

ANNUAL FINANCIAL REPORT



CITY OF GADSDEN, ALABAMA

For the Year Ended September 30, 2006

Prepared by:

**Finance Department
Lisa Rosser, Finance Director**

BKR Borland Benefield



INTRODUCTORY SECTION

PRINCIPAL CITY OFFICIALS

ORGANIZATIONAL CHART



CITY OF GADSDEN, ALABAMA
PRINCIPAL CITY OFFICIALS

September 30, 2006

MAYOR

Sherman Guyton

CITY COUNCIL

Walt Higgins, District 1

J. R. Countryman, District 2

Robert Avery, District 3

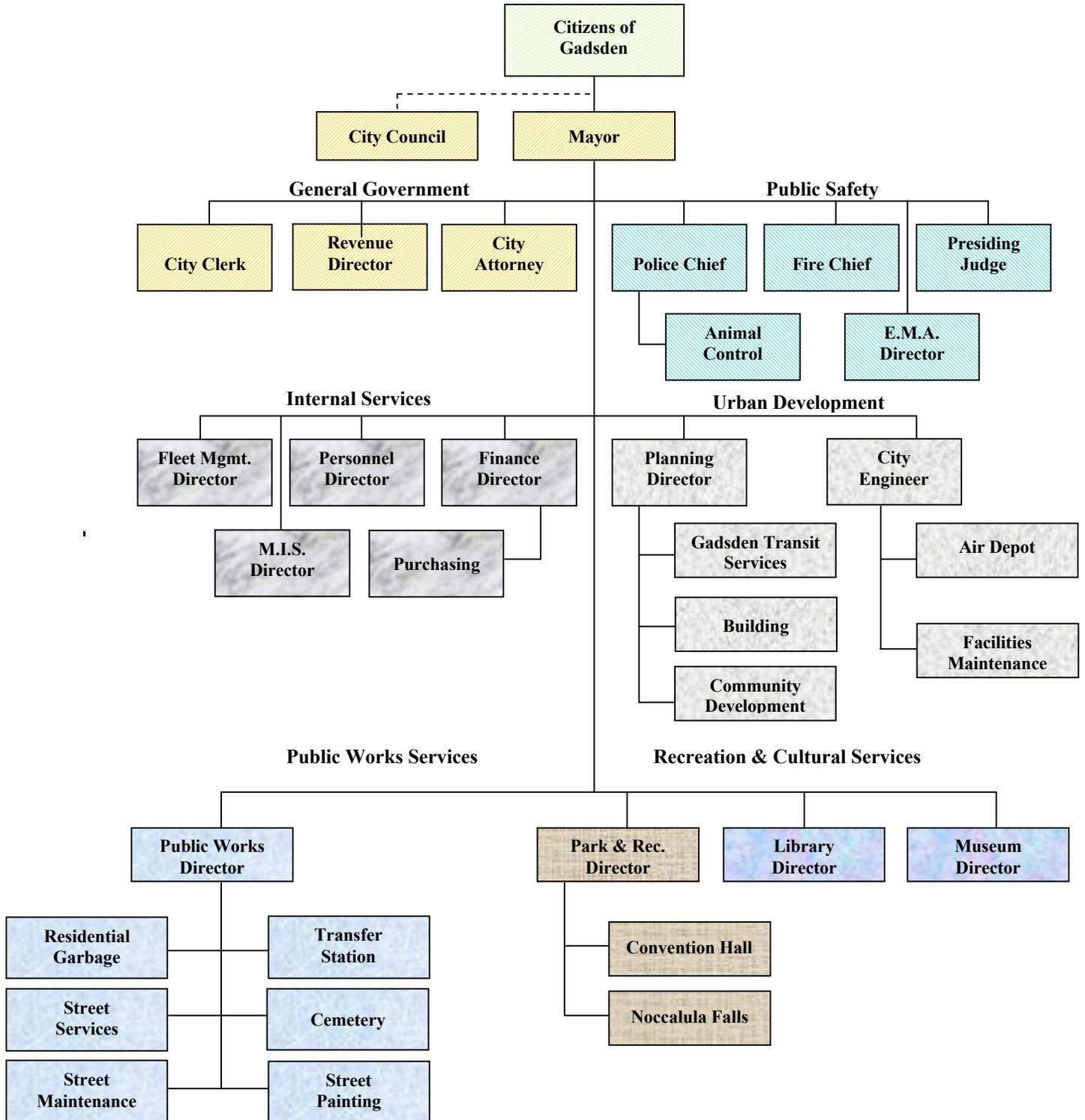
Robert Echols, District 4 (President)

Bill C. Stewart, District 5

Johnny Cannon, District 6 (President Pro Tem)

Ben Reed, District 7

Organization Chart



CITY OF GADSDEN, ALABAMA
Annual Financial Report
For the Year Ended September 30, 2006

TABLE OF CONTENTS

Introductory Section

Principal City Officials
Organizational Chart

Financial Section

Independent Auditors' Report 1-2
Management's Discussion and Analysis 3-11

Basic Financial Statements

Government-Wide Financial Statements
Statement of Net Assets 12-13
Statement of Activities 14

Fund Financial Statements
Balance Sheet - Governmental Funds 15
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds 16
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities 17
Statement of Net Assets - Proprietary Funds 18
Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds 19
Statement of Cash Flows - Proprietary Funds 20-21

Notes to Financial Statements 22-52

Required Supplementary Information

General Fund
Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual 53

School Ad Valorem Tax Fund
Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual 54

Schedule of Pension Plan Funding Progress 55

Combining and Individual Fund Statements And Schedules

Nonmajor Governmental Funds
Combining Balance Sheet 56-59
Combining Statement of Revenue, Expenditures and Changes in Fund Balances 60-63

Statistical Section	64
Schedule 1 – Net Assets by Component	65
Schedule 2 – Changes in Net Assets	66-67
Schedule 3 – Fund Balance, Governmental Funds	68
Schedule 4 – Changes in Fund Balance, Governmental Funds	69-70
Schedule 5 – Assessed Value and Estimated Actual Value of Taxable Property	71
Schedule 5A – Taxable Sales by Category	72
Schedule 6 – Direct and Overlapping Property Tax Rates	73
Schedule 7 – Principal Property Tax Payers	74
Schedule 8 – Property Tax Levies and Collections	75
Schedule 9 – Ratios of Outstanding Debt by Type	76
Schedule 10 – Ratios of General Bonded Debt Outstanding	77
Schedule 11 – Direct and Overlapping Governmental Activities Debt	78
Schedule 12 – Legal Debt Margin Information	79
Schedule 13 – Demographic and Economic Statistics	80
Schedule 14 – Principal Employees	81
Schedule 15 – Full-Time Equivalent City Government Employees by Function/Program	82
Schedule 16 – City of Statistical Operating Indicators by Function/Program	83
Schedule 17 – City of Statistical Capital Asset Statistics by Function/Program	84

Single Audit Section

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	85
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	86-87
Schedule of Expenditures of Federal and State Awards	88-89
Notes to the Schedule of Expenditures of Federal and State Awards	90
Schedule of Findings and Questioned Costs	91
Summary of Prior Year Audit Findings	92

Independent Auditors' Report

To the City Council
City of Gadsden, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gadsden, Alabama (the "City"), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Gadsden City Board of Education, or the Gadsden Airport Authority, which represent all of the assets and revenue of the component unit columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gadsden City Board of Education and the Gadsden Airport Authority, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gadsden, Alabama, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, 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, budget to actual comparison - major funds, and schedule of pension plan funding progress are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as the combining and individual fund statements and schedules and the statistical section in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual fund statements and schedules and schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKR Borland Benefield
Birmingham, Alabama
February 8, 2007

City of Gadsden, Alabama
Management's Discussion and Analysis
September 30, 2006

As management of the City of Gadsden, Alabama (the City), we present this narrative overview and analysis designed to assist readers of the City's financial statements for the fiscal year ended September 30, 2006. Our discussion and analysis focuses on significant financial issues, provides an overview of the City's financial activity, identifies changes in the City's financial position, identifies any material deviations from the financial plan (the approved budget), and identifies individual fund issues or concerns.

Financial Highlights

- The assets of the City of Gadsden exceed its liabilities at the close of the fiscal year ended September 30, 2006, by \$11,304,316 (*net assets*). The portion of net assets that may be used to meet the City's ongoing obligations to citizens and creditors (*unrestricted net assets*) reflects a deficit of \$34,029,707. A significant portion of this deficit (over \$8,000,000) will be erased when the City completes its retroactive accounting for infrastructure assets in accordance with GASB 34. The remaining deficit is primarily the result of outstanding debt for schools and economic development, estimates for accrued leave, and claims and judgments that the City finances on a pay-as-you-go basis.
- The City's total net assets increased by \$4,112,879 in fiscal 2006. The main factor that influenced this increase was retroactively capitalized infrastructure assets, various municipal improvements and increased tax revenue from annual property reappraisals.
- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$21,021,647, a decrease of \$3,164,442 from the prior year. Of this amount, \$8,657,933 or approximately 41% of total fund balances are available for spending at the City's discretion (*unreserved fund balances*).
- At the end of the current fiscal year, the unreserved fund balance of the General Fund (the City's primary operating fund) was \$4,605,788 or approximately 11% of total General Fund expenditures.
- The City's net long-term liabilities increased by \$3,517,882 or 5%, primarily resulting from \$2,400,000 in HUD Section 108 Loan financing for the rehabilitation of Tuscaloosa Avenue, construction of the Family Success Center and East Broad Street Park. In addition, the City borrowed \$3,000,000 to aid in the construction of new athletic facilities at Gadsden City High School, and entered into capital lease agreements of over \$1,500,000 to update its vehicle fleet inventory.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of 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 an overview of the City's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. This statement combines governmental funds' current financial resources with capital assets and long-term obligations. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information focused on functions, and shows how the City's net assets changed during the most recent fiscal year. This is intended to summarize and simplify the user's analysis of revenue and expenses of various governmental services and/or subsidies to various business-type activities. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused employee leave).

Both of the government-wide financial statements distinguish functions of the City of Gadsden that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to typically recover all or a significant portion of the cost of operation, including depreciation, through user fees and charges for services (*business-type activities*). The governmental activities of the City of Gadsden include general government, public safety, public works, urban development, recreation and cultural services, internal services, and non-departmental. The business-type activities of the City of Gadsden reflect private sector type operations and include air depot operations, garbage services, and the City's golf course.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the activities of its *component units*, the Gadsden Board of Education, and the Gadsden Airport Authority. A component unit is a legally separate organization over which the City can exercise influence and/or may be obligated to provide financial subsidies. The focus of the statements is clearly on the primary government and the presentation allows the readers to address the City's relative relationship with the component units. The Board of Education and the Airport Authority issue complete financial statements, which may be obtained by contacting the entities directly.

Fund Financial Statements

Traditional users of governmental financial statements will find the *Fund Financial Statements* presentation more familiar. The focus is on the City's major funds rather than the City as a whole. 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 of Gadsden, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental, proprietary, and fiduciary are the three categories of fund types.

Governmental Funds:

The City of Gadsden maintains three individual *major governmental funds*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, the school ad valorem tax fund, and the capital improvements fund. Data from other governmental funds are combined into a single, *non-major governmental funds* aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

For management control of expenditures, the City of Gadsden adopts an annual appropriated budget for all funds with the exception of the golf course enterprise fund. A budgetary comparison statement has been provided as required supplementary information for the City's major governmental funds to demonstrate compliance with their budgets.

Proprietary Funds:

The City of Gadsden maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Gadsden uses enterprise funds to provide for separate information for the Air Depot, Residential Garbage, and Golf Course activities, each of which is considered a major fund of the City. An *Internal service fund* is used to accumulate and allocate costs of workers' compensation and employee health care internally among the City's various functions. Because the internal service fund primarily benefits governmental rather than business-type activities, it has been included within governmental activities in the government-wide financial statements.

Notes to the Financial Statements:

The notes to the financial statements provided in this report convey additional essential information that will magnify the readers’ understanding of the data in the government-wide and fund financial statements.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons and the City’s progress in funding its obligations to provide pension benefits to its employees.

The combining and individual fund statements and schedules are presented immediately following the required supplementary information, and the other supplementary information section and single audit section represent the last two sections of this annual report.

Government-wide Financial Analysis

**Condensed Statements of Net Assets
As of September 30, 2006 and 2005**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 38,870,560	\$ 40,839,154	\$ 1,423,345	\$ 1,610,747	\$ 40,293,905	\$ 42,449,901
Capital assets, net of accumulated depreciation	47,495,509	37,484,363	12,357,503	12,965,096	59,853,012	50,449,459
Total Assets	86,366,069	78,323,517	13,780,848	14,575,843	100,146,917	92,899,360
Current and other liabilities	16,798,448	17,144,448	1,971,476	2,029,223	18,769,924	19,173,671
Long-term liabilities, net of current portion	67,427,633	63,836,889	2,645,044	2,682,093	70,072,677	66,518,982
Total Liabilities	84,226,081	80,981,337	4,616,520	4,711,316	88,842,601	85,692,653
Net Assets						
Invested in capital assets, net of related debt	29,245,427	22,970,696	10,697,504	11,145,096	39,942,931	34,115,792
Restricted	5,391,092	6,615,970	-	-	5,391,092	6,615,970
Unrestricted	(32,496,531)	(32,244,486)	(1,533,176)	(1,295,839)	(34,029,707)	(33,540,325)
Total Net Assets	\$ 2,139,988	\$ (2,657,820)	\$ 9,164,328	\$ 9,849,257	\$ 11,304,316	\$ 7,191,437

The largest portion of the City’s net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City’s net assets represents resources that are subject to external restrictions on how they are used.

The remaining unrestricted net assets reflect a deficit of \$34,029,707. This deficit is primarily the result of the following:

- Proceeds of the 2003-B general obligation warrants totaling approximately \$29,560,000 were transferred to the Board of Education during the current year. While the outstanding balance of this debt is reflected in the government-wide financial statements, the Board of Education is only expected to repay the City for a portion of the debt service payments.

- The City entered into a funding agreement with the Gadsden Airport Authority during the fiscal year ended September 30, 2004. The City's obligation under the funding agreement is shown as a liability in the financial statements, and is only partly offset by a receivable from the Airport Authority.
- Proceeds of the 2002-A, 2002-B, and 1999 general obligation warrants totaling approximately \$9,200,000 were spent on infrastructure in prior years. While the outstanding balance of this debt is reflected in the government-wide financial statements, the entire cost of the related infrastructure assets will not be reflected in the financial statements until the City's fiscal year ending September 30, 2007. The City elected to begin retroactive reporting of infrastructure assets in fiscal 2006. During the year ended September 30, 2006, the City retroactively capitalized bridge infrastructure assets of \$662,085, net of accumulated depreciation of \$856,838. This retroactive reporting is accounted for as a prior period adjustment.
- Proceeds of the Honda Project Special Obligation Bonds totaling \$2,000,000 were spent in prior years for economic development purposes. While the outstanding balance of this debt is reflected in the government-wide financial statements, the City did not acquire any assets in this transaction.
- An estimate for accrued leave owed to employees totaling approximately \$1,962,263 and an estimate for workers' compensation and other claims and judgments payable totaling approximately \$1,773,533 are reflected in the government-wide financial statements. Rather than accumulating assets to liquidate these liabilities, the City funds them on a pay-as-you-go basis.

The deficit balance in unrestricted net assets of governmental activities is also affected by the fact that previous years' borrowings aided in the acquisition of various assets of the City's business-type activities, while the related debt is expected to be repaid from governmental activities and is reported as such.

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**Condensed Statements of Activities
For the Years Ended September 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenue						
Program Revenue						
Charges for services	\$ 1,941,530	\$ 1,882,188	\$ 3,689,233	\$ 3,631,970	\$ 5,630,763	\$ 5,514,158
Operating grants and contributions	5,290,148	3,533,926	-	-	5,290,148	3,533,926
Cap grants and contributions	348,062	900,190	-	-	348,062	900,190
General Revenue						
Taxes	44,692,566	40,703,337	-	-	44,692,566	40,703,337
Licenses and permits	5,545,800	5,331,322	-	-	5,545,800	5,331,322
Unrestricted grants	383,462	331,378	-	-	383,462	331,378
Investment earnings	1,424,454	1,191,395	43,857	42,639	1,468,311	1,234,034
Gain on disposal of assets	180,923	150,831	40,909	37,573	221,832	188,404
Other general revenue	551,007	1,183,956	-	-	551,007	1,183,956
Total Revenue	<u>60,357,952</u>	<u>55,208,523</u>	<u>3,773,999</u>	<u>3,712,182</u>	<u>64,131,951</u>	<u>58,920,705</u>
Expenses						
Governmental Activities						
General government	2,075,680	2,063,187	-	-	2,075,680	2,063,187
Internal services	2,437,636	2,717,199	-	-	2,437,636	2,717,199
Public safety	18,396,207	19,027,985	-	-	18,396,207	19,027,985
Recreation and cultural services	7,511,637	7,457,546	-	-	7,511,637	7,457,546
Public works	5,261,618	5,184,522	-	-	5,261,618	5,184,522
Urban development	8,508,433	5,740,247	-	-	8,508,433	5,740,247
Non-departmental	3,648,053	5,516,929	-	-	3,648,053	5,516,929
Interest on long-term debt	3,469,296	3,669,744	-	-	3,469,296	3,669,744
Business-type Activities						
Airport-Air depot	-	-	685,740	541,857	685,740	541,857
Garbage	-	-	3,016,560	2,956,249	3,016,560	2,956,249
Golf course	-	-	1,399,203	1,491,348	1,399,203	1,491,348
Total Expenses	<u>51,308,560</u>	<u>51,377,359</u>	<u>5,101,503</u>	<u>4,989,454</u>	<u>56,410,063</u>	<u>56,366,813</u>
Change in Net Assets Before Transfers and Special Items	9,049,392	3,831,164	(1,327,504)	(1,277,272)	7,721,888	2,553,892
Transfers	(642,575)	(536,108)	642,575	536,108	-	-
Special items	(4,271,094)	(492,608)	-	-	(4,271,094)	(492,608)
Change in Net Assets	<u>\$ 4,135,723</u>	<u>\$ 2,802,448</u>	<u>\$ (684,929)</u>	<u>\$ (741,164)</u>	<u>\$ 3,450,794</u>	<u>\$ 2,061,284</u>

Governmental Activities - Governmental activities increased the City's net assets by \$4,135,723. Key elements of this increase are as follows:

- Program revenue and general revenue of governmental activities (excluding the internal service fund) exceeded expenses by more than \$9,049,392.
- Property tax revenue increased 30% due to increased appraisal values
- Sales and use tax revenue increased 8% due to the improved local economy
- Occupational tax revenue increased 4% due largely to new industry located at the Airport Industrial Park
- Investment earnings increased 20% due to an improved interest rate environment

Business-Type Activities - Business-Type activities decreased the City's net assets by \$684,929. Key elements of this decrease are as follows:

- An operating loss in the Residential Garbage enterprise fund in excess of \$760,000
- An operating loss in the Golf Course enterprise fund in excess of \$600,000
- Operating income in the Airport Fund of over \$13,000
- Net operating transfers from governmental activities in excess of \$642,000

Fund Financial Analysis

Governmental Funds

The *General Fund* is the chief operating fund of the City. The total fund balance of the general fund decreased by \$999,642 in 2006 to \$6,070,484. At the end of the current fiscal year, the *unreserved fund balance* was \$4,560,788, a decrease of \$1,246,274. The City designates a portion of the unreserved fund balance for specific purposes. The balance designated at year end was \$568,901. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. This is very 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. Unreserved, undesignated fund balance represents 11% of total general fund expenditures, while total fund balance represents 15% of the total general fund expenditures.

General Fund Fund Balances As of September 30, 2006 and 2005

	Fund Balance		Increase
	2006	2005	(Decrease)
Reserved	\$ 1,509,696	\$ 1,263,064	\$ 246,632
Unreserved, Designated	568,901	1,340,806	(771,905)
Unreserved, Undesignated	<u>3,991,887</u>	<u>4,466,256</u>	<u>(474,369)</u>
Total Fund Balance	<u>\$ 6,070,484</u>	<u>\$ 7,070,126</u>	<u>\$ (999,642)</u>

There are several factors for the unreserved, undesignated fund balance of the City's general fund decreasing by \$474,369, and the total fund balance decreasing by \$999,642 during the current fiscal year. While revenue increased and expenses were well-controlled and within budget, the City took the following actions: repaid \$500,000 of a \$1,000,000 note payable incurred in the prior year, increased operating transfer amounts to other funds by over \$1,100,000 and appropriated \$1,045,734 to the Gadsden Airport Authority. Of the amount paid to the Airport Authority, over \$777,000 was to fulfill contractual agreements under the Cameron Development Project and approximately \$268,000 was to purchase land eventually deeded to a private company as a part of industrial development.

Enterprise Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. The combined net assets of the enterprise funds were \$9,164,328, a decrease of \$684,929. The decrease includes non-cash depreciation expenses of approximately \$699,789. The following table compares enterprise funds' net assets with the previous year.

**Enterprise Funds
Net Assets
As of September 30, 2006 and 2005**

	Net Assets		Increase
	2006	2005	(Decrease)
Airport	\$ 1,228,454	\$ 1,266,759	\$ (38,305)
Garbage	37,685	333,585	(295,900)
Golf course	<u>7,856,327</u>	<u>8,264,183</u>	<u>(407,856)</u>
Total Net Assets	<u>\$ 9,122,466</u>	<u>\$ 9,864,527</u>	<u>\$ (742,061)</u>

Internal Service Fund

As previously mentioned, the City utilizes an internal service fund to accumulate and allocate the costs of workers' compensation and employee health care internally among the City's various functions. At the end of the current fiscal year, the net assets of the internal service fund were \$1,566,371, an increase of \$959,108. The primary cause of this increase was due to a surplus of revenue over expenditures in anticipation of future claims.

