 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 private-sector business.

The *statement of net assets* includes all of the government's assets and liabilities. Over time, increases or decreases in the City's net assets are an indicator of whether its financial condition 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 the cash flows. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (*business-type activities*). The governmental activities of the City include general administration, police, fire, municipal court, public works, and parks & recreation departments.

Management's Discussion and Analysis – Continued

As described in the notes to the financial statements, other entities' activities are included in this report because of the relationship of these legally separate entities to the City. Financial information of the Tuscumbia Utilities Electric, Water, and Gas Systems, are collectively referred to in the financial statements as those of the *discretely presented component units*. This discussion and analysis focuses on the primary government. The complete financial statements (including MD&A) of these discretely presented component units may be obtained from the Finance Department of the City.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are reported as governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flows in and out and (2) 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 financial resources that can be spent in the near future to finance the City's programs.

The City maintains individual governmental funds:

- The General Fund, Local Three-Cent Motor Fuel Tax Fund, 2003 Capital Improvements Fund, and the 2003 Debt Service Fund are considered major funds with information being presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for these funds.
- The other governmental funds are considered non-major governmental funds and they are combined into a single, aggregated presentation in the governmental funds financial statements. Individual fund data for each of these funds is provided in the form of combining statements in the supplementary information section.

The basic governmental funds financial statements can be found on pages 11 through 14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 38 of this report.

Management's Discussion and Analysis – Continued

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The budgetary comparison schedule and combining non-major governmental funds statements referred to earlier can be found beginning on page 39 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$3,865,535 at the close of the most recent fiscal year. The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, and improvements other than buildings, infrastructure, and other) less any related debt outstanding used to acquire those assets. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. The City's investment in net capital assets, net of related debt, amounts to \$198,197. A total of \$1,431,120 is restricted for future capital projects and \$367,078 is restricted for debt service under the bond covenants.

CITY OF TUSCUMBIA, ALABAMA Governmental Activities Net Assets

	September 30,	
	2007	2006
Assets		
Current and other assets	\$ 4,038,537	\$ 3,761,424
Capital assets, net	6,794,233	6,456,934
Other noncurrent assets	167,102	171,602
Total assets	\$ 10,999,872	\$ 10,389,960
Liabilities		
Current liabilities	\$ 692,098	\$ 787,016
Noncurrent liabilities	6,442,239	6,741,919
Total liabilities	\$ 7,134,337	\$ 7,528,935
Net Assets		
Invested in capital assets, net of related debt	\$ 198,197	\$ (450,355)
Restricted	1,798,198	1,975,867
Unrestricted	1,869,140	1,335,513
Total net assets	\$ 3,865,535	\$ 2,861,025

Management's Discussion and Analysis – Continued

The most significant changes in the revenues were as follows:

- Charges for services decreased \$7,175.
- Operating grants from federal, state, and local agencies decreased \$2,714 from the prior year.
- Capital grants and contributions from federal, state, and local agencies increased \$58,773.
- General revenues increased \$409,167.

CITY OF TUSCUMBIA, ALABAMA Governmental Activities Changes in Net Assets

	For the Year Ended September 30,	
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 1,752,150	\$ 1,759,325
Operating grants and contributions	227,446	230,160
Capital grants and contributions	441,540	382,767
General revenues:		
Sales, use, and lodging taxes	2,470,778	2,287,148
Property taxes	1,905,750	1,681,568
Other taxes	559,444	564,049
Interest	59,665	53,705
Total revenues	\$ 7,416,773	\$ 6,958,722
Expenses		
General administration	\$ 1,345,007	\$ 1,276,350
Public safety	1,658,730	1,610,091
Public works	1,404,514	1,397,043
Public ways and facilities	49,527	42,436
Culture and recreation	912,269	903,075
Other	155,941	189,486
Education—funding for school district	602,364	519,642
Interest and fiscal charges	283,911	289,299
Total expenses	\$ 6,412,263	\$ 6,227,422
Change in net assets	\$ 1,004,510	\$ 731,300

Management's Discussion and Analysis – Continued

Financial Analysis of the Governmental Funds

The focus of the City's governmental funds is to provide information on 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.

The combined fund balances of the City's governmental funds increased \$383,872 in the 2007 fiscal year, and the total fund balance as of September 30, 2007 was \$3,861,577.

2007 Budget

The City of Tuscumbia adopted a General Fund budget with revenues of \$6,456,567 for the year ended September 30, 2007. The beginning budgetary fund balance of \$583,917 increased the budgeted amount available for appropriation to \$7,040,484.

Actual operating revenues were \$6,859,916 and were \$403,349 more than the budgeted revenues. The primary reason for the increase in revenues was due to increase in sales, use, and lodging taxes.

Expenditures were originally budgeted at \$6,456,567. The actual operating expenditures were \$6,593,254 and were \$136,687 more than the budgeted expenditures. The primary reasons for the increases in expenditures were due to increases in fuel costs and equipment repairs.

The ending budgetary fund balance for fiscal year 2007 was \$850,579.

Capital Assets Highlights

The 1998 and 2003 Capital Improvement Funds were funded by the issuance of debt for capital projects such as sewer and utilities improvements, acquisition of fire trucks, expansion of public buildings, other capital improvements, and to retire the 1993 Warrant debt. The largest capital projects during the fiscal year were as follows:

- Flood Mitigation Project - \$125,171 (in progress at year-end)
- Spring Park Splash Pad - \$202,000 (completed and capitalized during the fiscal year)

The other significant capital improvement project that was in progress at year-end was the Streetscape Phase II project (\$78,333). Other projects completed were the Spring Park Pavilion (\$58,180), the Willie Green Center Bathroom Renovation project (\$26,000), and other building improvements (\$49,000). Other capital asset additions of approximately \$187,000 were for purchases of equipment for various departments.

The City has current and planned future capital projects that will utilize the restricted assets of \$1,431,120.

Management's Discussion and Analysis – Continued

Long Term Debt

The beginning balance for the year 2007 long-term debt obligations is \$7,002,164 with no new debt additions. The long-term obligations ending balance is \$6,686,411.

The City's latest general obligation bond rating by Standard's & Poor's Corporation is "AAA".

Economic Factors and Next Year's Budget

Many factors have occurred recently in the recruitment of new industry for Northwest Alabama. A new railcar manufacturer has decided to build their plant in Barton. This will bring several hundred jobs to the Shoals area. The Shoals Industrial Development Committee, which is comprised of each of the four mayors and the two county commissioner chairmen, has spent many hours in meetings negotiating with the Canadian company that builds railroad boxcars. This company will employ approximately eighteen hundred production workers. This could develop into the largest new industry in North Alabama.

Because of the very close working relationships of the elective officials in Colbert and Lauderdale counties, we believe that the economy will certainly improve. Thousands of new jobs are coming to our area, which is exhibited, by the number of new subdivisions that are under construction in Tuscumbia. The proposed commercial area along the Tuscumbia bypass on U.S. Highway 72 is a prime area for new retail sales. The economic outlook for Tuscumbia is very bright.

Tuscumbia's Spring Park continues to be a major attraction for visitors from all over the southeastern states. These visitors also come to our city because it's the Birthplace of Helen Keller. The Keller Festival, held during the last week of June, continues to grow and is enjoyed by thousands who come here to enjoy our historic town.

The mayor and council have passed the 2008 budget with an increase of approximately \$325,000 of projected revenues. The 2008 Budget was adopted with total revenues and expenditures of \$6,778,363.

Request for Information

This financial report is designed to present a general overview of the City's finances and to demonstrate accountability for the money it receives from taxpayers, customers, and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Accounting Department, P. O. Box 29, Tuscumbia, Alabama 35674, by calling (256) 383-5463 extension 3, or by sending an email to jarmstead@bellsouth.net.

