

**CITY OF BOAZ**  
**Boaz, Alabama**

**AUDITED FINANCIAL STATEMENTS**  
**AND OTHER FINANCIAL INFORMATION**  
**September 30, 2011**

**MDA PROFESSIONAL GROUP, P.C.**  
**Certified Public Accountants and Business Consultants**  
**Alberville, Alabama**

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**MDA PROFESSIONAL GROUP, P.C.**  
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Boaz  
Boaz, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Boaz, Alabama, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Boaz, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

The financial statements referred to above include only the primary government of the City of Boaz, Alabama, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include the financial data for the City's legally separate component units which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the financial statements of the reporting entity do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Boaz, Alabama, as of September 30, 2011, and the changes in financial position and cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Boaz, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

City of Boaz  
Albertville, Alabama

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2012, on our consideration of the City of Boaz, Alabama'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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress – Employees' Retirement System of Alabama, and budgetary comparison information on pages i through ix, page 37, and pages 38 through 39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boaz, Alabama's financial statements as a whole. The accompanying schedule of Debt Service Requirements to Maturity is included for informational purposes and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*MDA Professional Group, P.C.*

January 19, 2012

## **CITY OF BOAZ, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Boaz's discussion and analysis are designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

We offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

### **Financial Highlights**

- The City's governmental net assets increased \$75,335 in 2011 as a result of government spending cut backs and proceeds from debt issuance.
- As of September 30, 2011, the City's governmental funds reported a combined ending fund balance of \$644,752, an increase of \$95,557 from the prior year.
- The City's total debt increased by \$283,226 during 2011. The City issued Series 2010 General Obligation Warrants to refund the 2001 General Obligation Warrants. A new note payable was obtained to finance the purchase of an ambulance for Boaz Fire and Rescue.
- The City's total governmental capital assets decreased by \$468,871 over the prior year due in large part to the sale of surplus property and annual depreciation expense.
- During 2010, the City began reporting the activity of the Recycling Center as a business-type activity. In April 2011, the Recycling Center was incorporated and separated from the City of Boaz.

### **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.

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating, respectively.

The *statement of activities* presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business type activities). The governmental activities of the City include general government, public safety related departments, public service departments, recreational activities, and intergovernmental functions. The intergovernmental functions of the City are those in which the City provides financial resources to other governmental entities, primarily the Boaz City Board of Education for support of the City school system.

As described in the notes to the financial statements, other entities' activities should be included in this report because of the relationship of these legally separate entities to the City. However, the City has elected not to present the financial information of the Boaz City Board of Education. The complete financial statements (including MD&A) of the Boaz City Board of Education may be obtained from the Boaz City Board of Education.

Other component units which normally may be included as part of the City's financial reporting entity include the Industrial Development Board, Library Board, Zoning Board of Adjustments, and Planning Commission. However, they are not included because they have insignificant or no assets and fund balances.

This discussion and analysis focuses on the primary government.

The government-wide financial statements can be found on pages 4 and 5 of this report.

**FUND FINANCIAL STATEMENTS** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City are considered governmental funds.

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike

the government-wide financial statements, governmental fund financial statements focus on the near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 14 individual governmental funds:

- The General fund, Combined Debt Service fund, and Corrections fund are considered to be *major funds*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds.
- The 11 other governmental funds are considered to be *nonmajor governmental funds* and they are combined into a single, aggregated presentation in the basic financial statements.

The basic governmental fund financial statements can be found on pages 6 and 7 of this report.

*Proprietary funds* (or "enterprise funds") are used to account for activities in which the emphasis is placed on net income determination. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses a proprietary fund to account for its recycling center.

The proprietary fund, which is considered to be a major fund of the City, is reported separately as proprietary fund financial statements in the basic financial statements. The proprietary fund financial statements can be found on pages 9 through 12 of this report.

**NOTES TO FINANCIAL STATEMENTS** - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 13 through 35 of this report.

**OTHER INFORMATION** – In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. Because the City adopts an annual operating budget for its general fund, a comparison of budget to actual results is provided for this fund to demonstrate compliance with the



budget. Also, a required schedule of funding progress for the Employees' Retirement System of Alabama is presented.

#### **Government-wide Financial Analysis**

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Overall, the City's liabilities exceeded assets by \$2,944,429 at the close of the most recent fiscal year.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure, and construction in progress) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets represents resources that are subject to restrictions as to how they may be used. Such restrictions are imposed by legal requirements or sources other than those imposed by the City Council (e.g. state or federal law).