**Internal Service Fund
Net Assets
As of September 30, 2006 and 2005**

	Net Assets		Increase
	2006	2005	(Decrease)
Invested in capital assets	\$ 1,236	\$ 1,955	\$ (719)
Unrestricted	<u>1,565,135</u>	<u>605,308</u>	<u>959,827</u>
Total Net Assets	<u>\$ 1,566,371</u>	<u>\$ 607,263</u>	<u>\$ 959,108</u>

Budgetary Highlights

Differences between the general fund original budget and the final amended budget totaled \$4,553,038. The majority of the budget amendments involved the appropriation of designated as well as undesignated funds for specific needs during the fiscal year. Those needs include:

- \$ 1,118,170 for site prep – Rigid Building Systems
- \$ 350,000 for site prep – Narmco Phase II
- \$ 350,000 for Soccer and Track Complex at GCHS
- \$ 50,000 for loft development
- \$ 500,000 for principal payment on short-term loan
- \$ 777,333 for Cameron Development
- \$ 40,400 for FMV – Rigid Building Systems
- \$ 30,000 for Barrie Center
- \$ 50,000 for Green Pastures Ball Field
- \$ 60,000 for demolition
- \$ 106,848 for four sirens located within the City limits
- \$ 351,467 for equipment lease payments

**General Fund Budget
For the Year Ended September 30, 2006**

	Original <u>Budget</u>	Final <u>Budget</u>	Actual <u>Amounts</u>	Variance From Final <u>Budget</u>
Revenue	\$ 41,577,576	\$ 41,607,326	\$ 43,292,644	\$ 1,685,318
Expenditures	40,401,997	43,674,983	41,416,220	2,258,763
Other sources (uses)	(1,175,579)	(1,439,648)	(1,830,332)	(390,684)
Special items	-	1,045,733	1,045,734	(1)
	<u>\$ -</u>	<u>\$ (4,553,038)</u>	<u>\$ (999,642)</u>	<u>\$ (3,553,396)</u>

The variances from the final budget were primarily the result of actual revenue results exceeding budgeted amounts and projected expenditures substantially exceeding actual totals. Additionally, the actual results for other financing sources and uses exceeded budget projections, which resulted in a negative variance of \$390,684. All of this resulted in an overall positive variance of approximately \$3,553,396.

Capital Asset and Debt Administration

**Capital Assets
As of September 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 7,238,980	\$ 7,187,383	\$ 2,976,164	\$ 2,976,912	\$ 10,215,144	\$ 10,164,295
Buildings	6,551,369	6,798,364	5,214,059	3,871,972	11,765,428	10,670,336
Improvements other than buildings	1,814,792	826,952	3,716,701	5,487,052	5,531,493	6,314,004
Equipment	6,282,616	5,296,801	450,579	629,160	6,733,195	5,925,961
Infrastructure	11,720,156	10,076,280	-	-	11,720,156	10,076,280
Construction in progress	<u>13,887,596</u>	<u>7,298,583</u>	<u>-</u>	<u>-</u>	<u>13,887,596</u>	<u>7,298,583</u>
Net Total Capital Assets	<u>\$ 47,495,509</u>	<u>\$ 37,484,363</u>	<u>\$ 12,357,503</u>	<u>\$ 12,965,096</u>	<u>\$ 59,853,012</u>	<u>\$ 50,449,459</u>

This investment in capital assets includes land, buildings, improvements other than buildings, system improvements (drainage and streets) machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was \$9,710,653 (an increase of \$10,011,146 for governmental activities and a decrease of \$607,593 business-type activities). As previously mentioned, the City is required to retroactively report infrastructure assets. Standards require that all infrastructure constructed prior to 2003 be reported in full in the financial statements by September 30, 2007. The City retroactively reported its bridge infrastructure during the fiscal year ended September 30, 2006.

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

Family Success Center	\$ 936,021	Construction of building
Gadsden Library	\$ 2,104,842	Renovation of the main library
Noccalula Falls Park	\$ 442,690	Renovation of park and campgrounds
Pitman Theatre	\$ 207,830	Renovation of lobby area of theatre
Riverfront Development	\$ 241,020	Improvements to the riverfront boardwalk
Soccer and Track Complex	\$ 1,515,247	Construction of soccer and track field at GCHS
Tuscaloosa Avenue	\$ 1,127,206	Improvements to existing street, including sidewalks and lighting
Vehicles	\$ 1,719,338	Replacement of various city vehicles
Street Improvements	\$ 1,416,459	Various street resurfacing projects

Debt Outstanding

Outstanding Debt As of September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Governmental		
GOW 2006	\$ 995,000	\$ -
GOW 2005	15,625,000	16,315,000
GOW 2004-A	4,840,000	5,005,000
GOW 2003-A	7,975,000	8,145,000
GOW 2003-B	27,955,000	28,535,000
GOW 2002-A	3,395,000	3,890,000
GOW 2002-B	1,435,000	1,615,000
Less deferred amounts		
Issuance discounts	(480,837)	(505,453)
On refunding	(836,037)	(901,778)
Plus issuance premiums	132,482	141,029
Note payable	500,000	1,000,000
Note payable	2,933,724	-
Honda assistance	1,370,597	1,488,852
HUD Section 108 Loans	2,400,000	-
Capital leases	1,872,921	923,951
Compensated absences	1,962,263	2,492,641
Claims and judgments	1,773,533	2,151,973
Business-type		
GOW 2003	280,000	320,000
GOW 2005-B	1,400,000	1,500,000
Compensated absences	44,422	69,589
Landfill closure and post closure	1,083,822	953,204
Total Long-term Debt	<u>\$ 76,656,890</u>	<u>\$ 73,139,008</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to twenty percent (20%) of its total assessed valuation. The current constitutional debt limitation for the City of Gadsden is \$80,904,044, which is significantly in excess of the City of Gadsden's outstanding general obligation debt less allowed exemptions of \$37,116,025. The resulting legal debt margin as of September 30, 2006, was \$38,137,825.

Economic Factors

The City relies primarily on taxes (sales and ad valorem) and fees (business licenses and occupational licenses) for their governmental activities. The primary source of revenue is sales taxes.

In the business-type and certain governmental activities (airport, garbage services, golf course, and recreational programs, etc.) the user pays a related fee or charge associated with the service.

The level of taxes, fees, and charges for services have a direct bearing on the City's ability to (a) annex additional land into its corporate limits and (b) encourage development (office, retail, residential and industrial) to choose to be located in the jurisdiction. The City places significant emphasis on encouraging both annexation and economic development.

Financial Information Contact

The City of Gadsden's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances. If you have questions about the report or need additional financial information, contact the Finance Department at 267 Broad Street, Gadsden, Alabama 35902.

CITY OF GADSDEN, ALABAMA

**STATEMENT OF NET ASSETS
September 30, 2006**

	Primary Government			Component Units	
	Governmental Activities	Business Type Activities	Total	Board of Education	Airport Authority
Assets					
Cash and cash equivalents	\$ 9,449,737	\$ 984,784	\$ 10,434,521	\$ 6,518,983	\$ 456,907
Investments	52,597	-	52,597	-	-
Receivables, net of allowances for uncollectibles	10,075,093	405,948	10,481,041	6,069,477	1,420,340
Internal balances	1,635,120	(1,635,120)	-	-	-
Due from primary government	-	-	-	455,485	6,905,000
Inventories	262,202	31,413	293,615	65,519	-
Prepays	560,688	1,200	561,888	-	76,781
Deferred charges	651,225	-	651,225	-	120,513
Restricted assets	1,450,000	-	1,450,000	-	1,382,587
Due from component units	14,733,898	-	14,733,898	-	-
Capital assets, net of accumulated depreciation					
Land	7,238,980	2,976,164	10,215,144	5,586,023	5,651,746
Buildings	6,551,369	5,214,059	11,765,428	6,335,860	112,772
Improvements	1,814,792	3,716,701	5,531,493	5,870,163	498,733
Equipment	6,282,616	450,579	6,733,195	3,681,194	-
Infrastructure	11,720,156	-	11,720,156	-	2,289,968
Construction in progress	13,887,596	-	13,887,596	38,436,606	110,996
Total Assets	\$ 86,366,069	\$ 12,145,728	\$ 98,511,797	\$ 73,019,310	\$ 19,026,343

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA

STATEMENT OF NET ASSETS (continued)

September 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business Type Activities	Total	Board of Education	Airport Authority
Liabilities					
Accounts payable and other current liabilities	\$ 2,256,599	\$ 130,745	2,387,344	\$ 548,020	\$ 286,780
Accrued payroll and related liabilities	716,530	42,412	758,942	2,509,849	-
Due to component units	7,360,485	-	7,360,485	-	-
Due to primary government	-	-	-	13,522,571	1,211,327
Deferred revenue	43,821	-	43,821	5,606,708	268,400
Noncurrent liabilities					
Due within one year	6,421,013	163,199	6,584,212	811,766	185,000
Due in more than one year	67,427,633	2,645,044	70,072,677	12,346,704	6,720,000
Total liabilities	84,226,081	2,981,400	87,207,481	35,345,618	8,671,507
Net Assets					
Invested in capital assets, net of related debt	29,245,427	10,697,504	39,942,931	33,293,127	2,241,881
Restricted					
Capital projects	2,337,820	-	2,337,820	214,113	504,864
Debt service	1,444,766	-	1,444,766	-	-
Economic development	387,276	-	387,276	-	-
Public safety	459,367	-	459,367	-	-
Recreation and cultural services					
Expendable	106,998	-	106,998	-	-
Nonexpendable	269,624	-	269,624	-	-
Other purposes	385,241	-	385,241	170,265	-
Unrestricted	(32,496,531)	(1,533,176)	(34,029,707)	3,996,187	7,608,091
Total net assets	2,139,988	9,164,328	11,304,316	37,673,692	10,354,836
Total Liabilities and Net Assets					
	\$ 86,366,069	\$ 12,145,728	\$ 98,511,797	\$ 73,019,310	\$ 19,026,343

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Board of Education	Airport Authority
Primary Government									
Governmental activities									
General government	\$ (2,075,680)	\$ -	\$ 132,042	\$ -	\$ (1,943,638)	\$ -	\$ (1,943,638)	\$ -	\$ -
Internal services	(2,437,636)	-	-	-	(2,437,636)	-	(2,437,636)	-	-
Public safety	(18,396,207)	784,750	1,176,319	111,197	(16,323,941)	-	(16,323,941)	-	-
Recreation and cultural services	(7,511,637)	936,151	266,737	149,892	(6,158,857)	-	(6,158,857)	-	-
Public works services	(5,261,618)	-	599,157	-	(4,662,461)	-	(4,662,461)	-	-
Urban development	(8,508,433)	220,629	3,115,893	86,973	(5,084,938)	-	(5,084,938)	-	-
Non-departmental	(3,648,053)	-	-	-	(3,648,053)	-	(3,648,053)	-	-
Interest on long-term debt	(3,469,296)	-	-	-	(3,469,296)	-	(3,469,296)	-	-
Total governmental activities	<u>(51,308,560)</u>	<u>1,941,530</u>	<u>5,290,148</u>	<u>348,062</u>	<u>(43,728,820)</u>	<u>-</u>	<u>(43,728,820)</u>	<u>-</u>	<u>-</u>
Business-type activities									
Airport	(685,740)	588,823	-	-	-	(96,917)	(96,917)	-	-
Residential garbage	(3,016,560)	2,284,638	-	-	-	(731,922)	(731,922)	-	-
Golf course	(1,399,203)	815,772	-	-	-	(583,431)	(583,431)	-	-
Total business-type activities	<u>(5,101,503)</u>	<u>3,689,233</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,412,270)</u>	<u>(1,412,270)</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ (56,410,063)</u>	<u>\$ 5,630,763</u>	<u>\$ 5,290,148</u>	<u>\$ 348,062</u>	<u>(43,728,820)</u>	<u>(1,412,270)</u>	<u>(45,141,090)</u>	<u>-</u>	<u>-</u>
Component Units									
Board of Education	\$ (49,161,152)	\$ 3,489,736	\$ 36,107,079	\$ -				(9,564,337)	
Airport Authority	\$ (814,054)	\$ 15,861	\$ -	\$ -					(798,193)
General Revenue									
Sales and use tax					24,771,408	-	24,771,408	1,516,459	-
Occupational license fee					12,635,379	-	12,635,379	-	-
Licenses and permits					5,545,800	-	5,545,800	-	-
Property tax					4,348,896	-	4,348,896	3,585,428	-
Gasoline tax					582,232	-	582,232	-	-
Tobacco tax					491,723	-	491,723	-	-
Beer tax					267,784	-	267,784	-	-
Lodging tax					484,313	-	484,313	-	-
Wine and liquor tax					224,368	-	224,368	-	-
Financial institution excise tax					473,902	-	473,902	-	-
Rental and leasing tax					412,561	-	412,561	-	-
City appropriations					-	-	-	965,520	-
Grants and contributions not restricted to specific programs					383,462	-	383,462	-	-
Unrestricted investment earnings					1,424,454	43,857	1,468,311	376,356	160,039
Gain on sale of assets					180,923	40,909	221,832	-	-
Capital asset impairment loss					-	-	-	-	(562,071)
Other general revenue					551,007	-	551,007	62,214	5,579
Transfers					(642,575)	642,575	-	-	-
Special Items					(4,271,094)	-	(4,271,094)	3,000,000	1,271,094
Total General Revenue, Transfers and Special Items					<u>47,864,543</u>	<u>727,341</u>	<u>48,591,884</u>	<u>9,505,977</u>	<u>874,641</u>
Change in net assets					<u>4,135,723</u>	<u>(684,929)</u>	<u>3,450,794</u>	<u>(58,360)</u>	<u>76,448</u>
Net assets at beginning of year					(2,657,820)	9,849,257	7,191,437	37,332,920	10,278,388
Prior period adjustment					662,085	-	662,085	399,132	-
Net assets at beginning of year (as restated)					<u>(1,995,735)</u>	<u>9,849,257</u>	<u>7,853,522</u>	<u>37,732,052</u>	<u>10,278,388</u>
Net assets at end of year					<u>\$ 2,139,988</u>	<u>\$ 9,164,328</u>	<u>\$ 11,304,316</u>	<u>\$ 37,673,692</u>	<u>\$ 10,354,836</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA

BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2006

	General Fund	School Ad Valorem Tax Fund	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,258,568	\$ 452,968	\$ 792,387	\$ 3,686,548	\$ 7,190,471
Investments	-	-	-	52,597	52,597
Receivables, net of allowances for uncollectibles					
Taxes	4,479,452	1,176,436	1,010,447	1,233,775	7,900,110
Intergovernmental	-	-	-	1,959,980	1,959,980
Notes	112,500	-	-	-	112,500
Other	100,829	-	-	1,674	102,503
Due from other funds	2,757,662	-	-	-	2,757,662
Due from component units	64,322	-	14,669,576	-	14,733,898
Inventories	262,202	-	-	-	262,202
Restricted assets	-	-	-	1,450,000	1,450,000
Total Assets	\$ 10,035,535	\$ 1,629,404	\$ 16,472,410	\$ 8,384,574	\$ 36,521,923
Liabilities and Fund Balances					
Liabilities					
Accounts payable and other liabilities	\$ 1,041,191	\$ -	\$ 7,338	\$ 749,035	\$ 1,797,564
Accrued payroll and related liabilities	689,750	-	-	22,574	712,324
Due to other funds	-	-	-	1,080,681	1,080,681
Due to component units	-	455,485	6,905,000	-	7,360,485
Deferred revenue	2,234,110	1,164,347	-	1,150,765	4,549,222
Total liabilities	3,965,051	1,619,832	6,912,338	3,003,055	15,500,276
Fund balances					
Reserved for compensated absences	323,736	-	-	-	323,736
Reserved for debt service	-	-	-	1,450,000	1,450,000
Reserved for encumbrances	160,142	-	104,863	1,276,424	1,541,429
Reserved for inventories	262,201	-	-	-	262,201
Reserved for legal claims	571,500	-	-	-	571,500
Reserved for noncurrent receivables	192,117	-	7,753,249	-	7,945,366
Reserved for library endowment	-	-	-	269,482	269,482
Unreserved, designated for future expenditures	568,901	-	482,228	891,786	1,942,915
Unreserved and undesignated	3,991,887	9,572	1,219,732	1,493,827	6,715,018
Total fund balance	6,070,484	9,572	9,560,072	5,381,519	21,021,647
Total Liabilities and Fund Balance	\$ 10,035,535	\$ 1,629,404	\$ 16,472,410	\$ 8,384,574	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not expendable, available financial resources and, therefore, are not reported in the funds	47,494,273
Internal service funds are used by management to charge the costs of workers' compensation and employee health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	1,524,509
Certain revenue reported in the statement of activities is not available to pay the liabilities of the current year and, therefore, are deferred in the funds	4,505,401
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the funds	(72,405,842)
Net Assets of Governmental Activities	\$ 2,139,988

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2006

	General Fund	School Ad Valorem Tax Fund	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 34,739,562	\$ 822,257	\$ 6,157,559	\$ 1,927,180	\$ 43,646,558
Licenses and permits	5,545,800	-	-	-	5,545,800
Intergovernmental	222,757	-	-	5,798,682	6,021,439
Charges for services	1,466,828	-	-	61,776	1,528,604
Fines and forfeitures	637,552	-	-	29,155	666,707
Other revenue	680,145	21,762	668,089	712,244	2,082,240
Total revenue	<u>43,292,644</u>	<u>844,019</u>	<u>6,825,648</u>	<u>8,529,037</u>	<u>59,491,348</u>
Expenditures					
Current					
General government	2,077,938	-	-	-	2,077,938
Internal services	3,295,843	-	27,501	7,276	3,330,620
Public safety	17,565,087	-	-	2,272,885	19,837,972
Recreation and cultural services	7,130,021	-	-	546,757	7,676,778
Public works services	4,872,696	-	-	236,234	5,108,930
Urban development	3,726,842	-	-	5,825,531	9,552,373
Non-departmental	765,445	-	-	52,325	817,770
Intergovernmental	1,446,939	606,815	681,908	100,000	2,835,662
Debt service					
Principal retirement	500,000	-	-	3,102,639	3,602,639
Interest and fiscal charges	35,409	-	-	3,313,605	3,349,014
Capital outlays	-	-	4,100,939	3,626,568	7,727,507
Total expenditures	<u>41,416,220</u>	<u>606,815</u>	<u>4,810,348</u>	<u>19,083,820</u>	<u>65,917,203</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>1,876,424</u>	<u>237,204</u>	<u>2,015,300</u>	<u>(10,554,783)</u>	<u>(6,425,855)</u>
Other Financing Sources (Uses)					
Proceeds of debt	-	-	1,572,112	6,410,000	7,982,112
Proceeds from sale of assets	122,110	-	-	70,000	192,110
Transfers	(1,952,442)	(239,498)	(4,238,156)	5,788,381	(641,715)
Total other financing sources (uses)	<u>(1,830,332)</u>	<u>(239,498)</u>	<u>(2,666,044)</u>	<u>12,268,381</u>	<u>7,532,507</u>
Special Items					
Transfers to component units	1,045,734	-	225,360	3,000,000	4,271,094
Total special items	<u>1,045,734</u>	<u>-</u>	<u>225,360</u>	<u>3,000,000</u>	<u>4,271,094</u>
Net Change in Fund Balances	(999,642)	(2,294)	(876,104)	(1,286,402)	(3,164,442)
Fund Balance - Beginning of Year	<u>7,070,126</u>	<u>11,866</u>	<u>10,436,176</u>	<u>6,667,921</u>	<u>24,186,089</u>
Fund Balance - End of Year	<u>\$ 6,070,484</u>	<u>\$ 9,572</u>	<u>\$ 9,560,072</u>	<u>\$ 5,381,519</u>	<u>\$ 21,021,647</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
September 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ (3,164,442)
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	9,360,967
The net effect of various transactions involving capital assets affects the change in net assets, but has no effect on the current financial resources of governmental funds	(11,187)
Revenue is recognized in the governmental funds when they are both measurable and available to pay the liabilities of the current period. Revenues are recognized in the statement of activities when they are earned	
Decrease in earned but unavailable deferred revenue in governmental funds	1,045,999
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 and amortized in the statement of activities	(4,379,440)
Some expenses reported in the statement of activities differ from amounts reported as expenditures in governmental funds	381,850
An internal service fund is used by management to charge the costs of workers' compensation and employee health insurance to individual funds. The net revenue of certain activities of the internal service fund is reported as governmental activities in the statement of activities	<u>901,976</u>
Change in Net Assets of Governmental Activities	<u>\$ 4,135,723</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