CITY OF TUSCUMBIA, ALABAMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	<u>Primary Governmental Activities</u>	<u>Component Units</u>
ASSETS		
Cash and cash equivalents	\$ 3,195,102	\$ 2,206,418
Investments		
Receivables (net)	475,357	3,276,271
Inventories		618,846
Prepaid expenses	1,000	258,879
Restricted assets:		
Cash and investments	367,078	1,234,591
Conservation loan receivables		537,857
Capitalization fee	76,727	
Deferred charges (net)	90,375	26,708
Capital assets (net)	6,794,233	11,716,266
Total assets	<u>\$ 10,999,872</u>	<u>\$ 19,875,836</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 305,969	\$ 3,173,563
Customer deposits		460,125
Deferred revenues		42,573
Liabilities payable from restricted assets:		
Matured warrants payable		88,155
Accrued interest		5,900
Long-term liabilities:		
Portion due or payable within one year:		
Warrants and notes payable	329,346	
Compensated absences	56,783	
Portion due or payable after one year:		
Warrants and notes payable	6,357,065	1,330,774
Compensated absences	85,174	153,184
Advances for conservation loans		537,857
Total liabilities	<u>\$ 7,134,337</u>	<u>\$ 5,792,131</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 198,197	\$ 10,318,145
Restricted for:		
Debt service	367,078	291,676
Capital projects	1,431,120	
Unrestricted	1,869,140	3,473,884
Total net assets	<u>\$ 3,865,535</u>	<u>\$ 14,083,705</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF TUSCUMBIA, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary government:						
Governmental activities:						
General administration	\$ 1,345,007	\$ 310,352	\$ 131,575	\$	\$ (903,080)	
Public safety	1,658,730	221,800	54,487	188,949	(1,193,494)	
Public works	1,404,514	920,824		10,000	(473,690)	
Public ways and facilities	49,527			107,122	57,595	
Culture and recreation	912,269	299,174	41,384	135,469	(436,242)	
Other	155,941				(155,941)	
Education—funding for school district	602,364				(602,364)	
Interest and fiscal charges	283,911				(283,911)	
Total primary government	<u>\$ 6,412,263</u>	<u>\$ 1,752,150</u>	<u>\$ 227,446</u>	<u>\$ 441,540</u>	<u>\$ (3,991,127)</u>	
Component units:						
All	<u>\$ 13,877,483</u>	<u>\$ 14,502,735</u>	<u>\$ —</u>	<u>\$ 292,842</u>		<u>\$ 918,094</u>
General revenues:						
Taxes:						
Sales, use, and lodging				\$ 2,470,778	\$	
Property				1,905,750		
Motor fuel				286,330		
Other				202,967		
Alcoholic beverages				70,147		
Interest revenues				59,665		91,063
Total general revenues				<u>\$ 4,995,637</u>	<u>\$</u>	<u>91,063</u>
Change in net assets				\$ 1,004,510	\$	1,009,157
Net assets—beginning				2,861,025		13,074,548
Net assets—ending				<u>\$ 3,865,535</u>	<u>\$</u>	<u>14,083,705</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF TUSCUMBIA, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

	<u>General Fund</u>	<u>Local Motor Fuel Tax</u>	<u>2003 Capital Improvements</u>	<u>2003 Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 552,182	\$ 533,248	\$ 849,723	\$ 129,333	\$ 1,130,616	\$ 3,195,102
Receivables (net)	475,357					475,357
Prepaid expenses			1,000			1,000
Restricted cash and investments				299,256	67,822	367,078
Capitalization fee	76,727					76,727
Total assets	<u>\$ 1,104,266</u>	<u>\$ 533,248</u>	<u>\$ 850,723</u>	<u>\$ 428,589</u>	<u>\$ 1,198,438</u>	<u>\$ 4,115,264</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued expenses	\$ 196,904	\$	\$	\$	\$	\$ 196,904
Compensated absences	56,783					56,783
Total liabilities	<u>\$ 253,687</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 253,687</u>
Fund balances						
Reserved for:						
Other purposes	\$ 76,727	\$	\$	\$	\$	\$ 76,727
Unreserved, reported in:						
General fund	773,852					773,852
Special revenue funds		533,248			371,010	904,258
Debt service funds				428,589	247,031	675,620
Capital projects funds			850,723		580,397	1,431,120
Total fund balances	<u>\$ 850,579</u>	<u>\$ 533,248</u>	<u>\$ 850,723</u>	<u>\$ 428,589</u>	<u>\$ 1,198,438</u>	<u>\$ 3,861,577</u>
Total liabilities and fund balances	<u>\$ 1,104,266</u>	<u>\$ 533,248</u>	<u>\$ 850,723</u>	<u>\$ 428,589</u>	<u>\$ 1,198,438</u>	<u>\$ 4,115,264</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF TUSCUMBIA, ALABAMA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

Fund balances—total governmental funds		\$	3,861,577
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets		\$	10,415,503
Less accumulated depreciation			<u>(3,621,270)</u>
			6,794,233
Debt issuance costs are reported as a current expenditure in the governmental funds. However, in the statement of activities, debt issuance costs are deferred and amortized over the life of the debt and are included as deferred charges in the statement of net assets.			
Unamortized debt issuance costs			90,375
Long-term liabilities, including warrants and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Warrants and notes payable		\$	(6,710,058)
Unamortized debt discount			23,647
Accrued interest on warrants			(109,065)
Compensated absences			<u>(85,174)</u>
			<u>(6,880,650)</u>
Net assets of governmental activities		\$	<u>3,865,535</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TUSCUMBIA, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>General Fund</u>	<u>Local Motor Fuel Tax</u>	<u>2003 Capital Improvements</u>	<u>2003 Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$ 4,870,929	\$	\$	\$	\$ 65,044	\$ 4,935,973
Licenses and permits	322,343					322,343
Fines and forfeitures	208,292				43,618	251,910
Charges for services	1,215,754					1,215,754
Intergovernmental	126,152		85,761		356,239	568,152
Interest revenues	4,355	9,460	17,420	8,069	20,362	59,666
Other	33,617				29,358	62,975
Total revenues	<u>\$ 6,781,442</u>	<u>\$ 9,460</u>	<u>\$ 103,181</u>	<u>\$ 8,069</u>	<u>\$ 514,621</u>	<u>\$ 7,416,773</u>
EXPENDITURES						
Current operating:						
General administration	\$ 1,334,757	\$	\$	\$	\$ 20	\$ 1,334,777
Public safety	1,592,747				32,047	1,624,794
Public works	1,312,165		16,349		16,978	1,345,492
Culture and recreation	795,407					795,407
Other	101,309					101,309
Education—funding for school district	602,364					602,364
Capital outlay and improvements			217,678		414,249	631,927
Debt service:						
Principal payments	55,930			250,000	11,000	316,930
Interest and fiscal charges	12,537			138,196	129,168	279,901
Total expenditures	<u>\$ 5,807,216</u>	<u>\$ —</u>	<u>\$ 234,027</u>	<u>\$ 388,196</u>	<u>\$ 603,462</u>	<u>\$ 7,032,901</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 974,226</u>	<u>\$ 9,460</u>	<u>\$ (130,846)</u>	<u>\$ (380,127)</u>	<u>\$ (88,841)</u>	<u>\$ 383,872</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 78,474	\$ 28,637	\$	\$ 470,000	\$ 447,400	\$ 1,024,511
Transfers out	(786,038)	(58,946)	(149,830)		(29,697)	(1,024,511)
Total other financing sources (uses)	<u>\$ (707,564)</u>	<u>\$ (30,309)</u>	<u>\$ (149,830)</u>	<u>\$ 470,000</u>	<u>\$ 417,703</u>	<u>\$ —</u>
Net change in fund balances	<u>\$ 266,662</u>	<u>\$ (20,849)</u>	<u>\$ (280,676)</u>	<u>\$ 89,873</u>	<u>\$ 328,862</u>	<u>\$ 383,872</u>
Fund balances—beginning	583,917	554,097	1,131,399	338,716	869,576	3,477,705
Fund balances—ending	<u>\$ 850,579</u>	<u>\$ 533,248</u>	<u>\$ 850,723</u>	<u>\$ 428,589</u>	<u>\$ 1,198,438</u>	<u>\$ 3,861,577</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF TUSCUMBIA, ALABAMA
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, 2007**

Net change in fund balances—total governmental funds	\$	383,872
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense		
Expenditures for capital assets	\$ 606,866	
Less current year depreciation	<u>(269,568)</u>	337,298
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences		(29,580)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred on the statement of net assets and are amortized over the life of the debt. The net effect of these differences in the treatment of long-term debt and related items are detailed below.		
Repayment of debt principal	\$ 316,930	
Amortization of debt discount	(1,177)	
Amortization of debt issuance costs	(4,500)	
Change in accrued interest on warrants	<u>1,667</u>	<u>312,920</u>
Change in net assets of governmental activities	\$	<u><u>1,004,510</u></u>