The remaining balance of the City's net assets is unrestricted. Unrestricted net assets represents the fact that non-capital assets of the City exceed the unrestricted debt and are available to fund governmental activities as deemed necessary by the City Council.

Revenues from governmental activities increased during 2011 by \$75,335. The most significant changes were as follows:

Sales tax increased \$606,426 due to an additional one cent sales tax that started May 1, 2011. Ad valorem revenues decreased \$151,731 due to reappraisals by the county. Grant revenue decreased \$446,479 due to the completion of the Downtown Renovation project in the prior year. Business privilege license revenue increased \$16,601.

Expenses of governmental activities increased approximately \$307,376 from 2010. Salaries and wage expense increased by \$294,616 due to employee raises and overtime expenses associated with the tornado. Fuel expenses incurred by the City increased \$85,769.64 from the prior year. Street lighting utilities expense increased \$27,803 due to higher power rates compared to 2010. Employee insurance expenses increased \$37,305 due to the addition of new employees.

Activities for the Recycling Center reflect a partial year for 2011 due to the incorporation of the Center in April 2011. Revenues and expenses associated with the operation of the Recycling Center are consistent with the prior year.

**City of Boaz Alabama**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended September 30, 2011**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Table 1**  
**Summary of Net Assets**  
**September 30, 2011 and 2010**

	Governmental Activities		Business-Type Activity		Total
	2011	2010	2011	2010	
<b>Cash and Investments</b>	\$ 322,840	\$ 607,097	\$ -	\$ 43,258	\$ 322,840
<b>Other Assets</b>	1,730,979	1,888,188	-	11,695	1,730,979
<b>Capital Assets</b>	15,639,647	16,108,518	-	86,582	15,639,647
<b>Total Assets</b>	<u>\$ 17,693,466</u>	<u>\$ 18,603,803</u>	<u>\$ -</u>	<u>\$ 141,535</u>	<u>\$ 17,693,466</u>
<b>Other Liabilities</b>	\$ 551,860	\$ 1,321,547	\$ -	\$ 9,910	\$ 551,860
<b>Long-Term Liabilities</b>	20,086,035	20,302,020	-	16,000	20,086,035
<b>Total Liabilities</b>	<u>20,637,895</u>	<u>21,623,567</u>	<u>-</u>	<u>25,910</u>	<u>20,637,895</u>
<b>Net Assets:</b>					
<b>Invested in Capital Assets, Net of Debt Restricted</b>	6,480,485	7,111,899	-	86,582	6,480,485
<b>Unrestricted</b>	71,590	216,053	-	-	71,590
	(9,496,504)	(10,347,716)	-	29,043	(9,496,504)
<b>Total Net Assets</b>	<u>(2,944,429)</u>	<u>(3,019,764)</u>	<u>-</u>	<u>115,625</u>	<u>(2,944,429)</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 17,693,466</u>	<u>\$ 18,603,803</u>	<u>\$ -</u>	<u>\$ 141,535</u>	<u>\$ 17,693,466</u>
					<u>\$ 18,745,338</u>

City of Boaz, Alabama  
Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2011

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Table 2**  
**Summary of Changes in Net Assets**  
**FYE 2011-2010**

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services	\$ 1,203,167	\$ 1,110,196	\$ 27,373	\$ 43,100	\$ 1,230,540	\$ 1,153,296
Operating Grants and Contributions	284,793	68,633	-	-	284,793	68,633
Capital Grants and Contributions	8,093	653,430	6,815	48,591	14,908	702,021
<b>General Revenues:</b>						
Taxes	8,090,789	7,612,768	-	-	8,090,789	7,612,768
Contributions From Component Units	903,121	906,248	-	-	903,121	906,248
Interest	11,455	16,613	-	-	11,455	16,613
Other Revenues	66,153	60,955	-	(781)	66,153	60,174
<b>Total Revenues</b>	<b>10,567,571</b>	<b>10,428,843</b>	<b>34,188</b>	<b>90,910</b>	<b>10,601,759</b>	<b>10,519,753</b>
<b>Expenses</b>						
Governmental Activities	10,492,236	10,184,860	-	-	10,492,236	10,184,860
Business-type Activities	-	-	149,813	20,149	149,813	20,149
<b>Total Expenses and Transfers</b>	<b>10,492,236</b>	<b>10,184,860</b>	<b>149,813</b>	<b>20,149</b>	<b>10,642,049</b>	<b>10,205,009</b>
<b>Increase (Decrease) in Net Assets</b>	<b>75,335</b>	<b>243,983</b>	<b>(115,625)</b>	<b>70,761</b>	<b>(40,290)</b>	<b>314,744</b>
<b>Transfer of Net Assets</b>	-	(44,864)	-	44,864	-	-
<b>Beginning Net Assets</b>	<b>(3,019,764)</b>	<b>(3,218,883)</b>	<b>115,625</b>	-	<b>(2,904,139)</b>	<b>(3,218,883)</b>
<b>Ending Net Assets</b>	<b>\$ (2,944,429)</b>	<b>\$ (3,019,764)</b>	<b>\$ -</b>	<b>\$ 115,625</b>	<b>\$ (2,944,429)</b>	<b>\$ (2,904,139)</b>