September 30, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	<u>Airport</u>	<u>Garbage</u>	<u>Golf</u>	<u>Totals</u>	
Assets					
Current Assets					
Cash and cash equivalents	\$ 725,120	\$ 84,309	\$ 175,355	\$ 984,784	\$ 2,259,266
Receivables, net of allowances for uncollectibles					
Accounts	-	396,140	-	396,140	-
Other	850	-	8,958	9,808	-
Inventories	-	-	31,413	31,413	560,688
Prepays	-	-	1,200	1,200	-
Total current assets	<u>725,970</u>	<u>480,449</u>	<u>216,926</u>	<u>1,423,345</u>	<u>2,819,954</u>
Capital assets, net of accumulated depreciation					
Land	111,470	267,134	2,597,560	2,976,164	-
Buildings	2,094,091	546,368	1,076,242	3,716,701	-
Improvements	75,182	261,806	4,877,071	5,214,059	-
Equipment	<u>15,049</u>	<u>368,038</u>	<u>67,492</u>	<u>450,579</u>	<u>1,236</u>
Total assets	<u>3,021,762</u>	<u>1,923,795</u>	<u>8,835,291</u>	<u>13,780,848</u>	<u>2,821,190</u>
Liabilities					
Current Liabilities					
Accounts payable and other current liabilities	47,653	52,330	30,762	130,745	19,355
Accrued payroll and related liabilities	3,531	23,529	15,352	42,412	4,205
Compensated absences payable	10,009	34,413	-	44,422	251
Claims and adjustments payable	-	-	-	-	1,231,008
Accrued landfill closure and post closure	-	23,199	-	23,199	-
Current portion of general obligation warrants	140,000	-	-	140,000	-
Deferred revenue	-	-	-	-	-
Due to other funds	<u>52,115</u>	<u>692,017</u>	<u>932,850</u>	<u>1,676,982</u>	<u>-</u>
Total current liabilities	<u>253,308</u>	<u>825,488</u>	<u>978,964</u>	<u>2,057,760</u>	<u>1,254,819</u>
Accrued landfill closure and post closure	-	1,060,622	-	1,060,622	-
General obligation warrants payable	-	-	-	-	-
Total liabilities	<u>253,308</u>	<u>1,886,110</u>	<u>978,964</u>	<u>3,118,382</u>	<u>1,254,819</u>
Net Assets					
Invested in capital assets, net of related debt	635,792	1,443,347	8,618,365	10,697,504	1,236
Unrestricted	<u>592,662</u>	<u>(1,405,662)</u>	<u>(762,038)</u>	<u>(1,575,038)</u>	<u>1,565,135</u>
Total net assets	<u>\$ 1,228,454</u>	<u>\$ 37,685</u>	<u>\$ 7,856,327</u>	<u>9,122,466</u>	<u>\$ 1,566,371</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				<u>41,862</u>	
Net Assets of Business Type Activities				<u>\$ 9,164,328</u>	

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Airport</u>	<u>Garbage</u>	<u>Golf</u>	<u>Totals</u>	<u>Activities -</u> <u>Internal</u> <u>Service Fund</u>
Operating Revenue					
Charges for sales and services	\$ 588,823	\$ 2,284,638	\$ 815,772	\$ 3,689,233	\$ 7,169,666
Total operating revenue	<u>588,823</u>	<u>2,284,638</u>	<u>815,772</u>	<u>3,689,233</u>	<u>7,169,666</u>
Operating Expenses					
Cost of sales and services	443,847	2,798,219	1,101,258	4,343,324	6,209,839
Depreciation	<u>131,604</u>	<u>252,800</u>	<u>315,385</u>	<u>699,789</u>	<u>719</u>
Total operating expenses	<u>575,451</u>	<u>3,051,019</u>	<u>1,416,643</u>	<u>5,043,113</u>	<u>6,210,558</u>
Operating Income (Loss)	<u>13,372</u>	<u>(766,381)</u>	<u>(600,871)</u>	<u>(1,353,880)</u>	<u>959,108</u>
Nonoperating Revenue					
(Expenses)					
Gain on sale of assets	25,697	15,212	-	40,909	-
Interest revenue	38,148	5,709	-	43,857	-
Interest expense	<u>(115,522)</u>	<u>-</u>	<u>-</u>	<u>(115,522)</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>(51,677)</u>	<u>20,921</u>	<u>-</u>	<u>(30,756)</u>	<u>-</u>
Net Income (Loss) Before Contributions, Transfers and Special Items	(38,305)	(745,460)	(600,871)	(1,384,636)	959,108
Other Financing Sources (Uses)					
Transfers	<u>-</u>	<u>449,560</u>	<u>193,015</u>	<u>642,575</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>449,560</u>	<u>193,015</u>	<u>642,575</u>	<u>-</u>
Change in Net Assets	(38,305)	(295,900)	(407,856)	(742,061)	959,108
Net Assets - Beginning of Year	<u>1,266,759</u>	<u>333,585</u>	<u>8,264,183</u>		<u>607,263</u>
Net Assets - End of Year	<u>\$ 1,228,454</u>	<u>\$ 37,685</u>	<u>\$ 7,856,327</u>		<u>\$ 1,566,371</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				<u>57,132</u>	
Change In Net Assets of Business-Type Activities				<u>\$ (684,929)</u>	

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	<u>Airport</u>	<u>Garbage</u>	<u>Golf</u>	<u>Totals</u>	
Cash Flows From Operating Activities					
Receipts from customers and users	\$ 588,623	\$ 2,350,616	\$ 817,739	\$ 3,756,978	\$ 7,169,666
Payments to suppliers	(208,540)	(1,582,710)	(577,463)	(2,368,713)	(6,459,093)
Payments to employees	(192,377)	(1,245,220)	(443,889)	(1,881,486)	(207,356)
Net Cash From Operating Activities	<u>187,706</u>	<u>(477,314)</u>	<u>(203,613)</u>	<u>(493,221)</u>	<u>503,217</u>
Cash Flows From Noncapital Financing Activities					
Transfers from other funds	-	448,700	193,015	641,715	-
Other	-	15,212	-	15,212	-
Net Cash Flows From Noncapital Financing Activities	<u>-</u>	<u>463,912</u>	<u>193,015</u>	<u>656,927</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities					
Proceeds from warrant issue	-	-	-	-	-
Proceeds from sale of capital assets	26,445	-	-	26,445	-
Acquisition and construction of capital assets	(87,604)	-	(4,481)	(92,085)	-
Principal paid on capital debt	(140,000)	-	-	(140,000)	-
Interest paid on capital debt	(119,725)	-	-	(119,725)	-
Net Cash Flows From Capital and Related Financing Activities	<u>(320,884)</u>	<u>-</u>	<u>(4,481)</u>	<u>(325,365)</u>	<u>-</u>
Cash Flows From Investing Activities					
Interest received	38,148	5,709	-	43,857	-
Net Increase (Decrease) In Cash and Cash Equivalents	(95,030)	(7,693)	(15,079)	(117,802)	503,217
Cash and Cash Equivalents - Beginning of Year	<u>820,150</u>	<u>92,002</u>	<u>190,434</u>	<u>1,102,586</u>	<u>1,756,049</u>
Cash and Cash Equivalents - End of Year	<u>\$ 725,120</u>	<u>\$ 84,309</u>	<u>\$ 175,355</u>	<u>\$ 984,784</u>	<u>\$ 2,259,266</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA

STATEMENT OF CASH FLOWS (continued)
PROPRIETARY FUNDS
For the Year Ended September 30, 2006

	Business-Type Activities - Enterprise Funds				Governmental
	<u>Airport</u>	<u>Garbage</u>	<u>Golf</u>	<u>Totals</u>	Activities - Internal Service Fund
Reconciliation of Operating Income to Net Cash					
Flows From Operating Activities					
Operating income (loss)	\$ 13,372	\$ (766,381)	\$ (600,871)	\$ (1,353,880)	\$ 959,108
Depreciation	131,604	252,800	315,385	699,789	719
Change in receivables	(200)	65,978	1,967	67,745	-
Change in due from other funds	52,115	-	-	52,115	-
Change in prepaids	-	-	12,270	12,270	(43,138)
Change in inventories	-	-	(10,414)	(10,414)	-
Change in accounts payable and other current liabilities	(2,606)	(38,109)	8,158	(32,557)	693
Change in due to other funds	-	(106,446)	83,257	(23,189)	-
Change in accrued payroll and related liabilities	592	2,223	135	2,950	587
Change in accrued compensated absences	(7,171)	(17,996)	-	(25,167)	(1,372)
Change in accrued landfill closure and post closure	-	130,617	-	130,617	-
Accrued liabilities	-	-	-	-	(413,380)
Deferred revenue	-	-	(13,500)	(13,500)	-
Net Cash Flows From Operating Activities	\$ 187,706	\$ (477,314)	\$ (203,613)	\$ (493,221)	\$ 503,217

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The City of Gadsden (the “City”) is a municipal corporation which was incorporated on March 19, 1871. The City operates under the Mayor-Council form of government as provided by Act. No. 85-926 of the Alabama Legislature, now codified as Sections 11-43B-1 et seq. of the Code of Alabama 1975 (The Mayor-Council Act), and is comprised of a Mayor and a seven-member council (elected at large).

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes the ultimate authority on GAAP for state and local governmental units. The more significant of the City’s accounting policies are described below.

As required by GAAP, these financial statements present the City and its component units, legally separate entities for which the City is considered to be financially accountable. The City has no blended component units. On the other hand, the City does have two discretely presented component units. The component units have September 30 year-ends.

- Gadsden Board of Education - The members of the Board of Education are appointed by the City and the Board of Education is an agency of the State of Alabama under the general supervision and financial jurisdiction of the Alabama State Department of Education. The City is obligated in some manner for the debt of the Board of Education and the City levies a property tax specifically for operations of the Board of Education.

Complete financial statements for the Board of Education may be obtained at the following administrative office:

Gadsden Board of Education
1026 Chestnut Street
P. O. Box 184
Gadsden, Alabama 35999

The Board of Education’s financial statements include certain long-term debt and related debt service expenditures of the City. In addition, the Board of Education’s financial statements include certain property tax revenue, receivables and deferred revenue of the City. No eliminations have been made to these amounts.

- Gadsden Airport Authority - The Airport Authority’s board members are appointed by the City and the City is obligated in some manner for the debt of the Airport Authority.

Complete financial statements for the Airport Authority may be obtained at the following administrative office:

Gadsden Airport Authority
P. O. Box 961
Gadsden, Alabama 35902

Related Organizations: The City is also responsible for appointing a voting majority of the boards of other organizations, but the City’s financial accountability for these organizations does not extend beyond making the appointments, or the financial resources and obligations of these organizations are immaterial. The City appointed a voting majority of the following boards: Gadsden Water Works and Sewer Board, Greater Gadsden Housing Authority, Gadsden Industrial Development Board, the Etowah-Gadsden Industrial Development Authority, the Forrest Cemetery Foundation, and others. These organizations are related organizations, which have not been included in the reporting entity.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. Government-wide financial statements focus on the City as a whole, and are designed to allow the users of financial reports to assess the City's *operational accountability*. The fund financial statements focus on major individual funds, and are designed to demonstrate the City's *fiscal accountability*. Operational accountability refers to the City's responsibility to report the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose, and whether it can continue to meet those objectives for the foreseeable future. Fiscal accountability is the City's responsibility to demonstrate that its actions in the current period have complied with public decisions concerning the raising and spending of public monies in the short term (usually one budgetary cycle or year).

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. In addition, the primary government is reported separately from component units.

The government-wide statement of activities reflects both the gross and net costs per functional category (i.e., general government, public safety, etc.) by offsetting direct expenses with program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes 1) charges to customers or others who purchase, use, or directly benefit from goods, services or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as general revenue.

The fund financial statements provide separate financial statements for governmental funds, proprietary funds, and fiduciary funds (even though fiduciary funds are excluded from the government-wide financial statements). The emphasis of the fund financial statements is on the City's major funds, and each major fund is reported in a separate column. Non-major funds of each type are summarized into a single column.

Measurement Focus, Basis of Accounting, and Financial Statement 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 and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when the related liability is incurred. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales and use taxes, beer taxes, occupational taxes, lodging taxes, rental and leasing taxes, payments in lieu of taxes, intergovernmental revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal year. All other revenue is considered to be measurable and available only when cash is received by the City.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

The City reports the following major governmental funds:

The **general fund** is the primary operating fund of the City. General tax revenue and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures applicable to the general operations of the City are paid from the general fund.

The **school ad valorem tax fund** accounts for funds received from a 6-mill property tax that is earmarked for educational purposes.

The **capital improvements fund** accounts for the proceeds of certain capital debt and for the portion of sales and use taxes that are earmarked for capital purposes.

The City reports the following major proprietary funds:

The **airport fund** accounts for the activities of the Air Depot.

The **residential garbage fund** accounts for the activities of the City's residential garbage service, including waste disposal at the current landfill and future landfill closure and post closure care costs at all landfill sites.

The **golf course fund** accounts for the activities of Twin Bridges Golf Course.

Additionally, the City reports the following fund types:

The City's nonmajor **special revenue funds** are used to account for resources that are legally restricted to expenditure for specific purposes, not including those accounted for in capital projects funds or permanent funds.

Debt service funds account for the payment of principal and interest on long-term debt not being financed by proprietary funds.

The City's nonmajor **capital projects funds** account for the costs of constructing or acquiring capital assets and major improvements other than those financed by proprietary funds.

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs - that is, for the benefit of the City or its citizens.

An **internal service fund** accounts for the accumulation of funds and the allocation of claims arising from the City's self-insured workers' compensation program and for the accumulation of funds for the payment of employee health care costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict the guidance of the GASB. The City also has the option of following subsequent private-sector guidance for its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish *operating* revenue and expenses from *nonoperating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal service fund are charges to customers and users for sales and services. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

Comparative total data for the prior year have been presented in the individual fund financial statements in order to provide an understanding of the changes in the financial position, operations and cash flows of the funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from these estimates.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash includes cash on hand, amounts in demand deposits, and short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, U.S. corporate stock, U.S. corporate debt, State of Alabama Government obligations, County Government obligations, and other Municipal Government obligations. All investments are reported at fair value.

For purposes of the statements of cash flows, cash and cash equivalents include short-term investments with an original maturity date of three months or less.

Receivables and Payables – Activity between funds that are representative of lending and borrowing arrangements, as well as all other outstanding balances between funds at year-end are referred to as either due to/from other funds (for the current portion) or advances to/from other funds (for the noncurrent portion). Any outstanding balances between governmental activities and business-type activities are reported in the government-wide statement of net assets as internal balances.

Advances to other funds are offset by a fund balance reserve in the fund financial statements to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles.

Property taxes are assessed by the Etowah County Tax Assessor and collected by the Etowah County Tax Collector. The Etowah County property tax calendar specifies the following actions on the following dates:

Levy (assessment date)	September 30
Lien date	September 30
Due date	October 1
Collection dates	October 1 to December 31
Delinquent date	January 1

Inventories and Prepaid Items – All inventories are valued at cost using the first in/first out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

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

Deferred Charges – In the government-wide and proprietary fund financial statements, long-term debt issuance costs are deferred and amortized over the term of the related debt. In governmental fund financial statements, these costs are reported as expenditures in the year the debt is issued.

Restricted Assets – Certain proceeds of long-term debt, as well as certain resources set aside for its repayment, are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable debt agreements.

Capital Assets – Capital outlays are recorded as expenditures in governmental fund financial statements. In contrast, capital assets, which include land, buildings, improvements other than buildings, equipment, construction in progress, and infrastructure (e.g., roads, bridges, sidewalks and similar items), are reported in the government-wide and proprietary fund financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

Interest incurred during the construction phase of major capital projects is included in the capitalized cost of assets in business-type activities. The total interest expense incurred by the City during the current fiscal year was \$3,469,296. None of this amount was included as part of construction cost.

Capital assets are defined by the City as assets with an estimated useful life in excess of one year and with an individual cost at least equal to the following amounts:

Land	\$	1
Buildings		50,000
Improvements other than buildings		50,000
Equipment		1,000
Infrastructure:		
Street construction and improvements		100,000
Bridges		100,000
Street resurfacing, sidewalks, drainage, etc.		50,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land	Not Depreciated
Construction in progress	Not Depreciated
Buildings	25 years
Improvements	25 years
Equipment	5-10 years
Infrastructure:	
Street construction and improvements	50 years
Bridges	30 years
Street resurfacing, sidewalks, drainage, etc.	10-25 years

Deferred Revenue – Deferred revenue in the government-wide and proprietary fund financial statements represent unearned revenue. Deferred revenue in the governmental fund financial statements represent unearned revenue and other revenue for which the “available” criterion has not been met.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences – City employees earn sick leave at the rate of one day per month of service. Each employee can accumulate up to sixty days of sick leave. Employees earn vacation leave at graduated rates based on their length of service. Each employee can accumulate up to twenty days of vacation leave and carry it over to the next year.

Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund. Premiums, discounts, and deferred amounts on refunding transactions are deferred and amortized over the life of the related debt using the straight-line method. Long-term debt is reported net of the unamortized portion of these amounts. Long-term obligations are not reported in governmental funds.

Net Assets/Fund Equity – Net assets are reported in the government-wide financial statements and are classified into the following categories:

- ♦ Invested in capital assets, net of related debt,
- ♦ Restricted, and
- ♦ Unrestricted.

Restricted net assets are those whose use by the City is subject to externally imposed stipulations that can be fulfilled by actions of the City or that expire with the passage of time. The government-wide statement of net assets reports \$5,391,092 of restricted net assets, of which \$790,948 is restricted by enabling legislation. Unrestricted net assets are not subject to external restrictions but may be designated for specific purposes by the City's management or the City council.

In the governmental fund financial statements, the City reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Reclassifications – Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 2 – Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets:

The governmental funds balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the statement of net assets. One element of that reconciliation explains that long-term liabilities are not due and payable in the current year and, therefore, are not reported in the funds. The details of this difference are as follows:

General obligation warrants payable	\$ (62,220,000)
Less: Deferred charge on refunding (to be amortized as interest expense)	836,037
Deferred charge for issuance costs (to be amortized over the life of the debt)	651,225
Issuance discounts and premiums (to be amortized as interest expense)	480,837
Insurance premiums	(132,482)
Notes payable	(3,433,724)
Special obligation bonds	(1,370,597)
HUD Section 108 loans	(2,400,000)
Capital leases	(1,872,921)
Accrued interest payable	(439,680)
Compensated absences	(1,962,012)
Claims and judgments	<u>(542,525)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (72,405,842)</u>

Explanation of certain differences between the governmental funds statement of revenue, expenditures and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenue, expenditures and changes in fund balances includes reconciliation between Net Change in Fund Balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that 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. The details of this difference are as follows:

Capital outlay	\$ 12,616,607
Depreciation expense	<u>(3,255,640)</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 9,360,967</u>

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 2 – Reconciliation of Government-Wide and Fund Financial Statements (continued)

Another element of that reconciliation states that 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 and amortized in the statement of activities. The details of this difference are as follows:

Debt issued or incurred:	
Capital lease inception	\$ (1,572,112)
Issuance of general obligation warrants	(1,010,000)
Issuance of notes payable	(3,000,000)
HUD Section 108 loans	(2,400,000)
Principal repayments	<u>3,602,672</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (4,379,440)</u>

Another element of that reconciliation states that some expenses reported in the statement of activities differ from amounts reported as expenditures in governmental funds. The details of this difference are as follows:

Compensated absences	\$ 529,002
Claims and judgments	(34,940)
Accrued interest	4,463
Amortization of long-term debt issuance costs, premiums, discounts, etc.	<u>(116,675)</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 381,850</u>

Note 3 – Stewardship, Compliance, and Accountability

Budgetary Information: The City follows these procedures in adopting its annual budgets:

1. The Mayor annually submits to the City Council a proposed Operating Budget for the general fund and special revenue funds for the fiscal year commencing October 1. The Operating Budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund or transfer between departments must be approved by City Council Ordinance.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles except that budgets and budgetary schedules included in these financial statements are prepared using encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded. At the end of the fiscal year, unencumbered appropriations automatically lapse.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 3 – Stewardship, Compliance, and Accountability (continued)

7. The adopted Operating Budget is allotted to each department or agency of the City according to the Mayor-Council Act. Total appropriations may not be exceeded by expenditures unless the City Council amends the budget due to increased revenue or through a reduction of fund balance. This year's Operating Budget was amended as needed throughout the year by City Council action, provided adequate funds were available at the time of the amendment.

Excess of Expenditures Over Appropriations: During the fiscal year ended September 30, 2006, there were no expenditures in excess of appropriations in any fund (the legal level of budgetary control).

Note 4 – Deposits and Investments

Custodial Credit Risk – This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City participates in a collateral risk pool (Security for Alabama Funds Enhancement (SAFE)) program. The pool is administered by the State of Alabama Office of the State Treasurer and was established to protect public deposits in excess of FDIC coverage. Bank deposits are collateralized by securities held in the risk pool. Under the SAFE program, participating banks pledge securities to the State Treasurer for the SAFE collateral pool.

Interest Rate Risk – The City does not have a formal investment policy that limits investment securities as a means of managing its exposure to fair-value losses arising from increasing interest rates.

The City's deposits, including certificates of deposit, were fully insured or collateralized as required by state statutes at September 30, 2006.

At September 30, 2006, the entire bank balance of the City's component unit, the Gadsden Board of Education, was fully covered by federal depository insurance or the SAFE Program.

Restricted assets held in trust for retirement of debt in accordance with applicable trust indentures and for other purposes consist of the following:

2005 G.O. Warrants	\$ 714,873
2003-B G.O. Warrants	341,547
2002-B G.O. Warrants	133,365
2003-A G.O. Warrants	95,945
2004 G.O. Warrants	80,029
2002-A G.O. Warrants	67,629
Airport	9,187
2006-A G.O. Warrants	6,406
Honda Project Assistance	1,019
	<u>\$ 1,450,000</u>

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 5 – Receivables

Receivables of the City’s individual major funds and non-major and internal service funds in the aggregate were as follows at year-end:

	<u>General</u>	<u>School Ad Valorem</u>	<u>Capital Improvements</u>	<u>Airport</u>
Taxes receivable	\$ 4,479,452	\$ 1,176,436	\$ 1,010,447	\$ -
Accounts receivable	-	-	-	-
Intergovernmental receivables	-	-	-	-
Notes and other receivables	<u>572,486</u>	<u>-</u>	<u>-</u>	<u>850</u>
Gross receivables	5,051,938	1,176,436	1,010,447	850
Allowance for uncollectibles	<u>(359,157)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$ 4,692,781</u>	<u>\$ 1,176,436</u>	<u>\$ 1,010,447</u>	<u>\$ 850</u>

	<u>Garbage</u>	<u>Golf</u>	<u>Nonmajor and Other</u>	<u>Total</u>
Taxes receivable	\$ -	\$ -	\$ 1,233,775	\$ 1,233,775
Accounts receivable	473,996	8,958	-	482,954
Intergovernmental receivables	-	-	1,959,980	1,716,729
Notes and other receivables	<u>-</u>	<u>-</u>	<u>1,674</u>	<u>1,674</u>
Gross receivables	473,996	8,958	3,195,429	3,435,132
Allowance for uncollectibles	<u>(77,856)</u>	<u>-</u>	<u>-</u>	<u>(77,856)</u>
Net receivables	<u>\$ 396,140</u>	<u>\$ 8,958</u>	<u>\$ 3,195,429</u>	<u>\$ 3,357,276</u>

The City reports revenue net of uncollectible amounts.