CITY OF TUSCUMBIA, ALABAMA
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Business-type Activities			Total
	Tuscumbia Utilities			
	Electricity	Natural Gas	Water and Sewer	
	June 30, 2007	September 30, 2007	September 30, 2007	
ASSETS				
Cash and cash equivalents	\$ 1,929,621	\$ 276,722	\$ 75	\$ 2,206,418
Receivables (net)	1,478,146	1,044,454	753,671	3,276,271
Inventories	105,873	471,929	41,044	618,846
Prepaid expenses	242,083	6,977	9,819	258,879
Deferred charges (net)	26,708			26,708
Restricted assets:				
Cash and investments	793,509	177,433	263,649	1,234,591
Conservation loan receivables	537,857			537,857
Capital assets (net)	7,420,369	1,939,192	2,356,705	11,716,266
Total assets	\$ 12,534,166	\$ 3,916,707	\$ 3,424,963	\$ 19,875,836
LIABILITIES				
Accounts payable and accrued expenses	\$ 2,805,856	\$ 192,761	\$ 174,946	\$ 3,173,563
Customer deposits	455,625		4,500	460,125
Deferred revenues	42,573			42,573
Liabilities payable from restricted assets:				
Matured warrants payable	88,155			88,155
Accrued interest	5,900			5,900
Long-term liabilities:				
Portion due or payable after one year:				
Warrants and notes payable	1,330,774			1,330,774
Compensated absences	69,853	44,076	39,255	153,184
Advances for conservation loans	537,857			537,857
Total liabilities	\$ 5,336,593	\$ 236,837	\$ 218,701	\$ 5,792,131
NET ASSETS				
Invested in capital assets, net of related debt	\$ 6,022,248	\$ 1,939,192	\$ 2,356,705	\$ 10,318,145
Restricted for debt service	291,676			291,676
Unrestricted	883,649	1,740,678	849,557	3,473,884
Total net assets	\$ 7,197,573	\$ 3,679,870	\$ 3,206,262	\$ 14,083,705

The accompanying notes are an integral part of the financial statements.

**CITY OF TUSCUMBIA, ALABAMA
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-type Activities			Total
					Tuscumbia Utilities			
					Electricity	Natural Gas	Water and Sewer	
				June 30, 2007	September 30, 2007	September 30, 2007		
Component units:								
Tuscumbia Utilities—								
Electricity	\$ 8,058,984	\$ 8,246,832	\$	\$ 160,576	\$ 348,424	\$	\$	\$ 348,424
Natural Gas	3,672,550	4,072,037		4,736		404,223		404,223
Water and Sewer	2,145,949	2,183,866		127,530			165,447	165,447
Total component units	\$ 13,877,483	\$ 14,502,735	\$ —	\$ 292,842	\$ 348,424	\$ 404,223	\$ 165,447	\$ 918,094
General revenues:								
Interest revenues					79,986	7,313	3,764	91,063
Change in net assets					\$ 428,410	\$ 411,536	\$ 169,211	\$ 1,009,157
Net assets—beginning					6,769,163	3,268,334	3,037,051	13,074,548
Net assets—ending					<u>\$ 7,197,573</u>	<u>\$ 3,679,870</u>	<u>\$ 3,206,262</u>	<u>\$ 14,083,705</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Tuscumbia, Alabama (City) is a municipal corporation incorporated on December 30, 1820 under the laws of the State of Alabama. The City operates under a Mayor-Council form of government. The Mayor, elected for a four-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes. The Mayor oversees the enforcement of all laws and ordinances and executes all contracts, conveyances, and evidences of indebtedness of the City. Legislative authority is vested in a five-member council elected by district for a four-year term with the chair pro tempore of the Council being selected by the Council members. The City Council enacts ordinances and resolutions relating to tax levies; appropriates and borrows money; and accepts bids for materials and services and other municipal purposes.

The reporting entity is composed of the primary government and its component units, which are included to ensure the financial statements are not misleading.

The primary government of the City consists of all funds and departments that are not legally separate from the City. The primary government includes the City departments that provide the following services: police protection, fire protection and prevention, street maintenance and repairs, building inspection, planning and zoning, parks and recreation, solid waste collection, as well as administrative staff to provide support services. The operation and control of these activities are provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

For financial reporting purposes, the City's basic financial statements include all funds and departments for which the City is financially accountable. Financial accountability, as defined by the Governmental Accounting Standards Board, exists if (1) the City appoints a voting majority of an organization's governing board, (2) is able to impose its will on that organization, or (3) there is a potential for the organization to provide specific financial benefits to or impose specific burdens on the City. Additionally, a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if (1) the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government, (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization, and (3) the economic resources received or held by the organization are significant to the primary government. Based upon the foregoing criteria and information, the City considers the City of Tuscumbia Utilities—Electricity, Natural Gas, and Water and Sewer Departments to be discretely presented component units for financial reporting purposes.

Discretely Presented Component Units

City of Tuscumbia Utilities—Electricity, Natural Gas, and Water and Sewer Departments—The Tuscumbia Utilities (Utilities) provide utility services to the residents of the City. On June 14, 2007, the Alabama Legislature passed Act 2007-502 (HB961) that amended the authority and duties of the Tuscumbia Utilities Board (Board), as stated herein. The Utilities are governed by a three-member board of directors that are appointed by the City Council for staggered six-year terms. The Board is authorized to establish all utility rates. The Board is required to obtain approval from the City Council of expenditures for system improvements greater than \$50,000. The Act establishes in lieu of tax rates for each department. The City is secondary liable for the outstanding debt of the Utilities. The financial statements of each department are presented as a Proprietary Fund type. Each department is reported in a separate column in a combining statement in the basic financial statements with the total of all discretely presented component units reported in the government-wide financial statements to emphasize that they are legally separate from the City. The Electricity Department has a June 30 year-end, while the Natural Gas and Water and Sewer Departments have a September 30 year-end.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Complete financial statements for each of the individual component units may be obtained from their administrative office located at 202 East Sixth Street, Tuscumbia, Alabama 35674.

Related Organizations

Tuscumbia City Board of Education—The Tuscumbia City Board of Education is a legally separate entity that is governed by a five-member board appointed by the City Council. The City makes an annual appropriation to the Board of Education. However, it is not considered significant to the operations of the Board of Education. The City has no ability to influence the operations of the Board of Education nor has any financial obligations related to the Board of Education.

Other related organizations are excluded from the reporting entity because the City's accountability does not extend beyond the appointment of members to the governing board. These are:

Civil Service Board, Helen Keller Birthplace Foundation, Helen Keller Library Board, Historic Preservation Board, Planning Commission Board, Zoning Adjustments Board, and Housing Authority Board.

The following are separate legal entities that are jointly governed by the City and other municipalities in which no government appoints a voting majority of the Board. The organizations were created for the benefit of Shoals area residents and generally receive financial assistance from various governments. These are:

Shoals Economic Development Authority Board, Riverbend Center for Mental Health Board, Solid Waste Disposal Authority Board, Colbert Convention and Tourism Board, and Muscle Shoals Airport Authority Board.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Financial information of the City, the primary government, and its discretely presented component units are presented as follows:

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide financial statements consist of a statement of net assets and a statement of activities. These financial statements report all of the non-fiduciary activities of the primary government and its component units. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges from services and are usually intended by management to be financially self-sustaining.

The statement of net assets presents the financial condition of the governmental activities of the City and the business-type activities of its discretely presented component units at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges paid by the recipient of the goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City and include all taxes. The comparison of direct expenses with program revenues identifies the extent to which each function or program is self-financing or draws from the general revenues of the City.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements consist of a series of statements focusing on information about the City's major governmental funds. The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property and sales taxes, grants, entitlements, and donations. 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 satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For this purpose, the City considers revenues available if the revenues are collected within thirty days of the end of the current fiscal year. Expenditures are generally recognized when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Property taxes (if levied), other city-levied taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All other revenues are considered measurable and available only when cash is received by the government.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Utilities' proprietary activities apply all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Furthermore, the Utilities do not apply FASB Statements and Interpretations issued after November 30, 1989.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Alabama.

The *Local Motor Fuel Tax Fund* accounts for two-thirds of the three-cent (3¢) motor fuel tax levied and collected by the City.

The *2003 Capital Improvements Fund* accounts for the costs of constructing various public works projects and other capital spending activities. Revenue sources are provided by general obligation debt and federal and state capital grants.

The *2003 Debt Service Fund* accounts for the servicing of debt related to the Series 2003 General Obligation Warrants. Revenue sources are provided by in lieu of tax payments and transfers from other funds.

Additionally, the City reports the following fund types:

Special Revenue funds account for revenue sources whose use is restricted to a particular purpose.

Capital Projects funds account for the financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Debt Service funds account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business. The Utilities are reported as enterprise funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from providing services in connection with the primary activity of the fund's ongoing operations. The principal operating revenues of the enterprise funds and the internal service funds are charges to customers for services and benefit fees. Operating expenses include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this rule are in lieu of tax payments and other charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions affected.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

The City considers cash and cash equivalents to include cash on hand, demand deposits, cash with a fiscal agent, and short-term investments with an original maturity of three (3) months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U. S. Treasury and the State of Alabama including general obligations of its counties and municipalities.