## **Financial Analysis of the Governmental Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The combined fund balances of the City's governmental funds increased to \$644,752 at September 30, 2011, an increase of \$95,557 over the prior fiscal year. Of this amount, \$438,879 constitutes the unreserved fund balance, which is generally available for spending at the City's discretion, although it is subject to certain limitation inherent in the funds where the balances are retained. The remainder of the total fund balance, or \$205,873, is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders, pay debt service, or has generally been committed for other purposes.

The increase in the combined fund balance of the City's governmental funds was mostly attributable to the changes in the individual funds as follows:

- General Fund increased \$376,237 primarily due to the sales tax increase.
- Combined Debt Service Fund decreased \$64,882 due to the payment of the City's debt.

## **Governmental Funds Budgetary Highlights**

General Fund – There was no difference between the original and final General Fund budgets.

- Revenues from Sales Tax were \$531,406 over projected amounts due to the 1% addition beginning May 1, 2011.
- Intergovernmental revenues exceeded the projected amount by \$172,311 because of proceeds from various grants.
- Expenditures in the Police Department were over budget \$234,102 due to increased salaries, increased fuel costs, and overtime as a result of the tornado.
- Expenditures in the Fire Department were over budget by \$156,709 from increased salaries, increased fuel costs, and overtime as a result of the tornado.
- Expenditures in the Street Department were over budget \$217,701 due to increased salaries, increased fuel costs, and overtime as a result of the tornado.

## Capital Assets and Debt Administration

CAPITAL ASSETS – The City’s investment in capital assets for governmental activities as of September 30, 2011, totaled \$15,639,647 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, vehicles, and construction in progress. Net capital assets decreased approximately \$468,871 in 2011.

### City of Boaz’s Net Capital Assets

	<u>Governmental Activities – 2011</u>
Land and Land Improvements	\$ 4,159,700
Buildings	6,920,652
Infrastructure	2,808,825
Heavy Equipment	761,930
Furniture and Fixtures	40,718
Vehicles	911,114
Computer Equipment	<u>36,708</u>
Total	<u>\$ 15,639,647</u>

LONG-TERM DEBT – As of September 30, 2011, the city had \$20,086,035 of long-term debt outstanding. Of this amount, \$19,215,906 is general obligation warrants backed by the full faith and credit of the City and \$673,396 is comprised of notes payable and capital lease obligations collateralized by vehicles.

The City’s general obligation bond rating by Standard and Poors is A.

New debt incurred by the City during the year ended September 30, 2011, included the issuance of the Series 2010 General Obligation Warrants in the amount of \$4,230,000 and a note payable in the amount of \$171,780. The Series 2001 General Obligation Warrants were defeased during the year.

Other than debt paid from proprietary fund revenue sources (e.g. sewer debt and revenue bonds), State of Alabama law limits the amount of general obligation debt cities can issue for purposes other than schools and drainage systems to twenty percent of the assessed value of real and personal property. As of September 30, 2011, the City’s allowable debt limit is \$17,058,688. Because \$10,705,000 of the City’s debt is for the Boaz City Board of Education, the City is in compliance with its debt limit at September 30, 2011.

## City of Boaz's Outstanding Debt

	<u>Governmental Activities</u>
General Obligation Warrants	\$ 19,215,906
Note Payable	211,572
Capital Leases	461,824
Other Post Employment Benefit Obligations	53,012
Compensated Absences	<u>143,721</u>
 Total	 <u>\$ 20,086,035</u>

### **Additional Information**

In November 2011, the City obtained a note payable in the amount of \$500,050 due February 1, 2012, at a fixed interest rate of 3.5%.

### **Request for Information**

This financial report is designed to present a general overview of the City's finances and to demonstrate accountability for the money it receives from taxpayers, customers, and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, P.O. Box 537, Boaz, AL 35957 or by calling (256) 593-9537.