Total uncollectible amounts related to revenue of the current year were:

\$ - \$ - \$ -

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 6 – Capital Assets

The following table summarizes the changes in capital assets during the year:

Governmental Activities

	<u>Balance Beginning of Year</u>	<u>Prior Period Adjustments</u>	<u>Classification Reclasses</u>	<u>Adjusted Balance Beginning of Year</u>	<u>Additions/ Completions</u>	<u>Retirements Adjustments</u>	<u>Balance September 30, 2006</u>
Capital assets not being depreciated							
Land	\$ 7,187,383	\$ -	\$ -	\$ 7,187,383	\$ 51,597	\$ -	\$ 7,238,980
Construction in progress	7,298,583	-	-	7,298,583	7,690,986	(1,101,973)	13,887,596
Total capital assets not being depreciated	<u>14,485,966</u>	<u>-</u>	<u>-</u>	<u>14,485,966</u>	<u>7,742,583</u>	<u>(1,101,973)</u>	<u>21,126,576</u>
Capital assets being depreciated							
Buildings and capital facilities	32,194,900	-	-	32,194,900	298,844	-	32,493,744
Improvements	903,323	-	-	903,323	1,044,870	-	1,948,193
Equipment	22,110,071	-	-	22,110,071	2,690,246	(1,216,607)	23,583,710
Other infrastructures	17,224,331	1,518,923	-	18,743,254	1,950,965	-	20,694,219
Total capital assets being depreciated	<u>72,432,625</u>	<u>1,518,923</u>	<u>-</u>	<u>73,951,548</u>	<u>5,984,925</u>	<u>(1,216,607)</u>	<u>78,719,866</u>
Less accumulated depreciation for							
Buildings and capital facilities	25,396,536	-	-	25,396,536	545,839	-	25,942,375
Improvements	76,371	-	-	76,371	57,030	-	133,401
Equipment	16,813,270	-	-	16,813,270	1,684,317	(1,196,493)	17,301,094
Infrastructure	7,148,051	856,838	-	8,004,889	969,174	-	8,974,063
Total accumulated depreciation	<u>49,434,228</u>	<u>856,838</u>	<u>-</u>	<u>50,291,066</u>	<u>3,256,360</u>	<u>(1,196,493)</u>	<u>52,350,933</u>
Total capital assets being depreciated, net	<u>22,998,397</u>	<u>662,085</u>	<u>-</u>	<u>23,660,482</u>	<u>2,728,565</u>	<u>(20,114)</u>	<u>26,368,933</u>
Total capital assets, net	<u>\$ 37,484,363</u>	<u>\$ 662,085</u>	<u>\$ -</u>	<u>\$ 38,146,448</u>	<u>\$ 10,471,148</u>	<u>\$ (1,122,087)</u>	<u>\$ 47,495,509</u>

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

Note 6 – Capital Assets – continued

Business-type Activities

	<u>Balance Beginning of Year</u>	<u>Prior Period Adjustments</u>	<u>Classification Reclasses</u>	<u>Adjusted Balance Beginning of Year</u>	<u>Additions/ Completions</u>	<u>Retirements Adjustments</u>	<u>Balance September 30, 2006</u>
Capital assets not being depreciated							
Land	\$ 2,976,912	\$ -	\$ -	\$ 2,976,912	\$ -	\$ (748)	\$ 2,976,164
Total capital assets not being depreciated	<u>2,976,912</u>	<u>-</u>	<u>-</u>	<u>2,976,912</u>	<u>-</u>	<u>(748)</u>	<u>2,976,164</u>
Capital assets being depreciated							
Buildings/improvements to buildings	7,086,772	-	-	7,086,772	71,506	-	7,158,278
Improvements other than buildings	6,659,841	-	-	6,659,841	16,098	-	6,675,939
Equipment	<u>3,741,037</u>	<u>-</u>	<u>-</u>	<u>3,741,037</u>	<u>5,709</u>	<u>(1,000)</u>	<u>3,745,746</u>
Total capital assets being depreciated	<u>17,487,650</u>	<u>-</u>	<u>-</u>	<u>17,487,650</u>	<u>93,313</u>	<u>(1,000)</u>	<u>17,579,963</u>
Less accumulated depreciation for							
Buildings/improvements to buildings	3,214,800	-	-	3,214,800	226,777	-	3,441,577
Improvements o/t buildings	1,172,789	-	-	1,172,789	289,091	-	1,461,880
Equipment	<u>3,111,877</u>	<u>-</u>	<u>-</u>	<u>3,111,877</u>	<u>184,290</u>	<u>(1,000)</u>	<u>3,295,167</u>
Total accumulated depreciation	<u>7,499,466</u>	<u>-</u>	<u>-</u>	<u>7,499,466</u>	<u>700,158</u>	<u>(1,000)</u>	<u>8,198,624</u>
Total capital assets being depreciated, net	<u>9,988,184</u>	<u>-</u>	<u>-</u>	<u>9,988,184</u>	<u>(606,845)</u>	<u>-</u>	<u>9,381,339</u>
Total capital assets, net	<u>\$ 12,965,096</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,965,096</u>	<u>\$ (606,845)</u>	<u>\$ (748)</u>	<u>\$ 12,357,503</u>

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

Note 6 – Capital Assets – continued

Depreciation expense was charged to functions of the primary government as follows:

General government	\$ 28,338
Internal services	192,962
Public safety	952,622
Recreation and cultural services	555,614
Public works services	278,686
Urban development	1,247,419
Depreciation on the capital assets of the internal service fund	<u>719</u>
Total depreciation expense - governmental activities	<u>\$ 3,256,360</u>
Airport	\$ 131,604
Garbage	252,800
Golf Course	<u>315,385</u>
Total depreciation expense - business-type activities	<u>\$ 699,789</u>

Construction Commitments:

The City had active construction projects at the end of the fiscal year. At year end, the City's commitments related to these projects were as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Chestnut Street Streetscape	\$ 211,220	\$ 892,601
Noccalula Falls Renovations	3,296,996	129,807
Library Renovations (Main)	2,729,571	141,367
Riverfront Development	2,117,925	191,526
North Gadsden Park	187,654	28,156
Softball Field Renovations	59,063	86,154
Broad St. Bridge Lighting	8,270	3,230
E. Broad Street Park	806,671	7,921
Soccer & Track Complex	1,515,247	409,179
Museum 2	286	124,714
East Broad St. Development	10,100	12,100
Family Success Center	990,651	16,780
Wall Street (Mun Impr)	188,348	16,383
Tuscaloosa Avenue	1,311,898	88,364
Carve CC & Museum	46,623	3,377
Street Improvements - Coats Street	56,047	292,495
Drainage - South Gadsden	<u>48,753</u>	<u>144,525</u>
	<u>\$ 13,585,323</u>	<u>\$ 2,588,679</u>

These projects are being funded primarily from the proceeds of capital debt and capital grants.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 6 – Capital Assets - continued

Discretely Presented Component Units:

Gadsden Board of Education

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land and land improvements	\$ 5,585,827	\$ 196	\$ -	\$ 5,586,023
Construction in progress	<u>17,718,816</u>	<u>20,717,790</u>	<u>-</u>	<u>38,436,606</u>
Total capital assets not being depreciated	<u>23,304,643</u>	<u>20,717,986</u>	<u>-</u>	<u>44,022,629</u>
Other capital assets				
Buildings	23,751,061	-	(1,969,585)	21,781,476
Building improvements	14,601,032	-	-	14,601,032
Furniture and equipment	<u>8,042,327</u>	<u>460,415</u>	<u>(367,768)</u>	<u>8,134,974</u>
Total capital assets being depreciated	<u>46,394,420</u>	<u>460,415</u>	<u>(2,337,353)</u>	<u>44,517,482</u>
Less accumulated depreciation on				
Buildings	16,340,267	384,105	(1,278,756)	15,445,616
Building improvements	8,107,491	623,378	-	8,730,869
Furniture and equipment	<u>4,434,049</u>	<u>387,499</u>	<u>(367,768)</u>	<u>4,453,780</u>
Total accumulated depreciation	<u>28,881,807</u>	<u>1,394,982</u>	<u>(1,646,524)</u>	<u>28,630,265</u>
Total capital assets being depreciated, net	<u>17,512,613</u>	<u>(934,567)</u>	<u>(690,829)</u>	<u>15,887,217</u>
Total governmental activities capital assets, net	<u>\$ 40,817,256</u>	<u>\$ 19,783,419</u>	<u>\$ (690,829)</u>	<u>\$ 59,909,846</u>
Depreciation expense was charged to governmental functions as follows:				
Instructional services				\$ 999,170
Instructional support services				184,412
Operation and maintenance services				16,404
Auxiliary services				171,508
General administrative services				<u>23,488</u>
Total governmental activities depreciation expense				<u>\$ 1,394,982</u>

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 6 – Capital Assets - continued

Discretely Presented Component Units:

Gadsden Airport Authority

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 599,786	\$ -	\$ -	\$ 599,786
Land and land development costs - held for sale	4,843,150	664,398	455,588	5,051,960
Total capital assets not being depreciated	<u>5,442,936</u>	<u>664,398</u>	<u>455,588</u>	<u>5,651,746</u>
Other capital assets				
Airport runways	6,682,089	283,376	-	6,965,465
Buildings	111,315	64,485	-	175,800
Equipment	48,325	-	-	48,325
Improvements, other than building	821,025	17,123	-	838,148
Construction in progress	1,156,691	514,486	1,560,181	110,996
Total other capital assets at cost	<u>8,819,445</u>	<u>879,470</u>	<u>1,560,181</u>	<u>8,138,734</u>
Less accumulated depreciation for				-
Airport runways	4,550,613	124,884	-	4,675,497
Buildings	57,524	5,504	-	63,028
Equipment	48,325	-	-	48,325
Improvements, other than building	303,242	36,173	-	339,415
Total accumulated depreciation	<u>4,959,704</u>	<u>166,561</u>	<u>-</u>	<u>5,126,265</u>
Other capital assets, net	<u>3,859,741</u>	<u>712,909</u>	<u>1,560,181</u>	<u>3,012,469</u>
Business-type activities capital assets, net	<u>\$ 9,302,677</u>	<u>\$ 1,377,307</u>	<u>\$ 2,015,769</u>	<u>\$ 8,664,215</u>

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 7 – Interfund Receivables, Payables and Transfers

The following is a detailed listing of interfund balances at year-end:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Due to/from other funds		
General	\$ 2,757,662	\$ -
Golf course	-	932,850
Residential garbage	-	692,017
Community development	-	434,149
Chemical stockpile	-	348,058
Economic development	-	114,112
Emergency management	-	86,988
Transportation and planning	-	63,009
Airport	-	52,114
McKinney shelter program	-	26,869
Law enforcement	-	6,088
Summer Food Service Grant	-	1,408
	<u> </u>	<u> </u>
	<u>\$ 2,757,662</u>	<u>\$ 2,757,662</u>

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 7 – Interfund Receivables, Payables and Transfers – continued

<u>Transfers From General Fund - Transfers To</u>	<u>Purpose</u>	<u>Amount</u>
Residential Garbage	Operations	\$ 450,000
2002A GOW Debt Service	Debt Service	447,163
Capital Lease Obligation	Debt Service	428,976
Transit Grants	Operations	416,114
2005 GOW Debt Service	Debt Service	371,283
Golf Course	Operations	193,015
Aging Program Grant	Operations	62,748
Transportation and Planning	Operations	41,066
Law Enforcement Grant	Operations	15,728
2006B GOW Debt Service	Debt Service	13,710
2000 GOW Debt Service	Debt Service	1,575
2003A GOW Debt Service	Debt Service	1,520
1999 GOW Debt Service	Debt Service	1,313
2004A GOW Debt Service	Debt Service	992
2003B GOW Debt Service	Debt Service	955
Total Transfers From General Fund		<u>2,446,158</u>
<u>Transfers From School Ad Valorem - Transfers To</u>		
2002B GOW Debt Service	Debt Service	<u>239,498</u>
<u>Transfers From Capital Improvements Fund - Transfers To</u>		
2003B GOW Debt Service	Debt Service	1,869,078
2005 GOW Debt Service	Debt Service	652,523
Airport Authority Warrant	Debt Service	457,578
2004A GOW Debt Service	Debt Service	437,780
Capital Lease Obligation	Debt Service	201,905
Honda Assistance Debt Service	Debt Service	193,800
Capital Projects	Capital Outlay	181,418
2006B GOW Debt Service	Debt Service	135,970
2006A GOW Debt Service	Debt Service	53,514
General Fund	Operations	34,000
2003A GOW Debt Service	Debt Service	<u>20,590</u>
Total Transfers From Capital Improvements Fund		<u>4,238,156</u>
<u>Transfers From Nonmajor Governmental Funds - Transfers To</u>		
2005 GOW Debt Service	Debt Service	650,000
2003A GOW Debt Service	Debt Service	500,000
General Fund	Operations	455,015
Resurfacing Fund	Capital Outlay	338,766
2002A GOW Debt Service	Debt Service	200,000
Capital Leases	Debt Service	44,122
General Fund	Operations	3,401
2006A GOW Debt Service	Debt Service	<u>184</u>
Total Transfers From Nonmajor Governmental Funds		<u>2,191,488</u>
<u>Transfers From Proprietary Funds - Transfers To</u>		
General Fund	Operations	<u>1,300</u>
<u>Transfers of Capital Assets - Transfers To</u>		
Residential Garbage		<u>860</u>
		<u>\$ 9,117,460</u>

In the fund financial statements, total transfers in are different from total transfers out because of the accounting treatment of transfers of capital assets between governmental activities and proprietary activities. No amounts are reported in governmental funds because the amounts do not involve transfers of expendable available financial resources. However, proprietary funds do report the transfers at the net book value of the capital assets transferred.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 8 – Intra-Entity Receivables and Payables

Resource flows between the City and its discretely presented component units are reported as if they were external transactions - that is, as revenue and expenses. However, amounts payable and receivable between the City and its discretely presented component units or between those units are reported on a separate line in the statement of net assets.

Due From Component Units

On December 22, 2003, the City issued its \$29,560,000 General Obligation Warrants, Series 2003-B. These warrants were issued for the purpose of financing the costs of acquiring, constructing and equipping a new high school in connection with the consolidation of the Gadsden City Board of Education's existing three high schools. While the City is solely responsible for the debt service on these warrants, the City and the Board of Education executed a Funding Agreement that requires the Board of Education to make monthly payments to the City in the amount of \$75,000. \$ 13,458,249

Salary related expenses to be reimbursed for COPS in Schools grant program from the Board of Education. 64,322

On August 26, 2004, the Gadsden Airport Authority issued its \$6,905,000 Taxable Airport Revenue Bonds, Series 2004. These bonds were issued for the purpose of financing the acquisition and construction of a mixed-use community south and southeast of the Gadsden Municipal Airport, including the acquisition of approximately 405 acres of land and the construction of roads, sidewalks, sewers, parks and other improvements, and financing the acquisition and construction of an automotive mold-making facility in the Gadsden Airport Industrial Park that the Airport Authority will lease to a manufacturer. As an integral part of the issuance of these bonds, the City and the Airport Authority executed a Funding Agreement which requires the City to make the debt service payments on the bonds on behalf of the Airport Authority (see Due to Component Units below) and requires the Airport Authority to pay to the City all amounts received under its lease of the automotive mold-making facility. The amount due from the Airport Authority under this Funding Agreement has been recorded at its estimated present value. 1,211,327

Total Due From Component Units \$ 14,733,898

Due To Component Units

The Taxable Airport Revenue Bonds, Series 2004 discussed above are demand bonds which may be tendered for payment by the bondholder in whole or in part on any business day at a purchase price equal to 100% of the principal amount tendered plus accrued interest. Should this occur, the Remarketing Agent will use its best efforts to remarket all tendered bonds. In the event of a failed remarketing, the City will be required under the Funding Agreement discussed above to pay the purchase price of the bonds. To provide temporary short-term financing for this contingency, the City has obtained an irrevocable letter of credit from a financial institution in the amount of \$6,984,455. Because the Funding Agreement requires the City to make all debt service payments on behalf of the Airport Authority, an amount due to the Airport Authority has been recorded at the current principal balance outstanding on the bonds. \$ 6,905,000

School Ad Valorem Taxes receivable from taxpayers which are ultimately due to the Board of Education 455,485

Total Due to Component Units \$ 7,360,485

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 9 – Long-term Liabilities

Changes in long-term liabilities during the year are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
Governmental Activities						
General Obligation Warrants, Series 2006	\$ -	\$ 1,010,000	\$ (15,000)	\$ 995,000	\$ 30,000	\$ 965,000
General Obligation Warrants, Series 2005	16,315,000	-	(690,000)	15,625,000	835,000	14,790,000
General Obligation Warrants, Series 2004-A	5,005,000	-	(165,000)	4,840,000	170,000	4,670,000
General Obligation Warrants, Series 2003-A	8,145,000	-	(170,000)	7,975,000	175,000	7,800,000
General Obligation Warrants, Series 2003-B	28,535,000	-	(580,000)	27,955,000	590,000	27,365,000
General Obligation Warrants, Series 2002-A	3,890,000	-	(495,000)	3,395,000	510,000	2,885,000
General Obligation Warrants, Series 2002-B	1,615,000	-	(180,000)	1,435,000	180,000	1,255,000
Less deferred amounts						
For issuance discounts	(505,453)	-	24,616	(480,837)	-	(480,837)
On refunding	(901,778)	-	65,741	(836,037)	-	(836,037)
Plus deferred amounts						
For issuance premiums	141,029	-	(8,547)	132,482	-	132,482
Total general obligation warrants	62,238,798	1,010,000	(2,213,190)	61,035,608	2,490,000	58,545,608
Note payable	1,000,000	-	(500,000)	500,000	500,000	1,000,000
Note payable	-	3,000,000	(66,276)	2,933,724	89,420	2,844,304
Special obligation bonds - Honda assistance	1,488,852	-	(118,255)	1,370,597	124,071	1,246,526
HUD Section 108 Loans	-	2,400,000	-	2,400,000	199,758	2,200,242
Capital leases	923,951	1,572,112	(623,142)	1,872,921	712,147	1,160,774
Compensated absences	2,492,641	-	(530,378)	1,962,263	532,084	1,430,179
Claims and judgments	2,151,973	-	(378,440)	1,773,533	1,773,533	-
Governmental activities long-term liabilities	<u>\$ 70,296,215</u>	<u>\$ 7,982,112</u>	<u>\$ (4,429,681)</u>	<u>\$ 73,848,646</u>	<u>\$ 6,421,013</u>	<u>\$ 67,427,633</u>
Business-Type Activities						
General Obligation Warrants, Series 2003	\$ 320,000	\$ -	\$ (40,000)	\$ 280,000	\$ 40,000	240,000
Taxable general obligation warrants, Series 2005-B	1,500,000	-	(100,000)	1,400,000	100,000	1,300,000
Compensated absences	69,589	-	(25,167)	44,422	44,422	-
Accrued landfill closure and post closure	953,204	130,618	-	1,083,822	23,200	1,060,622
Business-type activities long-term liabilities	<u>\$ 2,842,793</u>	<u>\$ 130,618</u>	<u>\$ (165,167)</u>	<u>\$ 2,808,244</u>	<u>\$ 207,622</u>	<u>\$ 2,600,622</u>

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 9 – Long-term Liabilities – continued

The City’s internal service fund primarily serves the governmental funds. Accordingly, its long-term liabilities are included as part of the long-term liabilities of governmental activities above.

Compensated absences and claims and judgments liabilities of governmental activities typically have been liquidated from the general fund in prior years.

General Obligation Warrants, Special Obligation Bonds and Notes Payable

The City issues long-term bonds and warrants to provide funds for the acquisition and construction of major capital facilities. The bonds and warrants have been issued for both governmental and business-type activities. General obligation debt represents direct obligations and pledges the full faith and credit of the City. These bonds and warrants are generally issued as serial bonds and warrants with varying amounts of principal maturing each year.