Investments are stated at fair value. Any differences between the market value and cost of investments are reflected in investment income.

The Utilities consider all highly liquid temporary cash investments with low interest rate risk to be cash equivalents. Special funds are provided for under trust indentures are reported as restricted assets and are not considered cash equivalents.

Receivables and Payables

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Due to/from other funds". Interfund balances are eliminated on the statement of net assets.

All trade, loans, and other receivables are shown net of any allowance for uncollectible accounts.

The Utilities' Electricity Department acts as a collection agent for the Natural Gas Department, the Water and Sewer Department, and for the City's solid waste collection services. Receivables recorded by the Electricity Department include amounts due from customers for all utility services billed to them. The Utilities do not accrue revenue from the most recent meter reading to the end of the fiscal year. This policy has been consistently followed and is an accepted accounting treatment followed by public utility systems. For each Department, current earnings are charged with an allowance for doubtful accounts based on the payment history and other factors attributable to each account considered uncollectible. At year-end, the allowance is charged-off against accounts receivable balances; as a result, the allowance for doubtful accounts is zero.

All payables and accrued expenses are reported on the government-wide financial statements for both governmental and business-type activities.

Property Tax Calendar

Property taxes are assessed on October 1 of the preceding year based on the millage rates established by legislation. Property taxes are levied on the subsequent October 1 for the fiscal year beginning on the levy date and are delinquent after December 31 (except for motor vehicles, which have varying due dates). After December 31, penalties and interest are assessed. If real property taxes are not paid by April following the due date, State law requires a tax sale. Property taxes include amounts levied against all real and tangible personal property located within the City. Revenue is recognized in the year when the taxes are levied and collected. Taxes are collected by the Colbert County Revenue Commissioner who remits to the City its portion of the taxes collected, net of collection fees ranging from one to five percent, depending on the type of tax collected.

Inventories

Inventories are stated at the aggregate amount of the average cost. Inventories consist of materials and supplies held for consumption or construction projects.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

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

Capitalization Fee

In November 1993, the City paid a one-time capitalization fee of \$76,727 to become a member of the Alabama Municipal Insurance Corporation (AMIC). The capitalization fee is nonrefundable and entitles the City to purchase insurance through AMIC. In the event of liquidation or distribution of profits, the City would receive a pro-rata distribution based on its investment.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Restricted assets may also represent certain resources that are segregated from other resources to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the City or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

Capital Assets

All capital assets are recorded at historical cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at estimated fair market value at the date of donation. The City's capitalization level is \$10,000 for assets with an estimated life in excess of one year. General infrastructure assets acquired or constructed prior to October 1, 2002, are not reported in the basic financial statements. General infrastructure assets include all streets, bridges, curbs, sidewalks, storm sewers, and similar items acquired or constructed subsequent to October 1, 2002. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Construction in progress, if any, is stated at cost.

Utility Plant

The Utilities report utility plant at cost less accumulated depreciation. Retirements from units of property from service are credited against plant in service at the original cost of the units and accumulated depreciation is reduced at the date of retirement. Improvements that extend the useful life of the assets are capitalized. The Utilities' capitalization level is \$100. The cost of maintenance, repairs, and replacement of minor items of property are charged to operations and maintenance accounts. Interest incurred during the construction phase of capital assets is capitalized, when financed by bond proceeds. Construction in progress, if any, is stated at cost.

The Utilities receive funds in aid of construction that are reported as capital grants and contributions that are offset by impairment of assets to construction in progress as a reduction to job work orders. The substance of this accounting treatment is the reduction of operating costs through decreased depreciation and maintenance expenses.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are depreciated, except for land, inexhaustible land improvements, and construction in progress. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Years</u>
Governmental Activities	
Buildings and improvements	40
Parks and improvements	7 – 50
Infrastructure	50
Equipment, vehicles, furniture, and fixtures	3 – 10
Utilities	
Utility plant	4 – 50

Compensated Absences

All permanent employees of the City accumulate annual and sick leave during the calendar year. Annual leave is earned at a rate of five to twenty days per calendar year for all permanent employees, depending on years of service, date of hire, and department employed, and is accrued as a liability at the current rate of pay. The policy allows employees to accumulate a maximum of five days of annual leave. After three years of continuous service, employees may work during their annual leave period up to a maximum equal to one-half of the total annual leave granted per year. Employees who choose to work a portion of their annual leave time will receive the normal pay, plus annual leave pay for the period worked. Sick leave is earned at the rate of one day per month of employment for all permanent employees. The policy allows employees to accumulate an unlimited number of sick leave days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the retirement system, with no additional cost to the City. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded in the financial statements.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, the estimated current portion of the liability is reported as a fund liability.

For the Utilities, annual leave is earned at a rate of fifteen to twenty-six days per calendar year depending on length of service. The policy allows each employee to accumulate a maximum of 240 hours of annual leave. On January 1 of each year, annual leave in excess of 240 hours is forfeited. Employees may accumulate a maximum of 120 hours of sick leave for non-job related illness or injury. However, the sick leave policy does not provide for payment to the employee for unused sick leave upon separation for service.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds and warrants payable are reported net of the applicable premium or discount. Debt 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 debt premiums, discounts, and issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received upon issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds of the issue, are reported as debt service expenditures.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets/Fund Equity

Net assets are reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following net asset categories:

- ◆ *Invested in capital assets, net of related debt*—Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. (Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.)
- ◆ *Restricted*—Constraints imposed on net assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ *Unrestricted*—Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Council.

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific purpose, but only if the restrictions are narrower in scope than the purpose for which the related individual funds were established. Any designations of fund balance represent tentative management plans that are subject to change.

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 and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Concentrations

Substantially all of the customers of the Utilities are located within the City. The Utilities considers a major customer to be one that represents 10% or more of annual sales. The Electricity Department and the Natural Gas Department had one customer that met this criterion. The Electricity Department purchases all of its electricity for resale from the Tennessee Valley Authority (TVA). The Natural Gas Department purchases substantially all of its natural gas for resale from Enbridge Marketing.

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Primary Government

A. BUDGETARY PROCESS

Annual budgetary appropriations are adopted and used during the fiscal year as a management control device on a basis consistent with accounting principles generally accepted in the United States of America. At the close of each fiscal year, the unspent balance of each appropriation reverts to the respective fund from which it was appropriated and is subject to future appropriation.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following governmental funds incurred expenditures in excess of appropriations of the following amounts for the year ended September 30, 2007:

<u>Special Revenue Fund</u>	
Local Motor Fuel Tax	\$ 20,849
 <u>Capital Projects Fund</u>	
2003 Capital Improvements	280,676
1998 Capital Improvements	130,904

The excess expenditures were provided by available fund balance in the funds.

NOTE 3—DEPOSITS AND INVESTMENTS

Primary Government and Discretely Presented Component Units

The custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the City and Utilities will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City's and Utilities' deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a multiple financial institution collateral pool administered by the Alabama State Treasurer. Under this program, 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 financial institution would be liquidated by the State Treasurer to satisfy the claims of public depositors not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, the State Treasurer is authorized to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds.

The City has not adopted a formal investment policy and, as of September 30, 2007, do not have any investments that require disclosure. However, under the terms of bond indentures, the City and the Utilities are required to deposit into certain bond funds for debt service. These investments are governed by the bond indentures and are invested in cash and U. S. Government securities.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 4—RECEIVABLES AND PAYABLES

Receivables

Receivables at year-end were as follows:

	Accounts	Taxes	Due from Other Governments	Special Assessments	Total Receivables
Primary Government					
General	\$ 116	\$ 223,174	\$ 240,346	\$ 11,721	\$ 475,357
Total	\$ 116	\$ 223,174	\$ 240,346	\$ 11,721	\$ 475,357
Discretely Presented Component Units—Utilities					
Electricity	\$ 1,478,146	\$ —	\$ —	\$ —	\$ 1,478,146
Natural Gas			1,044,454		1,044,454
Water and Sewer			753,671		753,671
Total	\$ 1,478,146	\$ —	\$ 1,798,125	\$ —	\$ 3,276,271

The City has recorded an allowance for uncollectible accounts of \$10,535 for sewer assessments based on a review of accounts at year-end.