**BASIC FINANCIAL STATEMENTS**

STATEMENT OF NET ASSETS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

ASSETS	Governmental Activities	Business-type Activities	Total
Cash	\$ 120,842	\$ -	\$ 120,842
Receivables, net			
Tax and Tax Equivalents	1,014,000	-	1,014,000
Refuse Collections	37,313	-	37,313
Grants	113,244	-	113,244
Prepaid Expenses	215	-	215
Unamortized Bond Issuance Costs	566,207	-	566,207
Restricted Assets:			
Cash	201,998	-	201,998
Capital Assets (net of accumulated depreciation)			
Land and Land Improvements	4,159,700	-	4,159,700
Buildings and Improvements	6,920,652	-	6,920,652
Infrastructure	2,808,825	-	2,808,825
Heavy Equipment	761,930	-	761,930
Furniture and Fixtures	40,718	-	40,718
Motor Vehicles	911,114	-	911,114
Computer Equipment	36,708	-	36,708
<b>Total Assets</b>	<b>\$ 17,693,466</b>	<b>\$ -</b>	<b>\$ 17,693,466</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 238,795	\$ -	\$ 238,795
Due to State of Alabama	105,114	-	105,114
Due to Other Government	7,782	-	7,782
Interest Payable	200,169	-	200,169
Non-Current Liabilities			
Due within one year	1,312,094	-	1,312,094
Due in more than one year	18,773,941	-	18,773,941
<b>Total Liabilities</b>	<b>20,637,895</b>	<b>-</b>	<b>20,637,895</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	6,480,485	-	6,480,485
Restricted For:			
Highways, Streets, and Other Purposes	71,574	-	71,574
Capital Projects	16	-	16
Unrestricted (Deficit)	(9,496,504)	-	(9,496,504)
<b>Total Net Assets</b>	<b>\$ (2,944,429)</b>	<b>\$ -</b>	<b>\$ (2,944,429)</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.



## STATEMENT OF ACTIVITIES

## CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General Government and Administrative	\$ 1,802,100	\$ -	\$ 224,856	\$ -	\$ (1,577,244)	\$ -	\$ (1,577,244)
Police	2,283,790	20,986	51,621	1,093	(2,210,090)	-	(2,210,090)
Fire	1,371,114	150,043	-	-	(1,221,071)	-	(1,221,071)
Street	1,706,454	450,680	-	-	(1,255,774)	-	(1,255,774)
Park and Recreation	814,173	107,181	-	-	(706,992)	-	(706,992)
Library	439,495	26,617	6,816	7,000	(399,062)	-	(399,062)
Municipal Court	154,718	447,660	-	-	292,942	-	292,942
Senior Center	250,696	-	1,500	-	(249,196)	-	(249,196)
Education (payment to school board)	673,000	-	-	-	(673,000)	-	(673,000)
Interest, Fiscal Charges, and Amortization of Bond Costs	996,696	-	-	-	(996,696)	-	(996,696)
<b>Total Governmental Activities</b>	<b>10,492,236</b>	<b>1,203,167</b>	<b>284,793</b>	<b>8,093</b>	<b>(8,996,183)</b>	<b>-</b>	<b>(8,996,183)</b>
<b>Business-type Activities:</b>							
Recycling Center	32,812	27,373	-	6,815	-	1,376	1,376
<b>Total Business-type Activities</b>	<b>32,812</b>	<b>27,373</b>	<b>-</b>	<b>6,815</b>	<b>-</b>	<b>1,376</b>	<b>1,376</b>
<b>Total Activities</b>	<b>\$ 10,525,048</b>	<b>\$ 1,230,540</b>	<b>\$ 284,793</b>	<b>\$ 14,908</b>	<b>(8,996,183)</b>	<b>1,376</b>	<b>(8,994,807)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Taxes and Payments in Lieu of Taxes				\$ 1,487,947	\$ -	\$ 1,487,947	
Local Sales Tax				5,031,406	-	5,031,406	
Beverage Taxes				4,554	-	4,554	
Tobacco Taxes				52,199	-	52,199	
Motor Fuel Taxes				173,148	-	173,148	
Licenses, Permits, and Other Revenue				1,341,535	-	1,341,535	
Investment Income				11,455	-	11,455	
Contributions From Component Units				903,121	-	903,121	
Transfers to Other City Funds				-	(1,600)	(1,600)	
Transfers to Other Governments				-	(115,401)	(115,401)	
Gain (Loss) from Disposal of Fixed Assets				(7,689)	-	(7,689)	
Miscellaneous				73,842	-	73,842	
<b>Total General Revenues and Transfers</b>				<b>9,071,518</b>	<b>(117,001)</b>	<b>8,954,517</b>	
<b>Change in Net Assets</b>				<b>75,335</b>	<b>(115,625)</b>	<b>(40,290)</b>	
<b>Net Assets - Beginning of Year</b>				<b>(3,019,764)</b>	<b>115,625</b>	<b>(2,904,139)</b>	
<b>Net Assets - End of Year</b>				<b>\$ (2,944,429)</b>	<b>\$ -</b>	<b>\$ (2,944,429)</b>	