Governmental Activities:

General Obligation Warrants dated June 12, 2006, are due in annual principal installments ranging from \$30,000 to \$325,000 through November 20, 2025, with variable interest payable semi-annually	\$ 995,000
General Obligation Warrants dated June 1, 2005, are due in annual principal installments ranging from \$690,000 to \$1,285,000 through March 1, 2022, with interest payable semi-annually at rates varying from 2.65 percent to 5.00 percent	15,625,000
Taxable General Obligation Warrants dated January 21, 2005, are due in annual principal installments ranging from \$160,000 to \$415,000 through August 1, 2024, with interest payable semi-annually at rates varying from 4.00 percent to 6.00 percent	4,840,000
General Obligation Refunding Warrants dated December 22, 2003, are due in annual principal installments ranging from \$170,000 to \$495,000 through August 1, 2033, with interest payable semi-annually at rates varying from 1.50 percent to 4.80 percent	7,975,000
General Obligation Warrants dated December 22, 2003, are due in annual principal installments ranging from \$455,000 to \$1,785,000 through August 1, 2033, with interest payable semi-annually at rates varying from 1.10 percent to 5.125 percent	27,955,000
General Obligation Warrants dated June 1, 2002, are due in annual principal installments ranging from \$485,000 to \$625,000 through September 1, 2012, with interest payable semi-annually at rates varying from 2.50 percent to 4.20 percent	3,395,000
General Obligation Refunding Warrants dated June 1, 2002, are due in annual principal installments ranging from \$25,000 to \$230,000 through February 1, 2013, with interest payable semi-annually at rates varying from 2.90 percent to 4.30 percent	1,435,000
Special Obligation Bonds dated July 1, 2000, issued by the East Central Alabama Industrial Development Authority of which the City is liable for approximately \$2,000,000, are due in annual principal installments ranging from \$118,255 to \$184,814, through February 1, 2015, with interest payable semi-annually at rates varying from 4.5 percent to 5.5 percent	1,370,597
Note payable dated April 12, 2005, due in twelve months with interest payable monthly at 4.88 percent	500,000
Note payable dated February 9, 2006, due in annual principal installments ranging from \$97,685 to \$907,840 through February 1, 2026, with interest payable semi-annually at 4.33 percent	2,933,724
HUD Section 108 Loans dated October 14, 2006, due in annual principal installments ranging from \$25,647 to \$322,672 through October 14, 2025, with interest payable semi-annually at LIBOR + 20 basis points	900,000
HUD Section 108 Loans dated October 14, 2006, due in annual principal installments ranging from \$42,745 to \$532,787 through October 14, 2025, with interest payable semi-annually at LIBOR + 20 basis points	<u>1,500,000</u>
Total	<u>\$ 69,424,321</u>

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 9 – Long-term Liabilities – continued

Business-type Activities:

General Obligation Warrants of 2006 dated April 28, 2005, are due in annual principal installments of \$100,000 beginning May 1, 2006 through May 1, 2020, with interest payable semi-annually at 6.51 percent	\$ 1,400,000
General Obligation Airport Warrants of 2003 are due in annual principal installments of \$40,000 beginning June 23, 2003 through June 23, 2013, with interest payable annually at 6.22 percent	<u>280,000</u>
Total	<u>\$ 1,680,000</u>

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CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 9 – Long-term Liabilities – continued

The following schedules show debt service to maturity for general obligation warrants, special obligation bonds and note payable outstanding at September 30, 2005:

	<u>Total</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Governmental Activities					
GOW, 2006 Series					
Principal	\$ 995,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 40,000
Interest	462,878	39,549	38,348	37,146	35,850
Total	<u>1,457,878</u>	<u>69,549</u>	<u>68,348</u>	<u>67,146</u>	<u>75,850</u>
GOW, 2005 Series					
Principal	15,625,000	835,000	860,000	885,000	905,000
Interest	5,318,141	587,659	564,555	539,240	512,390
Total	<u>20,943,141</u>	<u>1,422,659</u>	<u>1,424,555</u>	<u>1,424,240</u>	<u>1,417,390</u>
GOW, 2004-A Series					
Principal	4,840,000	170,000	180,000	185,000	195,000
Interest	3,048,800	266,180	259,380	252,180	244,780
Total	<u>7,888,800</u>	<u>436,180</u>	<u>439,380</u>	<u>437,180</u>	<u>439,780</u>
GOW, 2003-A Series					
Principal	7,975,000	175,000	180,000	180,000	185,000
Interest	6,100,630	347,530	343,680	339,180	334,050
Total	<u>14,075,630</u>	<u>522,530</u>	<u>523,680</u>	<u>519,180</u>	<u>519,050</u>
GOW, 2003-B Series					
Principal	27,955,000	590,000	605,000	620,000	640,000
Interest	22,522,423	1,277,768	1,264,788	1,249,663	1,231,993
Total	<u>50,477,423</u>	<u>1,867,768</u>	<u>1,869,788</u>	<u>1,869,663</u>	<u>1,871,993</u>
GOW, 2002-A Series					
Principal	3,395,000	510,000	530,000	555,000	575,000
Interest	439,403	136,818	56,418	95,218	73,850
Total	<u>3,834,403</u>	<u>646,818</u>	<u>586,418</u>	<u>650,218</u>	<u>648,850</u>
GOW, 2002-B Series					
Principal	1,435,000	180,000	190,000	195,000	205,000
Interest	215,704	53,648	47,120	39,899	32,045
Total	<u>1,650,704</u>	<u>233,648</u>	<u>237,120</u>	<u>234,899</u>	<u>237,045</u>
Special Obligation Bonds					
Honda Assistance					
Principal	1,370,597	124,071	130,533	136,995	143,457
Interest	381,873	70,569	64,552	58,025	51,107
Total	<u>1,752,470</u>	<u>194,640</u>	<u>195,085</u>	<u>195,020</u>	<u>194,564</u>
Note Payable					
Principal	500,000	500,000	-	-	-
Interest	10,575	10,575	-	-	-
Total	<u>510,575</u>	<u>510,575</u>	<u>-</u>	<u>-</u>	<u>-</u>
Note Payable					
Principal	2,933,724	97,685	101,715	106,617	111,393
Interest	1,435,690	126,835	122,805	117,903	113,127
Total	<u>4,369,414</u>	<u>224,520</u>	<u>224,520</u>	<u>224,520</u>	<u>224,520</u>
HUD Section 108 Loan					
Principal	900,000	25,647	27,073	28,578	30,167
Interest	613,736	50,040	48,614	47,109	45,520
Total	<u>1,513,736</u>	<u>75,687</u>	<u>75,687</u>	<u>75,687</u>	<u>75,687</u>
HUD Section 108 Loan					
Principal	1,500,000	42,745	45,121	47,630	50,278
Interest	1,022,891	83,400	81,023	78,515	75,866
Total	<u>2,522,891</u>	<u>126,145</u>	<u>126,144</u>	<u>126,145</u>	<u>126,144</u>
Total Governmental Activities					
Principal	69,424,321	3,280,148	2,879,442	2,969,820	3,080,295
Interest	41,572,744	3,050,571	2,891,283	2,854,078	2,750,578
Total	<u>\$ 110,997,065</u>	<u>\$ 6,330,719</u>	<u>\$ 5,770,725</u>	<u>\$ 5,823,898</u>	<u>\$ 5,830,873</u>

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 9 – Long-term Liabilities – continued

	<u>2011</u>	<u>2012-2016</u>	<u>2017-2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2036</u>
Governmental Activities						
GOW Series 2006						
Principal	\$ 40,000	\$ 220,000	\$ 280,000	\$ 325,000	\$ -	\$ -
Interest	34,243	146,583	97,121	34,038	-	-
Total	<u>74,243</u>	<u>366,583</u>	<u>377,121</u>	<u>359,038</u>	<u>-</u>	<u>-</u>
GOW Series 2005						
Principal	940,000	5,170,000	5,215,000	815,000	-	-
Interest	484,245	1,922,703	691,050	16,300	-	-
Total	<u>1,424,245</u>	<u>7,092,703</u>	<u>5,906,050</u>	<u>831,300</u>	<u>-</u>	<u>-</u>
GOW Series 2004-A						
Principal	205,000	1,180,000	1,550,000	1,175,000	-	-
Interest	235,030	1,009,440	638,110	143,700	-	-
Total	<u>440,030</u>	<u>2,189,440</u>	<u>2,188,110</u>	<u>1,318,700</u>	<u>-</u>	<u>-</u>
GOW Series 2003-A						
Principal	195,000	1,075,000	1,310,000	1,635,000	2,070,000	970,000
Interest	328,315	1,531,715	1,294,890	970,710	540,240	70,320
Total	<u>523,315</u>	<u>2,606,715</u>	<u>2,604,890</u>	<u>2,605,710</u>	<u>2,610,240</u>	<u>1,040,320</u>
GOW Series 2003-B						
Principal	655,000	3,665,000	4,515,000	5,780,000	7,400,000	3,485,000
Interest	1,212,153	5,687,988	4,828,918	3,566,388	1,949,808	252,960
Total	<u>1,867,153</u>	<u>9,352,988</u>	<u>9,343,918</u>	<u>9,346,388</u>	<u>9,349,808</u>	<u>3,737,960</u>
GOW Series 2002-A						
Principal	600,000	625,000	-	-	-	-
Interest	50,850	26,250	-	-	-	-
Total	<u>650,850</u>	<u>651,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
GOW Series 2002-B						
Principal	215,000	450,000	-	-	-	-
Interest	23,538	19,455	-	-	-	-
Total	<u>238,538</u>	<u>469,455</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Special Obligation Bonds -						
Honda Assistance						
Principal	150,565	684,975	-	-	-	-
Interest	43,934	93,686	-	-	-	-
Total	<u>194,499</u>	<u>778,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Note Payable						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Note Payable						
Principal	116,383	664,556	827,537	907,840	-	-
Interest	108,137	458,044	295,063	93,775	-	-
Total	<u>224,520</u>	<u>1,122,600</u>	<u>1,122,600</u>	<u>1,001,615</u>	<u>-</u>	<u>-</u>
HUD Section 108 Loan						
Principal	31,844	187,832	246,187	322,672	-	-
Interest	43,843	190,602	132,247	55,761	-	-
Total	<u>75,687</u>	<u>378,434</u>	<u>378,434</u>	<u>378,433</u>	<u>-</u>	<u>-</u>
HUD Section 108 Loan						
Principal	53,074	313,053	410,312	537,787	-	-
Interest	73,071	317,670	220,411	92,935	-	-
Total	<u>126,145</u>	<u>630,723</u>	<u>630,723</u>	<u>630,722</u>	<u>-</u>	<u>-</u>
Total Governmental Activities						
Principal	3,201,866	14,235,416	14,354,036	11,498,299	9,470,000	4,455,000
Interest	2,637,359	11,404,136	8,197,810	4,973,607	2,490,048	323,280
Total	<u>\$ 5,839,225</u>	<u>\$ 25,639,552</u>	<u>\$ 22,551,846</u>	<u>\$ 16,471,906</u>	<u>\$ 11,960,048</u>	<u>\$ 4,778,280</u>

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 9 – Long-term Liabilities – continued

	<u>Total</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Business-type Activities						
GOW, Series 2003						
Principal	\$ 280,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 80,000
Interest	69,664	17,416	14,928	12,440	9,952	7,464
Total	<u>349,664</u>	<u>57,416</u>	<u>54,928</u>	<u>52,440</u>	<u>49,952</u>	<u>87,464</u>
GOW, Series 2005-B						
Principal	1,400,000	100,000	100,000	100,000	100,000	100,000
Interest	627,528	92,406	86,041	79,205	72,605	66,004
Total	<u>2,027,528</u>	<u>192,406</u>	<u>186,041</u>	<u>179,205</u>	<u>172,605</u>	<u>166,004</u>
Total Business-type Activities						
Principal	1,680,000	140,000	140,000	140,000	140,000	140,000
Interest	697,192	109,822	100,969	91,645	82,557	73,468
Total	<u>2,377,192</u>	<u>249,822</u>	<u>240,969</u>	<u>231,645</u>	<u>222,557</u>	<u>213,468</u>
Total						
Principal	72,099,321	3,450,148	3,049,442	3,139,820	3,260,295	3,381,866
Interest	39,197,618	2,900,117	2,739,808	2,702,195	2,598,621	2,485,775
Total	<u>\$ 111,296,939</u>	<u>\$ 6,350,265</u>	<u>\$ 5,789,250</u>	<u>\$ 5,842,015</u>	<u>\$ 5,858,916</u>	<u>\$ 5,867,641</u>
	<u>2012-2016</u>	<u>2017-2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2036</u>	
Business-type Activities						
GOW, Series 2003						
Principal	\$ 80,000	\$ -	\$ -	\$ -	\$ -	
Interest	7,464	-	-	-	-	
Total	<u>87,464</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
GOW, Series 2005-B						
Principal	500,000	-	-	-	-	
Interest	231,268	-	-	-	-	
Total	<u>731,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Business-type Activities						
Principal	580,000	-	-	-	-	
Interest	238,732	-	-	-	-	
Total	<u>818,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total						
Principal	15,035,415	14,634,036	11,823,299	9,470,000	4,455,000	
Interest	10,676,551	7,550,089	4,731,135	2,490,048	323,280	
Total	<u>\$ 25,711,966</u>	<u>\$ 22,184,125</u>	<u>\$ 16,554,434</u>	<u>\$ 11,960,048</u>	<u>\$ 4,778,280</u>	

General Obligation Refunding

Due to favorable interest rates, during the year ended September 30, 2005, the City issued \$16,315,000 in general obligation warrants, of which \$16,123,400 was placed in an irrevocable trust for the purpose of generating resources for all future debt service payments through 2022 of series 1999 and 2000 bond issues. As a result, the refunded bonds are considered to be defeased and the liability has been removed. This advance refunding undertaken decreased total debt service payments over the next 20 years by a cash benefit of approximately \$378,000 and obtained an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of approximately \$286,000. As of September 30, 2006, \$14,300,000 of bonds are considered defeased.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

Note 9 – Long-term Liabilities – continued

Capital Leases

The city has entered into capital leases to finance the acquisition of computer equipment, vehicles and other equipment. These lease agreements are classified as capital leases for accounting purposes and, therefore, are reported as long-term liabilities at the present value of their future minimum lease payments.

The net carrying values of assets acquired under capital leases at year end were:

Governmental Activities	
Equipment	\$ 3,247,117
Less accumulated depreciation	<u>(822,231)</u>
Net carrying value	<u>\$ 2,424,886</u>

The future minimum lease payments and the net present value of these minimum lease payments were as follows at year end:

	Governmental Activities
Years ending September 30,	
2007	\$ 787,045
2008	588,270
2009	354,555
2010	121,428
2011	48,912
2012-2016	<u>154,888</u>
Total minimum lease payments	2,055,098
Less amounts representing interest	<u>(182,177)</u>
Present value of minimum lease payments	<u>\$ 1,872,921</u>

Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses and injuries to employees; and natural disasters. The City has established a limited risk management program for employee medical and workers' compensation. The City has purchased commercial insurance coverage for employee medical expenses exceeding \$50,000 per employee per year, and for workers' compensation claims exceeding \$300,000 per claim and for aggregate claims exceeding 275 percent of expected annual claims. The City has also purchased commercial insurance coverage for commercial general liability, automobile and property, public officials and other employee bonds, etc. with varying coverage amounts and deductibles. Settlements have not exceeded coverages in any of the last three fiscal years.

The liabilities for employee medical and workers' compensation claims are reported in the internal service fund. The liabilities for other legal claims (e.g. settlements of lawsuits against the City) are not reported as a fund liability until they become due and payable because they are paid from the general fund. The government-wide statement of net assets includes all liabilities for claims and judgments as part of long-term liabilities.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 9 – Long-term Liabilities – continued

Liabilities for claims and judgments are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (“IBNRs”). The result of the process to estimate the claims liabilities is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards.

Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liabilities also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liabilities estimate. Changes in the balances of claims liabilities during the fiscal year were:

	Workers' Compensation and Medical Claims	Legal Claims	Total
Unpaid claims, beginning of year	\$ 1,644,388	\$ 507,585	\$ 2,151,973
Incurred claims (including IBNRs)	321,010	169,263	490,273
Claim payments	(321,010)	(134,323)	(455,333)
Liability estimate reduction	<u>(413,380)</u>	<u>-</u>	<u>(413,380)</u>
Unpaid claims, end of year	<u>\$ 1,231,008</u>	<u>\$ 542,525</u>	<u>\$ 1,773,533</u>

The Board of Education 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 Board of Education has insurance for its buildings and contents through the State Insurance Fund (“SIF”), Alabama Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board of Education pays the annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance is purchased from Alabama Risk Management for Schools (“ARMS”), a public entity risk pool. ARMS collects premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board of Education purchases commercial insurance for fidelity bonds. Settled claims in the past three years have not exceeded the commercial insurance coverage.

The Board of Education’s employee health insurance is provided through the Public Education Employees’ Health Insurance Fund (“PEEHIF”), administered by the Public Education Employees’ Health Insurance Board. The fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually by the plan’s actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board of Education contributes the specified amount monthly to the PEEHIF for each employee. The Board of Education contribution is applied against the employees’ premium for the coverage selected and the employee pays any remaining premium.

The State Board of Adjustments is a state agency with which people can file claims against the Board of Education to collect reimbursement for damages when all other means have been exhausted. The Board of Education does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board of Education. Several such claims or related settlements have occurred in the past three years.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 9 – Long-term Liabilities – continued

Landfill Closure and Post Closure Care Cost

State and federal laws and regulations require the City to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the city reports a portion of these closure and post closure care costs as an operating expense of the residential garbage enterprise fund in each period based on landfill capacity used as of fiscal year end.

The \$1,083,822 reported as landfill closure and post closure care liability at September 30, 2006, represents the cumulative amount reported to date, based on the use of 58 percent of the estimated capacity of its Brunsway Drive site and post closure care costs for 26 remaining years at the Noccalula Falls sites. The City will recognize the remaining estimated cost of closure and post closure care of \$503,822 as the remaining estimated capacity of the Brunsway Drive site is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2006. The City expects to close the Brunsway Drive site in the year 2026. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City met the Environmental Protection Agency's ("EPA") regulations regarding financial assurance provisions by meeting the EPA's financial test as of September 30, 2006.

Note 10 – Contingencies

Various lawsuits are pending against the City. In addition, numerous claims have been filed which have not yet resulted in lawsuits. In the opinion of the City Attorney, the potential adverse impact of all these claims, individually or in the aggregate, would not be material to the financial statements of the City.

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

Note 11 – Pension Funds

Employees' Retirement System of Alabama

Plan Description: The City contributes to the Employees' Retirement System of Alabama ("RSA"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees are members of the RSA. Membership is mandatory for covered or eligible employees. 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, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125 percent of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to Plan members.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 11 – Pension Funds – continued

The RSA was established as of October 1, 1945, under the provisions of Act 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 RSA is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama.

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

Funding Policy: For the fiscal year 2006, the member contribution rate for state correctional officers, certified full-time firefighters, and certified full-time law enforcement officers remains at 6% of the employee’s compensation. Regular member contributions remain at 5% of employee compensation. The City is required to contribute at an actuarially determined rate, which is currently 21.67% of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by the ERSA Board of Control.

Annual Pension Cost: The actuarial valuation is made annually one year in arrears. The most recent valuation was made as of September 30, 2005. The City’s annual pension cost for the year ended September 30, 2006, of \$4,249,373 was equal to the City’s required and actual contributions. The required contribution was determined as part of the September 30, 2005, actuarial valuation.

Actuarial Valuation Information:

Valuation date	9/30/2005
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	13 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.00%
Projected salary increases *	4.61% – 7.75%
*Includes inflation at	4.50%
Cost-of-living adjustments	None

Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2002	\$ 454,113	100%	-
9/30/2003	3,187,378	100%	-
9/30/2004	3,855,798	100%	-
9/30/2005	4,006,289	100%	-

The Board of Education contributes to the Teachers’ Retirement System of Alabama (“TRSA”), a cost-sharing multiple-employer public retirement system for the various state-supported educational agencies and institutions. The plan is administered by RSA. Employees are required by statute to contribute 5 percent of their salary to the plan. The Board of Education is required to contribute the remaining amounts necessary to fund the plan.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 11 – Pension Funds – continued

Deferred Compensation Plan

The City and Board of Education offer their employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan RSA-1 is administered by the Retirement Systems of Alabama (“RSA”). The plan, available to all City and Board of Education employees participating in the Employees’ Retirement System, 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 of October 1, 1997, RSA amended the plan such that all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of plan participants and their beneficiaries. The assets of the plan cannot be diverted for any other purpose and, therefore, are not reflected in the City’s financial statements.

In addition, the City offers another Section 457 deferred compensation plan to its employees. All City employees are eligible to participate in this optional plan. The assets of the plan cannot be diverted for use by the City and, therefore, are not reflected in the City’s financial statements.

Other Post-Employment Benefits: The City also provides post-retirement health care, prescription drug, and life insurance benefits, in accordance with City statutes, to all retirees qualifying for benefits through the State of Alabama Retirement System and who, upon retirement, elect to remain on the group health program.

In the past, coverage has been extended to those employees who did not elect to participate in the RSA program when it was originally offered and participation was optional. If the employee has sufficient years of service to have retired from the City, but did not choose participation in the retirement program for eligibility purposes of this program, these employees have been considered retirees of the City.

The City is subsidizing the amount of validated claims for this division at approximately 61 percent for medical and hospitalization cost for eligible retirees and their dependents. This includes secondary payments of approved charges not paid by Medicare for those retirees and dependents covered by Medicare.

During the fiscal year ended September 30, 1991, the City adopted an ordinance that limits post-retirement health care benefits for all employees retiring after October 1, 1991. This ordinance specifically requires that any employee retiring before age 55 will pay 100 percent of the applicable premiums. Employees retiring due to medical disability or retiring between the ages of 55 and 65 will have their premiums subsidized by the City at \$150 per month for family coverage and \$65 for single coverage.

Expenditures for post-retirement health care benefits are recognized as retirees report claims. As of September 30, 2005, there were 159 former employees that were receiving benefits. The City finances the plan on a pay-as-you-go basis. For the year ended September 30, 2006, the City recognized \$1,217,294 of expenditures before retiree contributions of \$450,718.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 12 – Special Items

During the fiscal year 2006, the City had several special items occur. One, the City borrowed and transferred \$3,000,000 to the Board of Education to assist in the construction of new athletic facilities for the Gadsden City High School. Two, the City transferred to the Gadsden Airport Authority \$777,334 for infrastructure expenditures on a planned residential community project and \$268,400 for the purchase of real property. Also, as discussed earlier, the City executed a Funding Agreement with the Gadsden Airport Authority that obligates the City to pay the debt service on the Airport Authority's \$6,905,000 Taxable Airport Revenue Bonds, Series 2004. Debt service payments for the fiscal period 2006 to the Gadsden Airport Authority totaled \$225,360. The Funding Agreement requires the Airport Authority to pay the City all amounts collected under its \$1,200,000 lease of facilities. These items have been reported as a special items because they were a significant transaction, subject to managements control, and either unusual in nature or infrequent in occurrence.