Payables

Payables at year-end were as follows:

	Vendors	Salaries and Benefits	Due to Other Governments	Accrued Interest	Total Payables
Primary Government					
General	\$ 37,866	\$ 142,591	\$ 16,447	\$ 109,065	\$ 305,969
Total	\$ 37,866	\$ 142,591	\$ 16,447	\$ 109,065	\$ 305,969
Discretely Presented Component Units—Utilities					
Electricity	\$ 871,447	\$ —	\$ 1,934,409	\$ —	\$ 2,805,856
Natural Gas	192,761				192,761
Water and Sewer	174,946				174,946
Total	\$ 1,239,154	\$ —	\$ 1,934,409	\$ —	\$ 3,173,563

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 5—INTERFUND TRANSFERS

Primary Government

Interfund transfers for the year ended September 30, 2007 consisted of the following:

	Transfer from				Total
	General Fund	Local Motor Fuel Tax	2003 Capital Improvements	Other Governmental	
Transfer to					
General	\$ —	\$ 48,946	\$ —	\$ 29,528	\$ 78,474
Local Motor Fuel Tax	28,637				28,637
2003 Debt Service	470,000				470,000
Other governmental	287,401	10,000	149,830	169	447,400
Total	<u>\$ 786,038</u>	<u>\$ 58,946</u>	<u>\$ 149,830</u>	<u>\$ 29,697</u>	<u>\$ 1,024,511</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6—RESTRICTED ASSETS

Primary Government

General obligation warrants issued by the City require that certain amounts be deposited into restricted funds for specified uses. These funds are invested in cash and U. S. government securities and are carried at fair market value.

Series 1996 Special Warrant Fund	
Cash	\$ 14,400
Series 1998 Warrant Fund	
Short-term U. S. Government Securities (Interest yield rate of 4.28%)	53,422
Series 2003 Warrant Fund	
Short-term U. S. Government Securities (Interest yield rate of 3.57%)	299,256
Total	<u>\$ 367,078</u>

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 6—RESTRICTED ASSETS (Continued)

Discretely Presented Component Units

Electricity Department

Revenue warrants issued by the Utilities require that certain amounts be deposited into restricted funds for debt service. These funds are invested in U. S. government securities or are secured by U.S. government securities and are carried at fair market value.

The Board adopted a policy to set aside a cash reserve of \$500,000 for emergencies, repairs and replacements, and damages caused by catastrophic events.

Series 1997 Warrant Funds	
Sinking fund	\$ 64,236
Reserve fund	227,440
Other investments	1,833
Board designated reserve fund	<u>500,000</u>
Total	<u><u>\$ 793,509</u></u>

Natural Gas Department

The Board adopted a policy to set aside a cash reserve of three months operating expenses plus an amount equal to the largest natural gas bill for the preceding year or an estimate of the largest natural gas bill to be incurred during the subsequent year less amounts of stored natural gas and prepaid natural gas at the balance sheet date.

Board designated reserve fund	<u><u>\$ 177,433</u></u>
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Water and Sewer Department

The Board adopted a policy to set aside a cash reserve of three months operating expenses for emergency repairs and replacements and for current operating expense shortfalls. Management estimates that reserve amount should be approximately \$415,000, consequently resulting in a violation of the Board's policy at year-end.

Board designated reserve fund	<u><u>\$ 263,649</u></u>
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CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 7—CAPITAL ASSETS

Capital asset activity for the fiscal year is as follows:

Primary Government	Balance	Additions	Retirements	Balance
Nondepreciable assets:				
Land and land rights	\$ 217,099	\$ —	\$ —	\$ 217,099
Construction in progress	119,130	312,154	227,780	203,504
Depreciable assets:				
Parks and improvements	2,001,809	260,177		2,261,986
Buildings and improvements	2,290,332	75,739		2,366,071
Equipment and vehicles	2,720,087	186,577	16,169	2,890,495
Infrastructure	2,476,348			2,476,348
Total capital assets	<u>\$ 9,824,805</u>	<u>\$ 834,647</u>	<u>\$ 243,949</u>	<u>\$ 10,415,503</u>
Less accumulated depreciation	<u>3,367,871</u>	<u>269,568</u>	<u>16,169</u>	<u>3,621,270</u>
Capital assets, net	<u>\$ 6,456,934</u>	<u>\$ 565,079</u>	<u>\$ 227,780</u>	<u>\$ 6,794,233</u>

Depreciation expense was charged to the government functions as follows:

General administration	\$ 2,489
Public safety	54,074
Public works	51,219
Public ways and facilities	49,527
Culture and recreation	112,259
Total depreciation expense	<u>\$ 269,568</u>

Discretely Presented	Beginning	Additions	Retirements	Ending
Component Units—Utilities	Balance			Balance
Nondepreciable assets:				
Land and land rights:				
Electricity	\$ 20,100	\$ —	\$ —	\$ 20,100
Natural Gas	306			306
Water and Sewer	115,609	6,679		122,288
Construction in progress:				
Electricity	29,020		4,216	24,804
Depreciable assets:				
Utility plant in service:				
Electricity	12,544,340	388,947	71,105	12,862,182
Natural Gas	4,300,861	104,472	5,161	4,400,172
Water and Sewer	7,202,984	83,756	6,565	7,280,175
Total capital assets	<u>\$ 24,213,220</u>	<u>\$ 583,854</u>	<u>\$ 87,047</u>	<u>\$ 24,710,027</u>
Less accumulated depreciation:				
Electricity	\$ 5,103,605	\$ 467,641	\$ 84,529	\$ 5,486,717
Natural Gas	2,313,669	152,778	5,161	2,461,286
Water and Sewer	4,854,608	197,715	6,565	5,045,758
Total accumulated depreciation	<u>\$ 12,271,882</u>	<u>\$ 818,134</u>	<u>\$ 96,255</u>	<u>\$ 12,993,761</u>
Capital assets, net	<u>\$ 11,941,338</u>	<u>\$ (234,280)</u>	<u>\$ (9,208)</u>	<u>\$ 11,716,266</u>

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 8—TVA POWER AND CONSERVATION PROGRAMS

Discretely Presented Component Units

Electricity Department

Conservation Program

The Department has entered into a contract with TVA jointly establishing a home energy conservation program that provides eligible customers with arranged financing for home energy conservation improvements. As a part of this contract, the Department is a fiscal intermediary for the conservation loans provided by the program. The Department had at June 30, 2007, a total of \$537,857 of energy conservation loans due from customers participating in the program. These loans are to be repaid in monthly installments by the customer over periods ranging from 3 to 10 years. Interest accrues at rates ranging from 7% to 14% per annum. Under the terms of the contract, the Department has received advances on these loans in the amount of \$537,857 as of June 30, 2007.

Power Programs

The Department entered into an agreement with TVA to participate in the TVA Power Invoice Prepayment Program. This program allows the Department to electronically transfer funds, which are nonrefundable, on a weekly basis to be applied to the monthly TVA power invoice. An early payment credit is computed on a daily basis at a rate established monthly by TVA and is added to the prepayment account. At any time, with a 30-day written notice, the Department may borrow up to 100% of the outstanding prepayment balance from TVA for operations. The prepayment balance of \$182,156 as of June 30, 2007 is reflected as prepaid expenses.

NOTE 9—STORAGE GAS

Discretely Presented Component Units

Natural Gas Department

Under the Federal Energy Regulatory Commission Order Number 636, the natural gas and propane supply and storage from its vendor is unbundled. The result led to an election by the Department to store gas rather than be penalized for no-notice service. The stored gas inventory of \$455,541 is reflected as inventories at the aggregate amount of the lower of cost (average cost) or market.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS

Long-term obligations activity for the fiscal year is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
General Obligation Warrants, Series 1996	\$ 63,000	\$ —	\$ 11,000	\$ 52,000	\$ 12,000
General Obligation Warrants, Series 1998	2,765,000			2,765,000	—
General Obligation Warrants, Series 2003	4,010,000		250,000	3,760,000	260,000
Debt discount	(24,824)		(1,177)	(23,647)	(1,177)
Notes payable—banks:					
Payable in monthly installments; interest rate of 3.900%; secured by equipment	39,474		12,641	26,833	13,169
Payable in monthly installments; interest rate of 3.650%; secured by equipment	35		35	—	—
Payable in monthly installments; interest rate of 4.610%; secured by equipment	50,743		15,225	35,517	15,964
Payable in monthly installments; interest rate of 4.610%; secured by equipment	98,736		28,028	70,708	29,390
Compensated absences	92,657	57,642	8,342	141,957	56,783
Total	\$ 7,094,821	\$ 57,642	\$ 324,094	\$ 6,828,368	\$ 386,129
Discretely Presented					
Component Units—Utilities					
<u>Electricity</u>					
Electric Revenue Warrants, Series 1997	\$ 1,530,000	\$ —	\$ 90,000	\$ 1,440,000	\$ 90,000
Debt discount	(22,916)		(1,845)	(21,071)	(1,845)
Compensated absences	67,174	2,679		69,853	—
<u>Natural Gas</u>					
Compensated absences	44,934		858	44,076	—
<u>Water and Sewer</u>					
Payable to the Natural Gas Department; non-interest bearing; unsecured	73,992		73,992	—	—
Compensated absences	36,065	3,190		39,255	—
Total	\$ 1,729,249	\$ 5,869	\$ 163,005	\$ 1,572,113	\$ 88,155

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS (Continued)

Primary Government

On September 23, 1996, the City issued General Obligation Warrants, Series 1996 in the amount of \$150,000 for a fire truck. These warrants bear an interest rate of 5.125% and will be fully paid in 2011. Principal and interest are payable annually on January 1.