Subsequent to year end, the Gadsden Airport Authority voted to stop work on the planned residential community project. As a result of the vote, the City was reimbursed \$375,651 of its contribution in December 2006.

Note 13 – Recently Issued Accounting Standards

The following recently issued accounting standards have been or will be adopted by the City in the fiscal period stated:

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB 42 requires that governments report the effects of capital asset impairment in their financial statements when it occurs, rather than over the remaining useful life of the asset. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. GASB 42 requires governments to evaluate major events affecting capital assets to determine whether they are impaired. Those events include physical damage, changes in legal or environmental factors, technological changes or obsolescence, changes in the manner or duration of use, and construction stoppage. GASB 42 also enhances comparability of financial statements by requiring all governments to account for insurance recoveries in the same manner. Insurance recoveries associated with events or changes in circumstances resulting in impairment of a capital asset should be netted with the impairment loss. Restoration or replacement of the capital asset using the insurance recovery will be reported as a separate transaction. GASB 42 includes several disclosure requirements that will assist users of financial statements in understanding the nature and impact of impairment of capital assets. Disclosures are required for impairment losses that are not evident from the face of the financial statements, for impaired capital assets that are idle, and for insurance recoveries that are not evident from the face of the financial statements. GASB 42 is effective for the City's fiscal year ended September 30, 2006, and its adoption did not have a material effect on the City's basic financial statements.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 43 establishes uniform financial reporting standards for postemployment benefit plans other than pension plans and supersedes the interim guidance included in GASB 26. The approach followed in GASB 43 generally is consistent with the approach adopted for pension plans in GASB 25, with modifications to reflect differences between pension plans and other postemployment benefits ("OPEB") plans. GASB 43 is effective for the City's fiscal year ending September 30, 2008, and its adoption is not expected to have a material effect on the City's basic financial statements.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2006

Note 13 – Recently Issued Accounting Standards – continued

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*. GASB 44 amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section of governmental financial reports. GASB 44 improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the financial reporting model required by GASB 34. GASB 44 is effective for the City's fiscal year ended September 30, 2006, and its adoption did not have a material effect on the City's basic financial statements.

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 45 establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers. GASB 45 improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB expense over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB 45 is effective for the City's fiscal year ending September 30, 2009, and its effect on the City's basic financial statements has not yet been determined.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB 46 clarifies the meaning of the phrase "legally enforceable" as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting requirements for those restricted net assets. GASB 46 is effective for the City's fiscal year ended September 30, 2006, and its adoption did not have a material effect on the City's basic financial statements.

Note 14 – Prior Period Adjustment

In June 1999, the GASB unanimously approved GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. This statement provided for the most significant change in financial reporting in over twenty years and became effective for the City on October 1, 2002. As part of this statement, there was a new reporting requirement regarding the City's infrastructure (roads, bridges, drainage, traffic signals, etc.). This requirement allowed for an optional four-year delay until October 1, 2006 for retroactively capitalizing infrastructure assets that were acquired after September 30, 1980. The City has elected to retroactively report infrastructure assets in annual phases by infrastructure asset class beginning October 1, 2004. During the year ended September 30, 2006, the City retroactively capitalized bridge infrastructure assets of \$662,085, net of accumulated depreciation of \$856,838. This has been accounted for as a prior period adjustment in the government-wide statement of activities.

CITY OF GADSDEN, ALABAMA

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended September 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 33,275,000	\$ 33,275,000	\$ 34,739,562	\$ 1,464,562
Licenses and permits	5,354,300	5,354,300	5,545,800	191,500
Intergovernmental	187,124	214,874	222,757	7,883
Charges for services	1,072,000	1,072,000	1,466,828	394,828
Fines and forfeitures	670,000	670,000	637,552	(32,448)
Other revenue	1,019,152	1,021,152	680,145	(341,007)
Total revenue	<u>41,577,576</u>	<u>41,607,326</u>	<u>43,292,644</u>	<u>1,685,318</u>
Expenditures				
Current				
General government	2,270,389	2,425,139	2,077,938	347,201
Internal services	3,324,840	3,345,934	3,295,843	50,091
Public safety	18,140,229	18,570,183	17,565,087	1,005,096
Recreation and cultural services	5,508,582	7,384,283	7,130,021	254,262
Public works services	6,906,711	5,119,619	4,872,696	246,923
Urban development	1,844,281	3,823,411	3,726,842	96,569
Non-departmental	2,406,965	1,033,199	765,445	267,754
Intergovernmental	-	1,448,000	1,446,939	1,061
Debt service				
Principal	-	500,000	500,000	-
Interest and fiscal charges	-	25,215	35,409	(10,194)
Total expenditures	<u>40,401,997</u>	<u>43,674,983</u>	<u>41,416,220</u>	<u>2,258,763</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,175,579</u>	<u>(2,067,657)</u>	<u>1,876,424</u>	<u>3,944,081</u>
Other financing sources (uses)				
Sale of assets	100,000	-	122,110	122,110
Transfers	(1,275,579)	(1,439,648)	(1,952,442)	(512,794)
Total other financing sources (uses)	<u>(1,175,579)</u>	<u>(1,439,648)</u>	<u>(1,830,332)</u>	<u>(390,684)</u>
Special items				
Transfers to component units	-	1,045,733	1,045,734	1
Total special items	<u>-</u>	<u>1,045,733</u>	<u>1,045,734</u>	<u>1</u>
Net Change in Fund Balances	-	(4,553,038)	(999,642)	3,553,396
Fund Balance - Beginning of Year	<u>6,032,786</u>	<u>-</u>	<u>7,070,126</u>	<u>7,070,126</u>
Fund Balance - End of Year	<u>\$ 6,032,786</u>	<u>\$ (4,553,038)</u>	<u>\$ 6,070,484</u>	<u>\$ 10,623,522</u>

CITY OF GADSDEN, ALABAMA
SCHOOL AD VALOREM TAX FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance from</u> <u>Final Budget-</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 780,000	\$ 780,000	\$ 822,257	\$ 42,257
Other	<u>13,000</u>	<u>13,000</u>	<u>21,762</u>	<u>8,762</u>
Total revenue	<u>793,000</u>	<u>793,000</u>	<u>844,019</u>	<u>51,019</u>
Expenditures				
Intergovernmental	<u>553,502</u>	<u>553,502</u>	<u>606,815</u>	<u>(53,313)</u>
Total expenditures	<u>553,502</u>	<u>553,502</u>	<u>606,815</u>	<u>(53,313)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>239,498</u>	<u>239,498</u>	<u>237,204</u>	<u>104,332</u>
Other financing sources (uses)				
Transfers	<u>(239,498)</u>	<u>(239,498)</u>	<u>(239,498)</u>	<u>-</u>
Total other financing sources (uses)	<u>(239,498)</u>	<u>(239,498)</u>	<u>(239,498)</u>	<u>-</u>
Net Change in Fund Balances	-	-	(2,294)	104,332
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>11,866</u>	<u>(11,866)</u>
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,572</u>	<u>\$ 9,572</u>

CITY OF GADSDEN, ALABAMA
SCHEDULE OF PENSION PLAN FUNDING PROGRESS
September 30, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL Percentage of Covered Payroll (b-a)/c
9/30/1996	\$ 20,007,386	\$ 22,420,301	\$ 2,412,915	89.2%	\$ 8,100,877	29.8%
9/30/1997	26,094,111	24,407,043	(1,687,068)	106.9%	8,555,168	-19.7%
9/30/1998	27,874,155	27,067,430	(806,725)	103.0%	8,889,779	-9.1%
9/30/1999	29,921,618	29,260,670	(660,948)	102.3%	9,208,542	-7.2%
9/30/2000	31,540,596	30,853,684	(686,912)	102.2%	9,233,860	-7.4%
9/30/2001	32,401,858	32,404,526	2,668	100.0%	9,374,545	0.0%
9/30/2002	40,491,874	72,026,746	31,534,872	56.2%	17,354,447	181.7%
9/30/2003	43,842,694	76,321,773	32,479,079	54.4%	18,719,676	172.5%
9/30/2004	46,642,962	76,353,027	29,710,065	61.1%	18,283,540	162.5%
9/30/2005	49,780,583	88,970,788	39,190,205	56.0%	18,966,254	206.6%

Note: The City's unfunded actuarial accrued liability was significantly affected during 2002 by the termination of the City's Policemen's and Firemen's Retirement Fund, which has a UALL in excess of \$30,000,000. In addition, the employees formerly covered by that plan are now covered by RSA, which explains the sharp increase in covered payroll during 2002.

CITY OF GADSDEN, ALABAMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2006

	Special Revenue Funds													
	Total Nonmajor Funds	Special Auto Tax	State Gas Tax	Lodging Tax	Community Development	Ad Valorem Fire Tax	Library Grants	Tobacco Tax	Local Law Enforcement Block Grant	DARE Grant	Drug Task Force	Summer Food Service	Aging Program	Transportation and Planning
Assets														
Cash and cash equivalents	\$ 3,686,548	\$ 18,879	\$ 29,900	\$ 232,473	\$ 130,110	\$ 350,493	\$ 114,349	\$ 11,421	\$ -	\$ 1,262	\$ 94,824	\$ -	\$ 5,904	\$ -
Investments	52,597	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles														
Taxes	1,233,775	-	-	31,641	-	1,129,291	-	-	-	-	-	-	-	-
Intergovernmental	1,959,980	10,989	43,282	-	915,744	-	-	-	-	-	-	-	-	69,715
Other	1,674	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash	1,450,001	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 8,384,575	\$ 29,868	\$ 73,182	\$ 264,114	\$ 1,045,854	\$ 1,479,784	\$ 114,349	\$ 11,421	\$ -	\$ 1,262	\$ 94,824	\$ -	\$ 5,904	\$ 69,715
Liabilities and Fund Balances														
Liabilities														
Accounts payable and other liabilities	\$ 749,035	\$ -	\$ -	\$ -	\$ 487,538	\$ 20,049	\$ 7,351	\$ -	\$ -	\$ -	\$ 216	\$ -	\$ 1,151	\$ 133
Accrued payroll and related liabilities	22,574	-	-	-	4,736	-	-	-	-	-	-	-	1,611	2,411
Due to other funds	1,080,681	-	-	-	434,149	-	-	-	-	-	-	1,408	-	63,009
Deferred revenue	1,150,765	-	-	-	-	1,106,944	-	-	-	-	43,821	-	-	-
Total liabilities	<u>3,003,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>926,423</u>	<u>1,126,993</u>	<u>7,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,037</u>	<u>1,408</u>	<u>2,762</u>	<u>65,553</u>
Fund Balances														
Reserved for encumbrances	1,276,424	-	-	-	-	19,161	10,350	-	-	-	-	-	-	3,400
Reserved for debt service	1,450,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserved for library endowment	269,482	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved, designated for future expenditures	891,786	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved and undesignated	1,493,828	29,868	73,182	264,114	119,431	333,630	96,648	11,421	-	1,262	50,787	(1,408)	3,142	762
Total fund balances	<u>5,381,520</u>	<u>29,868</u>	<u>73,182</u>	<u>264,114</u>	<u>119,431</u>	<u>352,791</u>	<u>106,998</u>	<u>11,421</u>	<u>-</u>	<u>1,262</u>	<u>50,787</u>	<u>(1,408)</u>	<u>3,142</u>	<u>4,162</u>
Total Liabilities and Fund Balances	\$ 8,384,575	\$ 29,868	\$ 73,182	\$ 264,114	\$ 1,045,854	\$ 1,479,784	\$ 114,349	\$ 11,421	\$ -	\$ 1,262	\$ 94,824	\$ -	\$ 5,904	\$ 69,715

CITY OF GADSDEN, ALABAMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (continued)
September 30, 2006

	Special Revenue Funds										Debt Service Funds	
	Gadsden Transit Service	McKinney Shelter	Chemical Stockpile	Emergency Management	Economic Development	RSA Supplemental Premium	Law Enforcement	Other Restricted Funds	Miscellaneous Grants	Total Special Revenue Funds	School	1999 GOW Debt Service
Assets												
Cash and cash equivalents	\$ 115,422	\$ -	\$ -	\$ -	\$ 45,000	\$ -	\$ -	\$ 77,782	\$ 4,405	\$ 1,232,224	\$ -	\$ -
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles												
Taxes	-	-	-	-	72,843	-	-	-	-	1,233,775	-	-
Intergovernmental	86,430	36,761	369,959	86,988	-	-	58,790	-	-	1,678,658	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	1
Total Assets	201,852	36,761	369,959	86,988	117,843	-	58,790	77,782	4,405	4,144,657	-	1
Liabilities and Fund Balances												
Liabilities												
Accounts payable and other liabilities	\$ 16,575	\$ 9,892	\$ 17,766	\$ -	\$ -	\$ -	\$ -	\$ 655	\$ 1	\$ 561,327	\$ -	\$ -
Accrued payroll and related liabilities	11,506	-	2,310	-	-	-	-	-	-	22,574	-	-
Due to other funds	-	26,869	348,058	86,988	114,112	-	6,088	-	-	1,080,681	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	1,150,765	-	-
Total liabilities	<u>28,081</u>	<u>36,761</u>	<u>368,134</u>	<u>86,988</u>	<u>114,112</u>	<u>-</u>	<u>6,088</u>	<u>655</u>	<u>1</u>	<u>2,815,347</u>	<u>-</u>	<u>-</u>
Fund Balances												
Reserved for encumbrances	33,621	-	-	-	-	-	-	41,144	-	107,676	-	-
Reserved for debt service	-	-	-	-	-	-	-	-	-	-	-	-
Reserved for library endowment	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved, designated for future expenditures	-	-	-	-	-	-	-	54,526	4,400	58,926	-	-
Unreserved and undesignated	140,150	-	1,825	-	3,731	-	52,702	(18,543)	4	1,162,708	-	1
Total fund balances	<u>173,771</u>	<u>-</u>	<u>1,825</u>	<u>-</u>	<u>3,731</u>	<u>-</u>	<u>52,702</u>	<u>77,127</u>	<u>4,404</u>	<u>1,329,310</u>	<u>-</u>	<u>1</u>
Total Liabilities and Fund Balances	\$ 201,852	\$ 36,761	\$ 369,959	\$ 86,988	\$ 117,843	\$ -	\$ 58,790	\$ 77,782	\$ 4,405	\$ 4,144,657	\$ -	\$ 1

CITY OF GADSDEN, ALABAMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (continued)
September 30, 2006

	Debt Service Funds												Total Debt Service Funds
	2000 GOW Debt Service	Honda Assistance	2002A GOW Debt Service	2002B GOW Debt Service	2003A GOW Debt Service	2003B GOW Debt Service	2004A GOW Debt Service	Airport Authority	2005 GOW Debt Service	2006A GOW Debt Service	2006B GOW Debt Service	Capital Leases	
Assets													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles													
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash	-	1,019	67,629	133,365	95,945	341,547	80,029	9,187	714,873	6,406	-	-	1,450,001
Total Assets	-	1,019	67,629	133,365	95,945	341,547	80,029	9,187	714,873	6,406	-	-	1,450,001
Liabilities and Fund Balances													
Liabilities													
Accounts payable and other liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,235	\$ 5,235
Accrued payroll and related liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	5,235	5,235
Fund Balances													
Reserved for encumbrances	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserved for debt service	-	1,019	67,629	133,365	95,945	341,547	80,029	9,187	714,873	6,406	-	-	1,450,000
Reserved for library endowment	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved, designated for future expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved and undesignated	-	-	-	-	-	-	-	-	-	-	-	(5,235)	(5,234)
Total fund balances	-	1,019	67,629	133,365	95,945	341,547	80,029	9,187	714,873	6,406	-	(5,235)	1,444,766
Total Liabilities and Fund Balances	\$ -	\$ 1,019	\$ 67,629	\$ 133,365	\$ 95,945	\$ 341,547	\$ 80,029	\$ 9,187	\$ 714,873	\$ 6,406	\$ -	\$ -	\$ 1,450,001

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET (continued)

September 30, 2006

	Capital Projects Funds									Permanent Funds			
	Municipal Capital Improvements Funds	Capital Project Funds	Resurfacing Project 1999	1999 GOW Capital Project	2003A GOW Capital Project	2004A GOW Capital Project	2006A GOW Capital Project	2006B GOW Capital Project	Total Capital Project Funds	Nell Thomas Library	Library Endowment	Allison B. Rains	Total Permanent Funds
Assets	\$ 112,377	\$ 1,091,814	\$ 142,824	\$ 4,261	\$ 252,686	\$ 55,536	\$ 542,476	\$ 36,997	\$ 2,238,971	\$ 164,051	\$ 22,913	\$ 28,389	\$ 215,353
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	52,597	-	52,597
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	-	281,322	-	-	-	-	-	-	281,322	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	1,674	-	1,674
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-
	<u>112,377</u>	<u>1,373,136</u>	<u>142,824</u>	<u>4,261</u>	<u>252,686</u>	<u>55,536</u>	<u>542,476</u>	<u>36,997</u>	<u>2,520,293</u>	<u>164,051</u>	<u>77,184</u>	<u>28,389</u>	<u>269,624</u>
Total Assets													
Liabilities and Fund Balances													
Liabilities	\$ -	\$ 145,074	\$ 26,845	\$ -	\$ 521	\$ -	\$ 10,033	\$ -	182,473	\$ -	\$ -	\$ -	-
Accounts payable and other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued payroll and related liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	145,074	26,845	-	521	-	10,033	-	182,473	-	-	-	-
Total liabilities	-	145,074	26,845	-	521	-	10,033	-	182,473	-	-	-	-
Fund Balances	-	959,853	8,061	3,230	59,090	-	138,372	-	1,168,606	142	-	-	142
Reserved for encumbrances	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserved for debt service	-	-	-	-	-	-	-	-	-	163,909	77,184	28,389	269,482
Reserved for library endowment	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved, designated for future expenditures	-	268,209	-	1,031	43,989	15,089	504,542	-	832,860	-	-	-	-
	<u>112,377</u>	<u>-</u>	<u>107,918</u>	<u>-</u>	<u>149,086</u>	<u>40,447</u>	<u>(110,471)</u>	<u>36,997</u>	<u>336,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unreserved and undesignated	<u>112,377</u>	<u>1,228,062</u>	<u>115,979</u>	<u>4,261</u>	<u>252,165</u>	<u>55,536</u>	<u>532,443</u>	<u>36,997</u>	<u>2,337,820</u>	<u>164,051</u>	<u>77,184</u>	<u>28,389</u>	<u>269,624</u>
Total fund balances													
Total Liabilities and	<u>\$ 112,377</u>	<u>\$ 1,373,136</u>	<u>\$ 142,824</u>	<u>\$ 4,261</u>	<u>\$ 252,686</u>	<u>\$ 55,536</u>	<u>\$ 542,476</u>	<u>\$ 36,997</u>	<u>\$ 2,520,293</u>	<u>\$ 164,051</u>	<u>\$ 77,184</u>	<u>\$ 28,389</u>	<u>\$ 269,624</u>

CITY OF GADSDEN, ALABAMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006

	Special Revenue Funds												
	Total Nonmajor Funds	Special Auto Tax	State Gas Tax	Lodging Tax	Community Development	Ad Valorem Fire Tax	Library Grants	Tobacco Tax	Local Law Enforcement Block Grant	DARE Grant	Drug Task Force	Summer Food Service	Aging Program
Revenue													
Taxes	\$ 1,927,180	\$ -	\$ -	\$ 193,725	\$ -	\$ 828,351	\$ -	\$ 491,724	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	5,798,682	114,791	484,365	-	2,429,594	-	165,967	-	-	1	-	77,361	22,884
Charges for services	61,776	-	-	-	-	-	-	-	-	-	-	-	-
Fines and forfeitures	29,155	-	-	-	-	-	-	-	-	-	-	-	-
Other	712,245	1,889	424	9,845	86,900	32,703	11,266	4,008	-	1,176	32,841	-	136
Total revenue	8,529,038	116,680	484,789	203,570	2,516,494	861,054	177,233	495,732	-	1,177	32,841	77,361	23,020
Expenditures													
Current													
Internal services	7,276	-	-	-	3,713	-	-	-	-	-	-	-	-
Public safety	2,272,885	-	-	-	-	966,827	-	-	-	6,338	41,160	-	-
Recreation and cultural services	546,757	-	-	-	-	-	233,810	-	-	-	-	78,769	82,626
Public works services	236,234	-	236,234	-	-	-	-	-	-	-	-	-	-
Urban development	5,825,531	-	-	-	4,700,606	-	-	-	-	-	-	-	-
Non-departmental	52,325	-	-	16,065	-	-	-	-	-	-	-	-	-
Intergovernmental	100,000	-	-	-	100,000	-	-	-	-	-	-	-	-
Debt service													
Principal	3,102,639	-	-	-	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	3,313,605	-	-	-	82,451	-	-	-	-	-	-	-	-
Capital outlays	3,626,568	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	19,083,820	-	236,234	16,065	4,886,770	966,827	233,810	-	-	6,338	41,160	78,769	82,626
Excess (deficiency) of revenue over (under) expenditures	(10,554,782)	116,680	248,555	187,505	(2,370,276)	(105,773)	(56,577)	495,732	-	(5,161)	(8,319)	(1,408)	(59,606)
Other Financing Sources (Uses)													
Proceeds from debt	6,410,000	-	-	-	2,400,000	-	-	-	-	-	-	-	-
Proceeds from sale of assets	70,000	-	-	-	2,846	14,000	-	-	-	-	-	-	-
Transfers	5,788,381	(150,000)	(188,766)	(133,825)	-	(44,122)	-	(650,000)	-	-	-	-	62,748
Proceeds of refunding warrants	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment to refunded warrant escrow agent	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	12,268,381	(150,000)	(188,766)	(133,825)	2,402,846	(30,122)	-	(650,000)	-	-	-	-	62,748
Special Items													
Transfers to component units	3,000,000	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Fund Balances	(1,286,401)	(33,320)	59,789	53,680	32,570	(135,895)	(56,577)	(154,268)	-	(5,161)	(8,319)	(1,408)	3,142
Fund Balances - Beginning of Year	6,667,921	63,188	13,393	210,434	86,861	488,686	163,575	165,689	-	6,423	59,106	-	-
Fund Balances - End of Year	\$ 5,381,520	\$ 29,868	\$ 73,182	\$ 264,114	\$ 119,431	\$ 352,791	\$ 106,998	\$ 11,421	\$ -	\$ 1,262	\$ 50,787	\$ (1,408)	\$ 3,142

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUE, EXPENDITURES

AND CHANGES IN FUND BALANCES - CONTINUED

For the Year Ended September 30, 2006

	Special Revenue Funds											Debt Service
	Transportation and Planning	Gadsden Transit Grants	McKinney Shelter	Chemical Stockpile	Emergency Management	Economic Development	RSA Supplemental Premium	Law Enforcement	Other Restricted Funds	Miscellaneous Grants	Total Special Revenue Funds	School
Revenue												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 412,561	\$ -	\$ -	\$ 819	\$ -	\$ 1,927,180	\$ -
Intergovernmental	144,065	445,014	76,589	705,819	368,335	-	-	102,164	-	111,197	5,248,146	-
Charges for services	-	61,776	-	-	-	-	-	-	-	-	61,776	-
Fines and forfeitures	-	-	-	-	-	-	18,459	-	10,696	-	29,155	-
Other	-	4	-	-	-	86,310	10,914	79	111,116	49	389,660	-
Total revenue	<u>144,065</u>	<u>506,794</u>	<u>76,589</u>	<u>705,819</u>	<u>368,335</u>	<u>498,871</u>	<u>29,373</u>	<u>102,243</u>	<u>122,631</u>	<u>111,246</u>	<u>7,655,917</u>	<u>-</u>
Expenditures												
Current												
Internal services	-	-	-	-	-	-	-	-	-	-	3,713	-
Public safety	-	-	-	705,819	368,335	-	-	65,269	7,940	111,197	2,272,885	-
Recreation and cultural services	-	-	-	-	-	-	-	-	130,792	345	526,342	-
Public works services	-	-	-	-	-	-	-	-	-	-	236,234	-
Urban development	180,080	827,089	76,589	-	-	-	-	-	41,167	-	5,825,531	-
Non-departmental	-	-	-	-	-	-	-	-	31,260	-	47,325	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	100,000	-
Debt service												
Principal	-	-	-	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	82,451	-
Capital outlays	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>180,080</u>	<u>827,089</u>	<u>76,589</u>	<u>705,819</u>	<u>368,335</u>	<u>-</u>	<u>-</u>	<u>65,269</u>	<u>211,159</u>	<u>111,542</u>	<u>9,094,481</u>	<u>-</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(36,015)</u>	<u>(320,295)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>498,871</u>	<u>29,373</u>	<u>36,974</u>	<u>(88,528)</u>	<u>(296)</u>	<u>(1,438,564)</u>	<u>-</u>
Other Financing Sources (Uses)												
General obligation warrants	-	-	-	-	-	-	-	-	-	-	2,400,000	-
Proceeds from sale of assets	-	-	-	-	-	53,154	-	-	-	-	70,000	-
Transfers	37,665	416,114	-	-	-	(500,000)	(93,190)	15,728	-	-	(1,227,648)	-
Proceeds of refunding warrants	-	-	-	-	-	-	-	-	-	-	-	-
Payment to refunded warrant escrow agent	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>37,665</u>	<u>416,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(446,846)</u>	<u>(93,190)</u>	<u>15,728</u>	<u>-</u>	<u>-</u>	<u>1,242,352</u>	<u>-</u>
Special Items												
Transfers to component units	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Fund Balances	<u>1,650</u>	<u>95,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,025</u>	<u>(63,817)</u>	<u>52,702</u>	<u>(88,528)</u>	<u>(296)</u>	<u>(196,212)</u>	<u>-</u>
Fund Balances - Beginning of Year	<u>2,512</u>	<u>77,952</u>	<u>-</u>	<u>1,825</u>	<u>-</u>	<u>(48,294)</u>	<u>63,817</u>	<u>-</u>	<u>165,655</u>	<u>4,700</u>	<u>1,525,522</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 4,162</u>	<u>\$ 173,771</u>	<u>\$ -</u>	<u>\$ 1,825</u>	<u>\$ -</u>	<u>\$ 3,731</u>	<u>\$ -</u>	<u>\$ 52,702</u>	<u>\$ 77,127</u>	<u>\$ 4,404</u>	<u>\$ 1,329,310</u>	<u>\$ -</u>

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUE, EXPENDITURES

AND CHANGES IN FUND BALANCES - CONTINUED

For the Year Ended September 30, 2006

	Debt Service Funds													Total Debt Service Funds
	1999 GOW Debt Service	2000 GOW Debt Service	Honda Assistance	2002A GOW Debt Service	2002B GOW Debt Service	2003A GOW Debt Service	2003B GOW Debt Service	2004A GOW Debt Service	Airport Authority	2005 GOW Debt Service	2006A GOW Debt Service	2006B GOW Debt Service	Capital Leases	
Revenue														
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	358	11,255	3,679	6,663	23,581	5,762	6,232	20,676	2,045	-	-	80,251
Total revenue	<u>-</u>	<u>-</u>	<u>358</u>	<u>11,255</u>	<u>3,679</u>	<u>6,663</u>	<u>23,581</u>	<u>5,762</u>	<u>6,232</u>	<u>20,676</u>	<u>2,045</u>	<u>-</u>	<u>-</u>	<u>80,251</u>
Expenditures														
Current														
Internal services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation and cultural services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public works services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Urban development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-departmental	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt service														
Principal	-	-	118,255	495,000	180,000	170,000	579,999	165,000	-	690,000	15,000	66,276	623,109	3,102,639
Interest and fiscal charges	1,312	1,575	75,591	154,732	60,912	352,416	1,292,537	274,584	226,623	616,002	34,337	83,404	57,129	3,231,154
Capital outlays	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>1,312</u>	<u>1,575</u>	<u>193,846</u>	<u>649,732</u>	<u>240,912</u>	<u>522,416</u>	<u>1,872,536</u>	<u>439,584</u>	<u>226,623</u>	<u>1,306,002</u>	<u>49,337</u>	<u>149,680</u>	<u>680,238</u>	<u>6,333,793</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,312)</u>	<u>(1,575)</u>	<u>(193,488)</u>	<u>(638,477)</u>	<u>(237,233)</u>	<u>(515,753)</u>	<u>(1,848,955)</u>	<u>(433,822)</u>	<u>(220,391)</u>	<u>(1,285,326)</u>	<u>(47,292)</u>	<u>(149,680)</u>	<u>(680,238)</u>	<u>(6,253,542)</u>
Other Financing Sources (Uses)														
General obligation warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	1,313	1,575	193,800	647,163	239,498	522,110	1,870,033	438,772	229,578	1,673,806	53,698	149,680	675,003	6,696,029
Proceeds of refunding warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment to refunded warrant escrow agent	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>1,313</u>	<u>1,575</u>	<u>193,800</u>	<u>647,163</u>	<u>239,498</u>	<u>522,110</u>	<u>1,870,033</u>	<u>438,772</u>	<u>229,578</u>	<u>1,673,806</u>	<u>53,698</u>	<u>149,680</u>	<u>675,003</u>	<u>6,696,029</u>
Special Items														
Transfers to component units	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Fund Balances	<u>1</u>	<u>-</u>	<u>312</u>	<u>8,686</u>	<u>2,265</u>	<u>6,357</u>	<u>21,078</u>	<u>4,950</u>	<u>9,187</u>	<u>388,480</u>	<u>6,406</u>	<u>-</u>	<u>(5,235)</u>	<u>442,487</u>
Fund Balances - Beginning of Year	<u>-</u>	<u>-</u>	<u>707</u>	<u>58,943</u>	<u>131,100</u>	<u>89,588</u>	<u>320,469</u>	<u>75,079</u>	<u>-</u>	<u>326,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,002,279</u>
Fund Balances - End of Year	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1,019</u>	<u>\$ 67,629</u>	<u>\$ 133,365</u>	<u>\$ 95,945</u>	<u>\$ 341,547</u>	<u>\$ 80,029</u>	<u>\$ 9,187</u>	<u>\$ 714,873</u>	<u>\$ 6,406</u>	<u>\$ -</u>	<u>\$ (5,235)</u>	<u>\$ 1,444,766</u>

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES - CONTINUED
 For the Year Ended September 30, 2006

	Capital Projects Funds									Permanent Funds				
	Municipal Capital Improvements Funds	Capital Project Funds	Resurfacing Project 1999	1999 GOW Capital Project	2003A GOW Capital Project	2004A GOW Capital Project	2005 GOW Capital Project	2006A GOW Capital Project	2006B GOW Capital Project	Total Capital Project Funds	Nell Thomas Library	Library Endowment	Allison B. Rains	Total Permanent Funds
Revenue														
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Intergovernmental	230,426	320,110	-	-	-	-	-	-	-	550,536	-	-	-	
Charges for services	-	-	-	-	-	-	-	-	-	-	-	-	-	
Fines and forfeitures	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	4,829	47,388	58,473	1,663	44,733	3,504	70	27,801	41,997	230,458	7,097	3,536	1,243	
Total revenue	<u>235,255</u>	<u>367,498</u>	<u>58,473</u>	<u>1,663</u>	<u>44,733</u>	<u>3,504</u>	<u>70</u>	<u>27,801</u>	<u>41,997</u>	<u>780,994</u>	<u>7,097</u>	<u>3,536</u>	<u>1,243</u>	<u>11,876</u>
Expenditures														
Current														
Internal services	-	3,563	-	-	-	-	-	-	-	3,563	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation and cultural services	-	-	-	-	-	-	-	-	-	-	16,495	3,920	-	20,415
Public works services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Urban development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-departmental	-	-	-	-	-	-	-	-	5,000	5,000	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt service														
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlays	-	384,207	388,226	138,650	2,122,130	48,588	39,593	505,174	-	3,626,568	-	-	-	-
Total expenditures	<u>-</u>	<u>387,770</u>	<u>388,226</u>	<u>138,650</u>	<u>2,122,130</u>	<u>48,588</u>	<u>39,593</u>	<u>505,174</u>	<u>5,000</u>	<u>3,635,131</u>	<u>16,495</u>	<u>3,920</u>	<u>-</u>	<u>20,415</u>
Excess (deficiency) of revenue over (under) expenditures	<u>235,255</u>	<u>(20,272)</u>	<u>(329,753)</u>	<u>(136,987)</u>	<u>(2,077,397)</u>	<u>(45,084)</u>	<u>(39,523)</u>	<u>(477,373)</u>	<u>36,997</u>	<u>(2,854,137)</u>	<u>(9,398)</u>	<u>(384)</u>	<u>1,243</u>	<u>(8,539)</u>
Other Financing Sources (Uses)														
General obligation warrants	-	-	-	-	-	-	-	1,010,000	3,000,000	4,010,000	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	(200,000)	181,418	338,766	-	-	-	-	(184)	-	320,000	-	-	-	-
Proceeds of refunding warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment to refunded warrant escrow agent	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(200,000)</u>	<u>181,418</u>	<u>338,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,009,816</u>	<u>3,000,000</u>	<u>4,330,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Special Items														
Transfers to component units	-	-	-	-	-	-	-	-	3,000,000	3,000,000	-	-	-	-
Net Change in Fund Balances	<u>35,255</u>	<u>161,146</u>	<u>9,013</u>	<u>(136,987)</u>	<u>(2,077,397)</u>	<u>(45,084)</u>	<u>(39,523)</u>	<u>532,443</u>	<u>36,997</u>	<u>(1,524,137)</u>	<u>(9,398)</u>	<u>(384)</u>	<u>1,243</u>	<u>(8,539)</u>
Fund Balances - Beginning of Year	<u>77,122</u>	<u>1,066,916</u>	<u>106,966</u>	<u>141,248</u>	<u>2,329,562</u>	<u>100,620</u>	<u>39,523</u>	<u>-</u>	<u>-</u>	<u>3,861,957</u>	<u>173,449</u>	<u>77,568</u>	<u>27,146</u>	<u>278,163</u>
Fund Balances - End of Year	<u>\$ 112,377</u>	<u>\$ 1,228,062</u>	<u>\$ 115,979</u>	<u>\$ 4,261</u>	<u>\$ 252,165</u>	<u>\$ 55,536</u>	<u>\$ -</u>	<u>\$ 532,443</u>	<u>\$ 36,997</u>	<u>\$ 2,337,820</u>	<u>\$ 164,051</u>	<u>\$ 77,184</u>	<u>\$ 28,389</u>	<u>\$ 269,624</u>

CITY OF GADSDEN, ALABAMA

STATISTICAL SECTION

September 30, 2006

This part of the City of Gadsden's annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	65-70
Revenue Capacity <i>These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.</i>	71-75
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	76-79
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	80-81
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	82-84
Sources <i>Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2004, schedules presenting government-wide information include information beginning in that year.</i>	

CITY OF GADSDEN

**SCHEDULE 1
NET ASSETS BY COMPONENT
LAST THREE FISCAL YEARS**

	Fiscal Years		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities			
Invested in capital assets, net of related debt	\$ 13,823,227	\$ 22,970,696	\$ 29,245,427
Restricted	5,670,419	6,615,970	5,391,092
Unrestricted	<u>(31,852,488)</u>	<u>(32,244,486)</u>	<u>(32,496,531)</u>
Total governmental activities net assets	<u>\$ (12,358,842)</u>	<u>\$ (2,657,820)</u>	<u>\$ 2,139,988</u>
Business-type Activities			
Invested in capital assets, net of related debt	\$ 12,128,760	\$ 11,145,096	\$ 10,697,504
Unrestricted	<u>(1,538,339)</u>	<u>(1,295,839)</u>	<u>(1,533,176)</u>
Total business-type activities net assets	<u>\$ 10,590,421</u>	<u>\$ 9,849,257</u>	<u>\$ 9,164,328</u>
Primary Government			
Invested in capital assets, net of related debt	\$ 25,951,987	\$ 34,115,792	\$ 39,942,931
Restricted	5,670,419	6,615,970	-
Unrestricted	<u>(33,390,827)</u>	<u>(33,540,325)</u>	<u>-</u>
Total primary government activities net assets	<u>\$ (1,768,421)</u>	<u>\$ 7,191,437</u>	<u>\$ 39,942,931</u>

CITY OF GADSDEN

**SCHEDULE 2
CHANGES IN NET ASSETS
LAST THREE FISCAL YEARS**

	Fiscal Years		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses			
Governmental activities			
General government	\$ 2,536,769	\$ 2,063,187	\$ 2,075,680
Internal services	2,695,417	2,717,199	2,437,636
Public safety	19,238,891	19,027,985	18,396,207
Recreation and cultural services	7,495,591	7,457,546	7,511,637
Public works services	5,199,740	5,184,522	5,261,618
Urban development	4,540,188	5,740,247	8,508,433
Non-departmental	3,405,029	5,516,929	3,648,053
Interest on long-term debt	2,979,359	3,669,744	3,469,296
Total governmental activities expenses	<u>48,090,984</u>	<u>51,377,359</u>	<u>51,308,560</u>
Business-type activities			
Airport	632,160	541,857	685,740
Residential garbage	2,845,985	2,956,249	3,016,560
Golf course	1,501,258	1,491,348	1,399,203
Total business-type activities expenses	<u>4,979,403</u>	<u>4,989,454</u>	<u>5,101,503</u>
Total primary government expenses	<u>\$ 53,070,387</u>	<u>\$ 56,366,813</u>	<u>\$ 56,410,063</u>
Program Revenue			
Governmental activities			
Charges for services	\$ 1,776,812	\$ 1,882,188	\$ 1,941,530
Operating grants and contributions	4,798,837	3,533,926	5,290,148
Capital grants and contributions	1,354,653	900,190	348,062
Total governmental activities program revenue	<u>7,930,302</u>	<u>6,316,304</u>	<u>7,579,740</u>
Business-type activities			
Charges for services	3,665,380	3,631,970	3,689,233
Capital grants and contributions	680,390	-	-
Total business-type activities program revenue	<u>4,345,770</u>	<u>3,631,970</u>	<u>3,689,233</u>
Total primary government program revenue	<u>\$ 12,276,072</u>	<u>\$ 9,948,274</u>	<u>\$ 11,268,973</u>
Net Revenue (Expenses)			
Governmental activities	\$ (40,160,682)	\$ (45,061,055)	\$ (43,728,820)
Business-type activities	(633,633)	(1,357,484)	(1,412,270)
Total primary government activities net expense	<u>\$ (40,794,315)</u>	<u>\$ (46,418,539)</u>	<u>\$ (45,141,090)</u>

CITY OF GADSDEN

**Schedule 2 (continued)
Changes in Net Assets
Last Three Fiscal Years**

	Fiscal Years		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Revenue and Other Changes in Net Assets			
Governmental activities			
Taxes	\$ 38,166,532	\$ 40,703,337	\$ 44,692,566
Licenses and permits	5,066,859	5,331,322	5,545,800
Unrestricted grants	358,243	331,378	383,462
Investment earning	873,582	1,191,395	1,424,454
Gain on disposal of assets	922,762	150,831	180,923
Other general revenue	<u>600,992</u>	<u>1,183,956</u>	<u>551,007</u>
Total governmental activities	<u>45,988,970</u>	<u>48,892,219</u>	<u>52,778,212</u>
Business-type activities			
Investment earning	1,094	42,639	43,857
Gain on disposal of assets	<u>12,435</u>	<u>37,573</u>	<u>40,909</u>
Total business-type activities	<u>13,529</u>	<u>80,212</u>	<u>84,766</u>
Total primary government	<u>\$ 46,002,499</u>	<u>\$ 48,972,431</u>	<u>\$ 52,862,978</u>

CITY OF GADSDEN

SCHEDULE 3
FUND BALANCE, GOVERNMENTAL FUNDS
LAST THREE FISCAL YEARS

	Fiscal Years		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund			
Reserved	\$ 1,303,420	\$ 1,263,064	\$ 1,509,696
Unreserved, designated	-	1,340,806	568,901
Unreserved, undesignated	<u>4,027,645</u>	<u>4,466,257</u>	<u>3,991,887</u>
Total general fund	<u>\$ 5,331,065</u>	<u>\$ 7,070,127</u>	<u>\$ 6,070,484</u>
All Other Governmental Funds			
Reserved	\$ 12,839,199	\$ 13,364,529	\$ 12,363,714
Unreserved, designated	-	3,830,491	1,942,915
Unreserved, undesignated	<u>15,514,541</u>	<u>6,991,070</u>	<u>6,715,018</u>
Total all other governmental funds	<u>\$ 28,353,740</u>	<u>\$ 24,186,090</u>	<u>\$ 21,021,647</u>

CITY OF GADSDEN

**SCHEDULE 4
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
LAST THREE FISCAL YEARS**

	Fiscal Years		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenue			
Taxes	\$ 38,126,693	\$ 40,971,526	\$ 43,646,558
Licenses and permits	5,066,859	5,331,322	5,545,800
Intergovernmental	6,514,496	4,816,166	6,021,439
Charges for services	1,626,184	1,578,005	1,528,604
Fines and forfeitures	516,615	681,775	666,707
Other revenue	1,718,491	2,483,401	2,082,240
Total revenue	<u>53,569,338</u>	<u>55,862,195</u>	<u>59,491,348</u>
Expenditures			
Current			
General government	2,535,723	2,069,061	2,077,938
Internal services	3,261,933	3,204,491	3,330,620
Public safety	19,213,366	18,767,226	19,837,972
Recreation and cultural services	7,099,186	7,239,461	7,676,778
Public works services	4,938,959	4,636,551	5,108,930
Urban development	4,253,130	5,268,560	9,552,373
Non-departmental	890,604	892,007	817,770
Intergovernmental	2,516,281	4,626,341	2,835,662
Debt service			
Principal retirement	9,151,349	2,652,563	3,602,639
Interest and fiscal charges	3,102,390	3,433,844	3,349,014
Capital outlays	<u>6,636,724</u>	<u>7,752,153</u>	<u>7,727,507</u>
Total expenditures	<u>63,599,645</u>	<u>60,542,258</u>	<u>65,917,203</u>
Excess of Revenue Over (Under) Expenditures	<u>(10,030,307)</u>	<u>(4,680,063)</u>	<u>(6,425,855)</u>
Other Financing Sources (Uses)			
General obligation warrants	42,552,422	862,976	1,010,000
HUD Section 108 loans	-	-	2,400,000
Notes payable	904,305	1,000,000	3,000,000
Capital leases	460,200	-	1,572,112
Sale of assets	889,233	-	-
Proceeds of refunding warrants	-	15,711,532	-
Proceeds from sale of assets	-	150,831	192,110
Payment to refunded warrant escrow agent	-	(16,123,400)	-
Transfers	<u>(986,340)</u>	<u>(505,538)</u>	<u>(641,715)</u>
Total other financing sources (uses)	<u>43,819,820</u>	<u>1,096,401</u>	<u>7,532,507</u>

CITY OF GADSDEN

SCHEDULE 4

CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS (continued)