On September 1, 1998, the City issued General Obligation Warrants, Series 1998 in the amount of \$2,765,000 to currently refund and redeem the General Obligation Warrants, Series 1990 and for capital improvements. These warrants bear interest rates of 4.300% to 4.800% and will be fully paid in 2018. Principal is payable annually on November 1. Interest is payable semi-annually on each May 1 and November 1.

On July 1, 2003, the City issued General Obligation Warrants, Series 2003 in the amount of \$4,600,000 to currently refund and redeem the General Obligation Warrants, Series 1993 and for capital improvements. These warrants bear interest rates of 1.000% to 4.250% and will be fully paid in 2027. Principal is payable annually on November 1. Interest is payable semi-annually on each May 1 and November 1.

Bond issuance costs have been deferred and are being amortized over the life of the associated warrants. At year-end, the unamortized deferred charges amounted to \$90,375.

Debt service over the remaining term of the warrants is summarized as follows:

Year Ending September 30	Principal	Interest	Total Debt Service
2008	\$ 272,000	\$ 260,011	\$ 532,011
2009	278,000	253,894	531,894
2010	233,000	248,822	481,822
2011	284,000	236,203	520,203
2012	380,000	227,933	607,933
2013—2017	1,830,000	885,382	2,715,382
2018—2022	1,485,000	498,311	1,983,311
2023—2027	1,480,000	204,337	1,684,337
2028	335,000	1,186	336,186
	<u>\$ 6,577,000</u>	<u>\$ 2,816,079</u>	<u>\$ 9,393,079</u>

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS (Continued)

The City has entered into several secured note agreements with banks to provide financing for various vehicles, machinery, and equipment. The notes are payable in monthly installments; bear interest rates of 3.900% to 4.674%; and, mature at varying dates through 2010.

Debt service over the remaining term of the notes is summarized as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	\$ 58,523	\$ 4,741	\$ 63,264
2009	61,154	2,082	63,236
2010	13,381	113	13,494
	<u>\$ 133,058</u>	<u>\$ 6,936</u>	<u>\$ 139,994</u>

Discretely Presented Component Units

Electricity Department

The City of Tuscumbia Electric Revenue Warrants, Series 1997 were issued in the amount of \$2,055,000 with interest rates ranging from 4.50% to 5.20%. The net revenues of the system are irrevocably pledged for payment of the principal and interest of the warrants. Principal is payable annually on December 1. Interest is payable semi-annually on each June 1 and December 1.

All interest costs were expensed for the fiscal year.

Certain charges paid upon issuance of these warrants have been deferred and are being amortized over a 22-year period. At year-end, the unamortized deferred charges amounted to \$26,708.

Debt service over the remaining term of the warrants is summarized as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	\$ 90,000	\$ 70,805	\$ 160,805
2009	95,000	66,755	161,755
2010	100,000	62,385	162,385
2011	105,000	57,685	162,685
2012	110,000	52,645	162,645
2013—2017	635,000	177,395	812,395
2018—2019	305,000	23,770	328,770
	<u>\$ 1,440,000</u>	<u>\$ 511,440</u>	<u>\$ 1,951,440</u>

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 11—PENSION AND DEFERRED COMPENSATION PLANS

Primary Government

Pension Plan

Plan Description—The City contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement plan administered by the Retirement Systems of Alabama (RSA) that acts as a common investment and administrative agent for various state agencies, departments, and municipalities. Substantially all employees of the City are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final compensation (best three of the last ten years) for each year of service. Disability benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual earnable compensation for the fiscal year preceding death are provided to plan members.

The Employees' Retirement System of Alabama was established October 1, 1945, under the provisions of Act Number 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns, and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System of Alabama is vested in the Board of Control. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the City authority to accept or reject various Cost-of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy—Employees of the City are required to contribute 5% (6% for certified law enforcement officers, correctional officers, and firefighters) of their annual compensation. The City is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. The contribution requirements of the City are established by the Employees' Retirement System of Alabama based on annual actuarial valuations. The employer's contribution rate for the year ended September 30, 2007 was 10.89% based on the actuarial valuation performed as of September 30, 2005, as adjusted for COLAs granted to retirees.

Annual Pension Cost—For the year ended September 30, 2007, the City's annual pension contribution of \$237,772 was equal to their required and actual contribution. The required contribution was determined using the "entry age" actuarial cost method. The actuarial assumptions as of September 30, 2005 were: (a) an 8.00% investment rate of return, (b) projected salary increases ranging from 4.61% to 7.75%. Both (a) and (b) included an inflation component of 4.50%. The actuarial value of the assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over 14 years as a level percentage of projected payroll on an open basis.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 11—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2007	\$ 237,772	100%	\$ -
9/30/2006	239,547	100%	-
9/30/2005	209,980	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2006	\$ 5,055,127	\$ 6,725,029	\$ 1,669,902	75.2%	\$ 2,211,509	75.5%
9/30/2005	4,847,158	6,289,056	1,441,898	77.1%	2,133,855	67.6%
9/30/2004	4,658,767	5,849,552	1,190,786	79.6%	2,015,224	59.1%

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which is administered by RSA. The plan permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. As required by Federal regulations, these plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

The City has no fiduciary relationship with the trust. In accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the plan assets are not reported in the City's financial statements.

Discretely Presented Component Units

Pension Plan

The Utilities created the Tuscumbia Board of Public Utilities Employees Pension Plan in 1957 (PUEPP) for the purpose of providing retirement allowances and other specified benefits. The PUEPP provides pension benefits for all of its full-time employees through a defined benefit plan. In a defined benefit plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Participants are eligible to enter the PUEPP on July 1 each year, if they have completed six months of qualifying service and have attained the age of 21. Normal retirement age is 62. Vesting occurs at a rate of 10% per year. Participant's balances are vested 100% upon disability.

The Utilities' Departments contribute to the PUEPP, a governmental plan that was initially a target benefit plan, but was amended to a defined benefit plan on December 31, 1993. The PUEPP uses ING Life Insurance and Annuity Company to underwrite the funds of the PUEPP. There are two plans: one for union employees (Plan "A") and one for non-union employees (Plan "B").

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 11—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Substantially all employees are members of the PUEPP. Membership is mandatory for covered or eligible employees of the Utilities. Benefits vest after 10 years of qualified service. Employees may retire with full benefits at age 62 or the completion of 5 years of plan participation. Retirement benefits are calculated by taking an average of the highest three years wages times 50%. A pre-retirement death benefit is available equal to the amount of 100 times normal retirement benefits or the actuarial equivalent of the participant's accrued benefit at the date of death. When an employee retires, their benefits are disbursed to them and are no longer a part of the PUEPP assets.

The Plan issues a summary of the performance of the PUEPP and individual participant data to each plan participant annually prepared by Northeast Retirement Plan Consulting. At June 30, 2007, the number of active employees in the plan for all departments was 29.

A summary of the performance of the PUEPP as of June 30, 2005, the most recent year for which information is available, is as follows:

	<u>Plan "A"</u>	<u>Plan "B"</u>
Actuarial Value of Assets	\$ 780,503	\$ 541,148
Actuarial Value of Liabilities	\$ 1,661,010	\$ 1,203,841
Unfunded Actuarial Accrued Liability	\$ 880,507	\$ 662,693
Funded Actuarial Accrued Liability	46.99%	44.95%
Minimum Employer Contribution - 2004	\$ 228,364	\$ 109,585
Covered Payroll	\$ 978,025	\$ 607,240
Minimum Contribution as a % of Covered Payroll	23.35%	18.05%
Amortization Period in Years	29	29

For the 2007 fiscal year, each Department had made all minimum required contributions and there is no Net Pension Obligation as of year-end.

Deferred Compensation Plan

The Utilities offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. As required by Federal regulations, these plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

The Utilities have no fiduciary relationship with the trust. In accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the plan assets are not reported in the Utilities' financial statements.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 12—RELATED PARTY TRANSACTIONS

The Electricity and Natural Gas Departments are required to pay to the City a tax equivalent that is determined by applying the current property tax rate to their net plant in service at the end of the preceding fiscal year. The amount of tax equivalents paid to the City during the fiscal year was \$355,849 by the Electricity Department and \$83,879 by the Natural Gas Department. The Water and Sewer Department is required, through enabling legislation, to pay its *net revenues*, although the term was not defined in the enabling legislation, on a quarterly basis. The Water and Sewer Department paid \$140,000 during the fiscal year. These amounts are reported as payments in lieu of taxes in the financial statements of the City and as operating expenses by the Utilities.

Under the provisions of Act 2007-502 (HB961) passed by the Alabama Legislature on June 14, 2007, (a) the Electricity Department is required to disburse payments in lieu of taxes in accordance with the terms of the power contract between the Tennessee Valley Authority and the Department, which currently is based on 4.7% of the net plant in service at the end of the preceding fiscal year; (b) the Natural Gas Department is required to disburse payments in lieu of taxes based on 7.4% of the value of the plant in service at the end of the preceding fiscal year, but not to exceed 4.5% of gross sales of natural gas in the preceding fiscal year; and, (c) the Water and Sewer Department is required to disburse payments in lieu of taxes based on thirty-cents (\$0.30) per thousand gallons of gross sales of water in the preceding fiscal year.

The City made appropriations to the Tuscumbia City Board of Education for the fiscal year in the amount of \$602,364.

NOTE 13—RISK MANAGEMENT

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased commercial insurance for its buildings and contents, automobile liability, employee dishonesty, director's and officer's liability, and employee injury. The City pays an annual premium based on the amount of coverage. Settled claims from these risks have not exceeded the City's coverage for the last three fiscal years.

NOTE 14—CONTINGENCIES AND COMMITMENTS

Primary Government

The City is a party to various claims and legal proceedings. These matters are not likely to have a material adverse impact on the funds of the City. The outcome of these matters is uncertain as of the date of this report; however, the City has accrued \$7,500 in the General Fund for pending or threatened litigation for which an unfavorable outcome is considered probable.

The City has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could lead to request for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. City management believes that such disallowance, if any, will be immaterial.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Continued)

NOTE 14—CONTINGENCIES AND COMMITMENTS (Continued)

The Public Park Authority of the Shoals, a public corporation created pursuant to State law by the Cities of Florence, Muscle Shoals, Sheffield, and Tuscumbia and the Counties of Colbert and Lauderdale, issued Special Obligation Bonds in the amount of \$17,925,000. These Special Obligation Bonds are to be payable from a new two-cent per gallon gasoline tax levied in Colbert and Lauderdale Counties. While it is anticipated that such gasoline taxes will be sufficient to pay the principal of and interest on these bonds, the Cities of Florence, Muscle Shoals, Sheffield, and Tuscumbia and the Counties of Colbert and Lauderdale have agreed to pay a portion of the debt service on the bonds if the gasoline taxes are insufficient to make such payments. The City's portion of such debt issued by The Public Park Authority of the Shoals is 5.4956%. During the current fiscal year, the City has not been required to remit any amounts for this debt service.

Discretely Presented Component Units

Electricity Department

Effective March 8, 1987, the Department entered into a 20-year contract with TVA to purchase all of its electric power. The contract is subject to automatic extension of one year beyond the original termination date commencing on March 8, 1997. The contract is subject to termination by either party, on not less than 10 years prior written notice. The contract has been amended several times since its inception. The contract requires that the City operate its electric system as a separate department and shall not lend, pledge, or divert electric revenues to other operations of the City.

The City has also agreed to use gross revenues from electric operations for the following purposes: (1) pay current operating expenses; (2) pay current interest, principal, and sinking fund payments when due; (3) provide for renewals, replacements, contingencies, and cash working capital adequate to cover operating expenses for a reasonable number of weeks; (4) from any revenues then remaining pay tax equivalents into the City's general fund; and, (5) all remaining revenues shall be considered surplus and may be used for new system construction or early retirement of system indebtedness.

Natural Gas Department

The Gas System has entered into purchase contracts with vendors to establish the purchase price for natural gas. The contracts allow the Department to lock in certain volumes of gas to be purchased and prices for that gas. At September 30, 2007, the Department has no commitments to purchase for the upcoming fiscal year.

Water and Sewer Department

Beginning in September 2002, the Department requested that a rate structure increase be approved by the City Council. In September 2002, the Council granted a \$4.00 per month increase - from \$15 to \$19. A cost of service study prepared by an independent engineering consultant suggested that rates need to be increased to \$26 per month to cover current operating expenses and to accumulate the funds necessary for the matching requirement of a \$1,000,000 EPA grant to upgrade or construct a new water treatment facility, which has been strongly recommended by the Alabama Department of Environmental Management. Without the rate structure increase to provide funding for the improvements to or replacement of the water treatment facility, there are uncertainties about its operations permit.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TUSCUMBIA, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 583,917	\$ 583,917	\$ 583,917	\$ —
Resources (inflows):				
Taxes:				
Sales, use, and lodging	\$ 2,325,000	\$ 2,325,000	\$ 2,470,778	\$ 145,778
Property	1,740,000	1,740,000	1,905,750	165,750
Motor fuel	160,500	160,500	221,286	60,786
Tobacco	60,000	60,000	57,159	(2,841)
Alcoholic beverages	75,000	75,000	70,147	(4,853)
Other	93,000	93,000	145,809	52,809
Total taxes	\$ 4,453,500	\$ 4,453,500	\$ 4,870,929	\$ 417,429
Licenses and permits:				
Business	\$ 260,000	\$ 260,000	\$ 251,258	\$ (8,742)
Non-business	82,650	82,650	71,085	(11,565)
Total licenses and permits	\$ 342,650	\$ 342,650	\$ 322,343	\$ (20,307)
Fines and forfeitures	\$ 167,500	\$ 167,500	\$ 208,292	\$ 40,792
Charges for services:				
Cultural and recreational	\$ 271,509	\$ 271,509	\$ 296,866	\$ 25,357
Solid waste disposal	875,000	875,000	881,214	6,214
Cemetery lot sales	10,000	10,000	4,610	(5,390)
Other	33,500	33,500	33,064	(436)
Total charges for services	\$ 1,190,009	\$ 1,190,009	\$ 1,215,754	\$ 25,745
Intergovernmental	\$ 253,796	\$ 253,796	\$ 126,152	\$ (127,644)
Other:				
Interest	\$ 2,000	\$ 2,000	\$ 4,355	\$ 2,355
Other	18,768	18,768	33,617	14,849
Total other	\$ 20,768	\$ 20,768	\$ 37,972	\$ 17,204
Transfers from other funds	\$ 28,344	\$ 28,344	\$ 78,474	\$ 50,130
Amounts available for appropriation	\$ 7,040,484	\$ 7,040,484	\$ 7,443,833	\$ 403,349
Charges to appropriations (outflows):				
Current operating:				
General administration:				
Mayor	\$ 14,850	\$ 14,850	\$ 12,030	\$ (2,820)
Accounting	90,909	90,909	83,996	(6,913)
City council	26,000	26,000	24,171	(1,829)
Code enforcement	49,926	49,926	52,627	2,701
Legal	30,500	30,500	41,499	10,999
City clerk	146,815	146,815	143,802	(3,013)
General government	52,400	52,400	69,829	17,429
Insurance-general	126,950	126,950	128,768	1,818
Employee benefits (unallocated)	868,283	868,283	778,035	(90,248)
Total general administration	\$ 1,406,633	\$ 1,406,633	\$ 1,334,757	\$ (71,876)