LAST THREE FISCAL YEARS

	Fiscal Years		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Special Items			
Transfers to component units	\$ (20,581,404)	\$ (492,608)	\$ 4,271,094
Total special items	<u>(20,581,404)</u>	<u>(492,608)</u>	<u>4,271,094</u>
Net change in fund balances	<u>\$ 13,208,109</u>	<u>\$ (4,076,270)</u>	<u>\$ (3,164,442)</u>
Debt service as a percentage of noncapital expenditures	22%	12%	12%

CITY OF GADSDEN

SCHEDULE 5
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST THREE FISCAL YEARS

Fiscal Year Ended September 30,	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	<u>Less: Tax-Exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
2004	\$ <u>56,862,520</u>	\$ <u>240,498,960</u>	\$ <u>28,757,240</u>	\$ <u>52,327,420</u>	\$ <u>273,791,300</u>	6.00
2005	\$ <u>56,648,280</u>	\$ <u>258,447,680</u>	\$ <u>27,315,680</u>	\$ <u>66,060,900</u>	\$ <u>276,350,740</u>	6.00
2006	\$ <u>70,767,560</u>	\$ <u>305,859,600</u>	\$ <u>27,893,060</u>	\$ <u>67,750,600</u>	\$ <u>336,769,620</u>	6.00

Source: Etowah County Revenue Commissioner

CITY OF GADSDEN

**Schedule 5A
Top Ten Tax Receipts by Category
Last Three Fiscal Years**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Warehouse, clubs and super centers	\$ 1,952,300	\$ 2,501,100	\$ 3,023,783
Department stores (except discount department stores)	2,005,688	1,716,984	1,620,665
Supermarkets and other grocery stores (except convenience)	2,010,655	1,717,582	1,541,948
Home centers	1,224,741	1,306,547	1,374,534
Full service restaurants	942,054	971,069	939,669
Limited service restaurants	785,409	842,187	874,695
Discount department stores	636,556	651,769	793,735
Family clothing stores	166,042	657,727	782,805
Medical, dental and hospital equipment and supplies and merchant wholesalers	434,581	525,139	668,906
New car dealers	<u>699,866</u>	<u>720,794</u>	<u>656,161</u>
Total	<u>\$ 10,857,892</u>	<u>\$ 11,610,898</u>	<u>\$ 12,276,901</u>
City direct sales tax rate	4%	4%	4%

Sources: Ala Tax

CITY OF GADSDEN

Schedule 6
Direct and Overlapping Property Tax Rates
(rate per \$1,000 of assessed value)
Last Three Fiscal Years

<u>City Direct Rates</u>						<u>Overlapping Rates</u>				
<u>Fiscal Year</u>	<u>Basic Rate</u>	<u>General Fund</u>	<u>School Debt Service</u>	<u>Fire Protection</u>	<u>Total Direct</u>	<u>Fire Protection</u>	<u>County School District</u>	<u>City School District</u>	<u>State</u>	<u>County</u>
2004	12	6	3	3	12	3	10	6	6.5	11.5
2005	12	6	3	3	12	3	10	6	6.5	11.5
2006	12	6	3	3	12	3	10	6	6.5	11.5

CITY OF GADSDEN

**Schedule 7
Principal Property Tax Payers
Last Three Fiscal Years**

<u>Taxpayer</u>	<u>2006</u>			<u>2005</u>			<u>2004</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
			<u>Value</u>			<u>Value</u>			<u>Value</u>
Alabama Power Co.	\$ 19,204,620	1	5.70%	\$ 18,777,160	1	6.79%	\$ 19,400,000	1	7.09%
Goodyear Tire & Rubber Co.	13,574,480	2	4.03%	12,642,740	2	4.57%	9,996,420	2	3.65%
QHC of Gadsden, Inc.	7,645,240	3	2.27%	6,548,560	4	2.37%	6,548,560	4	2.39%
Riverview Regional Medical	7,519,320	4	2.23%	6,023,600	5	2.18%	6,028,600	5	2.20%
Bellsouth Telecommunications, Inc.	6,573,800	5	1.95%	6,732,740	3	2.44%	7,142,600	3	2.61%
Preit Gadsden Mall, LLC	4,462,560	6	1.33%	3,415,500	7	1.24%	3,415,500	7	1.25%
Tyson Foods of Alabama, Inc.	3,321,960	7	0.99%	3,052,580	8	1.10%	2,366,200	9	0.86%
Triad Hospitals, Inc.	3,115,620	8	0.93%	3,497,620	6	1.27%	3,419,120	6	1.25%
Riverview Regional Medical Center	2,749,320	9	0.82%	2,136,600	10	0.77%	2,145,120	10	0.78%
Gastamp Alabama, Inc.	<u>1,910,000</u>	10	0.57%	<u>-</u>	0	0.00%	<u>-</u>	0	0.00%
Total	<u>\$ 70,076,920</u>			<u>\$ 62,827,100</u>			<u>\$ 60,462,120</u>		
Total City Taxable Assessed Value	<u>\$ 336,769,620</u>			<u>\$ 276,350,740</u>			<u>\$ 273,791,300</u>		

Source: Etowah County Revenue Commissioner

CITY OF GADSDEN

**Schedule 8
Property Tax Levies and Collections
Last Three Fiscal Years**

Fiscal Year Ended September 30, 2006	Taxes Levied For the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2004	\$ 3,784,659	\$ -	\$ -	\$ 3,146,768	\$ 3,146,768	83.15%
2005	\$ 3,505,087	\$ -	\$ -	\$ 3,302,079	\$ 3,302,079	94.21%
2006	\$ 4,564,308	\$ -	\$ -	\$ 2,752,761	\$ 2,752,761	60.43% ⁽¹⁾

⁽¹⁾ Represents partial collections as of report date.

CITY OF GADSDEN

Schedule 9
Ratios of Outstanding Debt by Type
Last Three Fiscal Years

Fiscal Year	Governmental Activities			Business-Type Activities	Total Primary Government
	General Obligation Bonds	Other Obligations	Special Obligation Bonds	General Obligation Bonds	
2004	\$ <u>63,453,435</u>	\$ <u>1,625,095</u>	\$ <u>1,601,938</u>	\$ <u>360,000</u>	\$ <u>67,040,468</u>
2005	\$ <u>62,238,798</u>	\$ <u>1,923,951</u>	\$ <u>1,488,852</u>	\$ <u>1,820,000</u>	\$ <u>67,471,601</u>
2006	\$ <u>61,035,608</u>	\$ <u>7,706,645</u>	\$ <u>1,370,597</u>	\$ <u>1,680,000</u>	\$ <u>71,792,850</u>

CITY OF GADSDEN

Schedule 10
Ratios of General Bonded Debt Outstanding
Last Three Fiscal Years

General Bonded Debt Outstanding				Percentage of Actual Taxable Value of Property (a)	Per Capita (b)
Fiscal Year	General Obligation Bonds	Special Obligation Bonds	Total		
2004	<u>\$ 63,453,435</u>	<u>\$ 1,601,938</u>	<u>\$ 65,055,373</u>	24%	<u>\$ 1,728</u>
2005	<u>\$ 62,238,798</u>	<u>\$ 1,488,852</u>	<u>\$ 63,727,650</u>	23%	<u>\$ 1,710</u>
2006	<u>\$ 61,035,608</u>	<u>\$ 1,370,597</u>	<u>\$ 62,406,205</u>	19%	<u>\$ 1,687</u>

a - See Schedule 5 for property value data

b - See Schedule 14 for population data

CITY OF GADSDEN

Schedule 11
Direct and Overlapping Governmental Activities Debt
As of September 30, 2006

	Total Debt <u>Outstanding</u>	Estimated Percent <u>Applicable</u>	Amount Applicable to City of <u>Gadsden</u>
Direct Debt			
City of Gadsden	<u>\$ 71,297,242</u>	100%	<u>\$ 71,297,242</u>
Total Direct Debt	<u>71,297,242</u>	100%	<u>71,297,242</u>
Overlapping Debt			
Etowah County	<u>27,677,070</u>	23%	<u>27,677,070</u>
Total Overlapping Debt	<u>27,677,070</u>	23%	<u>27,677,070</u>
Total Direct and Overlapping Debt	<u>\$ 98,974,312</u>		<u>\$ 98,974,312</u>

CITY OF GADSDEN

**Schedule 12
Legal Debt Margin Information
Last Three Fiscal Years**

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	\$ 404,520,220 ⁽¹⁾
Debt limit, 20 percent of assessed value	80,904,044
Debt applicable to limit:	
Outstanding and obligation warrants, installment purchases, etc.	79,882,244
Less: exempt amounts	<u>(37,116,025)</u>
Total net debt applicable to limit	<u>\$ 42,766,219</u>
 Legal debt margin	 <u>\$ 38,137,825</u>

	<u>Fiscal Years</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt Limit	<u>\$ 62,628,456</u>	<u>\$ 63,035,996</u>	<u>\$ 80,904,044</u>
Total net debt applicable to limit	<u>\$ 59,515,321</u>	<u>\$ 41,182,340</u>	<u>\$ 42,766,219</u>
Legal debt margin	<u>\$ 23,113,135</u>	<u>\$ 21,853,656</u>	<u>\$ 38,137,825</u>
Total net debt applicable to the limit as a percentage of debt limit	63%	65%	53%

Note: Section 225, as amended, Constitution of State of Alabama, limits debt of the City of Gadsden to 20 percent of the assessed value of taxable property. Excluded from this limitation are bonds issued for schools, sewers and assessed improvements.

⁽¹⁾ Source: Etowah County Tax Assessor

CITY OF GADSDEN

Schedule 13
Demographic and Economic Statistics
Last Three Fiscal Years

<u>Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>Education Level in Years of Schooling</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2004	37,640	<u>\$ 724,946</u>	<u>\$ 19,266</u>	N/A	N/A	5,360	6.30%
2005	37,265	<u>\$ 717,947</u>	<u>\$ 19,266</u>	39.4	N/A	5,370	4.20%
2006	36,984	<u>\$ 683,908</u>	<u>\$ 18,492</u>	N/A	N/A	5,422	3.70%

Sources: U.S. Bureau of the Census and the Industrial Development Authority.

Note: 2004 and 2006 are estimates based on information obtained from the 2000 Bureau of Census.

CITY OF GADSDEN

**Schedule 14
Principal Employers
Last Three Fiscal Years**

<u>Employer</u>	<u>2004</u>			<u>2005</u>			<u>2006</u>		
	<u>Employees</u>	<u>Rank</u>	<u>% of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>% of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>% of Total City Employment</u>
Goodyear Tire & Rubber	1400	1		1361	1		1430	1	
Gadsden Regional Medical Center	1100	2		1200	2		1200	2	
Wal-Mart	995	3		350	9		790	4	
Tyson Foods	800	4		790	4		790	4	
Gadsden State Community College	759	5		373	8		373	10	
Riverview Regional Medical Center	700	6		800	3		800	3	
Gadsden City Schools	675	7		650	5		650	5	
City of Gadsden	512	8		513	6		513	6	
Equity Group	483	9		343	10		500	8	
Dixie Pacific	289	10							
Department of Human Resources				400	7		400	9	
Delphi Automotive							500	7	

Sources: Industrial Development Board and the Gadsden/Etowah Chamber of Commerce.

CITY OF GADSDEN

**Schedule 15
Full-Time Equivalent City Government Employees by Function/Program
Last Three Fiscal Years**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Government			
Mayor's Office	3	3	3
City Council	0	0	0
Revenue	5	6	5
City Clerk	3	3	3
Public Safety			
Police Department			
Officers	93	97	97
Civilian	30	29	31
Fire Department			
Firefighters	103	105	105
Officers	7	7	7
Civilians	2	2	2
Judicial	6	6	6
Animal Control	2	2	2
Civil Defense	4	4	4
Communications	2	2	2
Public Works			
Maintenance	16	18	15
Street Painting	6	5	5
Street Cleaning	41	40	40
Street Maintenance	26	26	26
Internal Service			
Finance	8	8	8
M.I.S.	4	5	5
Purchasing	2	2	1
Personnel	2	2	2
Civil Service	0	0	0
Legal	4	4	4
Fleet	21	21	22
Recreation and Culture			
Parks and Recreation	25	30	30
Noccalula Falls	4	0	0
Convention Hall	1	1	1
Cemetery	6	6	3
Library	17	17	18
Museum of Arts	1	3	3
Tourism	1	0	0
Urban Development			
Engineering	9	9	11
Building	6	6	6
Planning	<u>3</u>	<u>5</u>	<u>5</u>
Total	<u>463</u>	<u>474</u>	<u>472</u>

Source: City Budget

CITY OF GADSDEN

**Schedule 16
City of Statistical Operating Indicators by Function/Program
Last Three Fiscal Years**

<u>Function/Program</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police			
Physical Arrests	2,409	3,116	3,744
Parking Violations	351	105	29
Traffic Violations	3,449	6,101	5,494
Fire			
Emergency Responses	4,425	4,409	4,336
Fires Extinguished	192	345	385
Inspections	541	1,758	2,092
Public Works			
Street Resurfacing (miles)	6.87	11.37	12.06
Potholes Repaired	7,500	7,500	7,500
Parks and Recreation			
Athletic Field Permits Issued	0	0	0
Community Center Admissions	565,625	583,350	629,450
Library			
Volumes in Collection	193,620	198,300	202,410
Total Volumes Borrowed	167,439	141,386	132,350

Note: The City of Gadsden does not issue permits for Athletic Fields.

Source: Various City Departments

CITY OF GADSDEN

Schedule 17

**City of Statistical Capital Asset Statistics by Function/Program
Last Three Fiscal Years**

<u>Function/Program</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police			
Stations	1	1	1
Zone Offices	0	0	0
Patrol Units	35	35	33
Fire Stations	6	6	6
Other Public Works			
Street (miles)	372	372	372
Highways (miles)	35	35	35
Streetlights	4,000	4,000	4,000
Traffic Signals	132	134	134
Parks and Recreation			
Acreage	166	166	166
Playgrounds	16	16	16
Baseball/Softball Diamonds	19	19	19
Soccer/Football Fields	13	13	13
Community Centers	9	9	9

Source: Various City Departments

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the City Council
City of Gadsden, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gadsden, Alabama (the “City”) as of and for the year ended September 30, 2006, which collectively comprise the City’s basic financial statements and have issued our report thereon dated February 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Gadsden City Board of Education, or the Gadsden Airport Authority, which represent all of the assets and revenue of the component unit columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gadsden City Board of Education and the Gadsden Airport Authority, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting – In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters – As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

BKR Borland Benefield
Birmingham, Alabama
February 8, 2007

**Report on Compliance with Requirements Applicable to Each Major Program
and Internal Control over Compliance in Accordance With OMB Circular A-133**

To the City Council
City of Gadsden, Alabama

Compliance

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

The City’s basic financial statements include the operations of the Gadsden Board of Education which expended approximately \$8 million in federal awards which are not included in the schedule of expenditures of federal awards for the year ended September 30, 2006. Our audit, described below, did not include the operations of the Gadsden Board of Education because it was required to have a separate audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City’s compliance with those requirements.

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

Internal Control Over Compliance

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

Out consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

BKR Borland Benefield
Birmingham, Alabama
February 8, 2007

CITY OF GADSDEN, ALABAMA

**Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2006**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Total Expended</u>
Department of Housing & Urban Development:			
<u>Direct Programs:</u>			
Community Development Block Grant	14.218	B-04-MC-010004	\$ 1,302,042
Community Development Block Grant	14.218	B-05-MC-010004	1,127,548
Community Development Block Grant – Loan Guarantee Assistance	14.218	B-04-MC-010004	900,000
Community Development Block Grant – Loan Guarantee Assistance	14.218	B-04-MC-010004-A	1,500,000
Special Purpose Grant	14.225	B99SPAL0007	36,379
Special Purpose Grant	14.225	B05SPRL0344	99,200
<u>Passed Through Alabama Department of Economic and Community Affairs:</u>			
Emergency Shelter Grant	14.231	ESG04004	<u>76,590</u>
Total Department of Housing & Urban Development			<u><u>5,041,759</u></u>
U.S. Department of Justice:			
<u>Direct Programs:</u>			
Bullet Proof Vest Partnership Program	16.607	1004498	11,351
<u>Passed through Alabama Office of the Attorney General:</u>			
Crime Victim Assistance	16.582	02-VF-GX-0113	<u>21,509</u>
Total U.S. Department of Justice			<u><u>32,860</u></u>
Department of Health and Human Services:			
<u>Passed Through Alabama Commission on Aging:</u>			
Special Program for Aging Title III B	93.044	04-02-03-19	9,146
Special Program for Aging Title III C	93.045	04-05-03-19	<u>15,819</u>
Total Department of Health and Human Services			<u><u>24,965</u></u>
Department of Agriculture:			
<u>Passed Through Alabama Department of Education:</u>			
Summer Food Service Program for Children	10.559	04-AEZ-0000	<u>77,361</u>
Total Department of Agriculture			<u><u>77,361</u></u>
Department of Homeland Security:			
<u>Passed Through Alabama Emergency Management Agency:</u>			
Emergency Management State and Local Assistance	97.042	06-EMPG-31	50,358
Chemical Stockpile Emergency Preparedness Program	97.040	04-ETO-PROC1	308,421
Chemical Stockpile Emergency Preparedness Program	97.040	04-ETQ-O&M	89,404
Chemical Stockpile Emergency Preparedness Program	97.040	05-ETO-O&M	27,900
Chemical Stockpile Emergency Preparedness Program	97.040	05-ETO-PROC1	10,292
Chemical Stockpile Emergency Preparedness Program	97.040	06-ETO-O&M	259,976
Homeland Security Grant Program	97.067	04-SHL	136,343
Homeland Security Grant Program	97.067	05-SHG	199,998
Homeland Security Grant Program	97.067	05-LET	<u>31,994</u>
Total Department of Homeland Security			<u><u>1,114,686</u></u>

CITY OF GADSDEN, ALABAMA

Schedule of Expenditures of Federal and State Awards - continued
For the Year Ended September 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Total Expended</u>
Department of Transportation:			
<u>Direct Programs:</u>			
Federal Transit Formula Grant	20.507	AL-904185	\$ 55,312
Federal Transit Formula Grant	20.507	AL-90-X185	55,212
Federal Transit Formula Grant	20.507	AL-90-X178	303,317
Urbanized Area Formula Grant	20.500	AL-03-0059-00	30,254
<u>Passed Through Alabama Department of Transportation:</u>			
Highway Planning and Construction Grant	20.205	AL-N8-100-047-598	126,190
Highway Planning and Construction Grant	20.205	UM-PL-100-047-497	17,871
Highway Planning and Construction Grant	20.205	STPTE-TE02	118,200
Highway Planning and Construction Grant	20.205	STPTE-TE03	110,005
Safety Incentive Grants to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	05-DT-163-005	<u>12,304</u>
Total Alabama Department of Transportation			<u>828,665</u>
Total Federal Awards			<u>7,120,296</u>
State Awards:			
<u>Alabama Department of Economic and Community Affairs:</u>			
Byrne Justice Assistance Grant		05-FF4413-AL-DJ	57,000
<u>Alabama Public Library Service:</u>			
Library Grant		SA-00-03	<u>147,967</u>
Total State Awards			<u>204,967</u>
Total Federal and State Awards			<u>\$ 7,325,263</u>

CITY OF GADSDEN, ALABAMA

Notes to the Schedule of Expenditures of Federal and State Awards For the Year Ended September 30, 2006

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (the "Schedule") summarizes the expenditures of the City of Gadsden, Alabama (the "City") under programs of the federal government and the State of Alabama for the year ended September 30, 2006.

For purposes of the Schedule, federal and state awards include all grants, contracts, and similar agreements entered into directly between the City and agencies and departments of the federal government and the State of Alabama, and all sub-awards to the City by nonfederal organizations pursuant to federal grants, contracts and similar agreements. Federal awards are classified into Major and Nonmajor programs in accordance with the provisions of Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Programs classified as Major Programs are as follows:

1. Community Development Block Grant
2. Chemical Stockpile Emergency Preparedness Program
3. Homeland Security Grant Program
4. Federal Transit Capital Investment Grants
5. Highway Planning and Construction Grants

Note 2 - Summary of Significant Accounting Policies

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

CITY OF GADSDEN, ALABAMA

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006**

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued:			Unqualified
Internal control over financial reporting:			
• Material weakness(es) identified?	_____	Yes	_____ <u>X</u> No
• Reportable condition(s) identified not considered to be material weaknesses?	_____	Yes	_____ <u>X</u>
None			
Reported			
Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> No

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____	Yes	_____ <u>X</u> No
• Reportable condition(s) identified not considered to be material weaknesses?	_____	Yes	_____ <u>X</u>
None			

 Reported

Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A133?	_____	Yes	_____ <u>X</u> No
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Identification of major programs:

- CFDA 14.218 – Community Development Block Grant
- CFDA 97.040 – Chemical Stockpile Emergency Preparedness Program
- CFDA 97.067 – Homeland Security Grant Program
- CFDA 20.507 – Federal Transit Formula Grant
- CFDA 20.205 – Highway Planning and Construction Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	_____	Yes	_____ <u>X</u> No
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B. Findings - Financial Statements Audit

None Reported

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None Reported

CITY OF GADSDEN, ALABAMA

Summary of Prior Year Audit Findings
For the Year Ended September 30, 2006

Program

Finding/Noncompliance

2005-01

**Special Purpose Grant – CFDA #14.225 – Year Ended September 30, 2005
Questioned Cost: \$0**

Condition:

This finding was a reportable condition stating that certified payroll transcripts were not received weekly from all contractors as required by the Davis-Bacon Act.

Recommendation:

The auditor recommended that the City should implement procedures to monitor compliance with all requirements of the Davis-Bacon Act regardless of the involvement of third party professionals. The City concurred with the recommendation and adopted process and procedures during the year ended September 30, 2006.



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