CITY OF TUSCUMBIA, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget—</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note A)</u>	
Public safety:				
Police	\$ 877,186	\$ 877,186	\$ 970,427	\$ 93,241
Municipal court	73,912	73,912	73,132	(780)
Fire	485,213	485,213	549,188	63,975
Total public safety	<u>\$ 1,436,311</u>	<u>\$ 1,436,311</u>	<u>\$ 1,592,747</u>	<u>\$ 156,436</u>
Public works:				
Streets	\$ 373,004	\$ 373,004	\$ 332,427	\$ (40,577)
Municipal lighting and utilities	175,000	175,000	184,160	9,160
Cemetery	81,997	81,997	58,061	(23,936)
Maintenance	66,964	66,964	65,385	(1,579)
Sanitation	720,595	720,595	672,132	(48,463)
Total public works	<u>\$ 1,417,560</u>	<u>\$ 1,417,560</u>	<u>\$ 1,312,165</u>	<u>\$ (105,395)</u>
Culture and recreation:				
Parks and recreation	\$ 492,964	\$ 492,964	\$ 533,922	\$ 40,958
Golf course	112,618	112,618	128,307	15,689
Library	116,890	116,890	119,550	2,660
Senior citizens center	14,045	14,045	13,628	(417)
Total culture and recreation	<u>\$ 736,517</u>	<u>\$ 736,517</u>	<u>\$ 795,407</u>	<u>\$ 58,890</u>
Nondepartmental:				
Appropriations	\$ 101,518	\$ 101,518	\$ 101,309	\$ (209)
Education—funding for school district	547,625	547,625	602,364	54,739
Transfers to other funds	716,639	783,903	786,038	2,135
Debt service-principal payments	77,264	10,000	55,930	45,930
Debt service-interest and fiscal charges	16,500	16,500	12,537	(3,963)
Total nondepartmental	<u>\$ 1,459,546</u>	<u>\$ 1,459,546</u>	<u>\$ 1,558,178</u>	<u>\$ 98,632</u>
Total charges to appropriations	<u>\$ 6,456,567</u>	<u>\$ 6,456,567</u>	<u>\$ 6,593,254</u>	<u>\$ 136,687</u>
Budgetary fund balance—ending	<u>\$ 583,917</u>	<u>\$ 583,917</u>	<u>\$ 850,579</u>	<u>\$ 266,662</u>

**CITY OF TUSCUMBIA, ALABAMA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 7,443,833
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(583,917)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(78,474)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 6,781,442</u></u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 6,593,254
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(786,038)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 5,807,216</u></u>

SUPPLEMENTARY INFORMATION

**CITY OF TUSCUMBIA, ALABAMA
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

	Special Revenue Funds				Debt Service		
	State Gas Tax (\$.07)	State Gas Tax (\$.04)	Special Funds	Special Corrections	Total	Series 1998 G. O. Warrants	Rural Development (USDA)
ASSETS							
Cash and cash equivalents	\$ 169,715	\$ 113,976	\$ 61,267	\$ 26,052	\$ 371,010	\$ 179,001	\$ 208
Restricted cash and investments					—	53,422	14,400
Total assets	<u>\$ 169,715</u>	<u>\$ 113,976</u>	<u>\$ 61,267</u>	<u>\$ 26,052</u>	<u>\$ 371,010</u>	<u>\$ 232,423</u>	<u>\$ 14,608</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable and accrued expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Fund balances							
Unreserved, reported in:							
Special revenue funds	\$ 169,715	\$ 113,976	\$ 61,267	\$ 26,052	\$ 371,010	\$ —	\$ —
Debt service funds					—	232,423	14,608
Capital project funds					—		
Total fund balances	<u>\$ 169,715</u>	<u>\$ 113,976</u>	<u>\$ 61,267</u>	<u>\$ 26,052</u>	<u>\$ 371,010</u>	<u>\$ 232,423</u>	<u>\$ 14,608</u>
Total liabilities and fund balance	<u>\$ 169,715</u>	<u>\$ 113,976</u>	<u>\$ 61,267</u>	<u>\$ 26,052</u>	<u>\$ 371,010</u>	<u>\$ 232,423</u>	<u>\$ 14,608</u>

**CITY OF TUSCUMBIA, ALABAMA
 COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2007
 (Continued)**

	Capital Projects Funds					Total Other Governmental Funds
	Funds Total	Municipal Capital Improvements	1998 Capital Improvements	Other Capital Projects	Total	
ASSETS						
Cash and cash equivalents	\$ 179,209	\$ 226,725	\$ 198,169	\$ 155,503	\$ 580,397	\$ 1,130,616
Restricted cash and investments	67,822				—	67,822
Total assets	<u>\$ 247,031</u>	<u>\$ 226,725</u>	<u>\$ 198,169</u>	<u>\$ 155,503</u>	<u>\$ 580,397</u>	<u>\$ 1,198,438</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Fund balances						
Unreserved, reported in:						
Special revenue funds	\$ —				\$ —	\$ 371,010
Debt service funds	247,031				—	247,031
Capital project funds	—	226,725	198,169	155,503	580,397	580,397
Total fund balances	<u>\$ 247,031</u>	<u>\$ 226,725</u>	<u>\$ 198,169</u>	<u>\$ 155,503</u>	<u>\$ 580,397</u>	<u>\$ 1,198,438</u>
Total liabilities and fund balance	<u>\$ 247,031</u>	<u>\$ 226,725</u>	<u>\$ 198,169</u>	<u>\$ 155,503</u>	<u>\$ 580,397</u>	<u>\$ 1,198,438</u>

CITY OF TUSCUMBIA, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Special Revenue Funds				Debt Service		
	State Gas Tax (\$.07)	State Gas Tax (\$.04)	Special Funds	Special Corrections	Total	Series 1998 G. O. Warrants	Rural Development (USDA)
REVENUES							
Taxes	\$ 36,457	\$ 28,587	\$	\$	\$ 65,044	\$	\$
Fines and forfeitures				43,618	43,618		
Intergovernmental					—		
Interest revenues	557	349	790	92	1,788	1,802	
Other					—	15,745	
Total revenues	\$ 37,014	\$ 28,936	\$ 790	\$ 43,710	\$ 110,450	\$ 17,547	\$ —
EXPENDITURES							
Current operating:							
General administration	\$	\$	\$	\$	—	\$	\$
Public safety					—		
Public works	6,978				6,978		
Capital outlay and improvements					—		
Debt service:							
Principal payments					—		11,000
Interest and fiscal charges					—	125,940	3,228
Total expenditures	\$ 6,978	\$ —	\$ —	\$ —	\$ 6,978	\$ 125,940	\$ 14,228
Excess (deficiency) of revenues over expenditures	\$ 30,036	\$ 28,936	\$ 790	\$ 43,710	\$ 103,472	\$ (108,393)	\$ (14,228)
OTHER FINANCING SOURCES (USES)							
Transfers in	\$	\$	\$ 50,000	\$	\$ 50,000	\$ 233,000	\$ 14,400
Transfers out				(29,528)	(29,528)		
Total other financing sources (uses)	\$ —	\$ —	\$ 50,000	\$ (29,528)	\$ 20,472	\$ 233,000	\$ 14,400
Net change in fund balances	\$ 30,036	\$ 28,936	\$ 50,790	\$ 14,182	\$ 123,944	\$ 124,607	\$ 172
Fund balances—beginning	139,679	85,040	10,477	11,870	247,066	107,816	14,436
Fund balances—ending	\$ 169,715	\$ 113,976	\$ 61,267	\$ 26,052	\$ 371,010	\$ 232,423	\$ 14,608

CITY OF TUSCUMBIA, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(Continued)

	Funds		Capital Projects Funds			Total Other Governmental Funds
	Total	Municipal Capital Improvements	1998 Capital Improvements	Other Capital Projects	Total	
REVENUES						
Taxes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 65,044
Fines and forfeitures	—	—	—	—	—	43,618
Intergovernmental	—	55,540	296,339	4,360	356,239	356,239
Interest revenues	1,802	—	11,269	5,503	16,772	20,362
Other	15,745	—	13,613	—	13,613	29,358
Total revenues	\$ 17,547	\$ 55,540	\$ 321,221	\$ 9,863	\$ 386,624	\$ 514,621
EXPENDITURES						
Current operating:						
General administration	\$ —	\$ —	\$ 20	\$ —	\$ 20	\$ 20
Public safety	—	—	32,047	—	32,047	32,047
Public works	—	—	10,000	—	10,000	16,978
Capital outlay and improvements	—	—	409,889	4,360	414,249	414,249
Debt service:						
Principal payments	11,000	—	—	—	—	11,000
Interest and fiscal charges	129,168	—	—	—	—	129,168
Total expenditures	\$ 140,168	\$ —	\$ 451,956	\$ 4,360	\$ 456,316	\$ 603,462
Excess (deficiency) of revenues over expenditures	\$ (122,621)	\$ 55,540	\$ (130,735)	\$ 5,503	\$ (69,692)	\$ (88,841)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 247,400	\$ —	\$ —	\$ 150,000	\$ 150,000	\$ 447,400
Transfers out	—	—	(169)	—	(169)	(29,697)
Total other financing sources (uses)	\$ 247,400	\$ —	\$ (169)	\$ 150,000	\$ 149,831	\$ 417,703
Net change in fund balances	\$ 124,779	\$ 55,540	\$ (130,904)	\$ 155,503	\$ 80,139	\$ 328,862
Fund balances—beginning	122,252	171,185	329,073	—	500,258	869,576
Fund balances—ending	\$ 247,031	\$ 226,725	\$ 198,169	\$ 155,503	\$ 580,397	\$ 1,198,438