The accompanying Notes to Financial Statements are an integral part of these financial statements.

BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Corrections Fund	Nonmajor Governmental Funds	Totals Governmental Funds
<b>ASSETS</b>					
Cash	\$ 12,596	\$ -	\$ 73,281	\$ 36,467	\$ 122,344
Receivables, Net					
Tax and Tax Equivalents	1,013,800	-	-	200	1,014,000
Refuse Collection	37,313	-	-	-	37,313
Grants	113,244	-	-	-	113,244
Prepaid Expenses	215	-	-	-	215
Due From Other City Funds	73,932	43,763	-	-	117,695
Restricted Assets - Cash	-	166,944	-	33,552	200,496
<b>Total Assets</b>	<b>\$ 1,251,100</b>	<b>\$ 210,707</b>	<b>\$ 73,281</b>	<b>\$ 70,219</b>	<b>\$ 1,605,307</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 80,919	\$ 1,575	\$ -	\$ 446	\$ 82,940
Accrued Payroll and Other Withholdings	150,436	-	-	-	150,436
Deferred Revenue	455,000	-	-	-	455,000
Due to Other City Funds	43,763	-	73,932	-	117,695
Due to Other Government	7,782	-	-	-	7,782
Other Liabilities	74,321	-	72,161	220	146,702
<b>Total Liabilities</b>	<b>812,221</b>	<b>1,575</b>	<b>146,093</b>	<b>666</b>	<b>960,555</b>
<b>Fund Balances:</b>					
Restricted	-	-	-	36,442	36,442
Assigned	-	209,132	-	33,111	242,243
Unassigned	438,879	-	(72,812)	-	366,067
	438,879	209,132	(72,812)	69,553	644,752
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,251,100</b>	<b>\$ 210,707</b>	<b>\$ 73,281</b>	<b>\$ 70,219</b>	<b>\$ 1,605,307</b>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balance - Governmental Funds	\$ 644,752
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	15,639,647
Bond issuance costs that are deferred and amortized in the Statement of Net Assets are expensed when issued and, therefore, are not reported in the funds.	566,207
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	455,000
Long-term liabilities, including bonds payable and the related accrued interest payable, are not due and payable in the current period and, therefore, not reported in the funds.	(20,250,035)
	<b>\$ (2,944,429)</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

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

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Corrections Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes					
Property and Payments In Lieu of Taxes	\$ 797,070	\$ -	\$ -	\$ 690,876	\$ 1,487,946
Sales and Use	5,031,406	-	-	-	5,031,406
Rental	12,825	-	-	-	12,825
Motor Fuel	104,853	-	-	68,296	173,149
Tobacco	52,199	-	-	-	52,199
Licenses and Permits	1,222,063	-	-	-	1,222,063
Charges for Services	562,011	-	107,412	148,607	818,030
Fines and Costs	340,387	-	-	-	340,387
Intergovernmental Revenues	172,811	-	-	55,284	228,095
Contributions From Component Units	-	903,121	-	-	903,121
Other Revenues	322,410	10,540	1	16,702	349,653
	<u>8,618,035</u>	<u>913,661</u>	<u>107,413</u>	<u>979,765</u>	<u>10,618,874</u>
<b>EXPENDITURES</b>					
General Government and Administrative	1,665,578	-	-	-	1,665,578
Police	2,040,352	-	-	-	2,040,352
Fire	1,232,559	-	-	40	1,232,599
Street	1,555,001	-	-	-	1,555,001
Senior Center	209,607	-	-	-	209,607
Park and Recreation	759,169	-	-	-	759,169
Library	294,962	-	-	28	294,990
Municipal Court	134,552	-	95,052	-	229,604
Capital Lease Payments	50,883	52,465	-	-	103,348
Principal Retirements on Long-Term Debt	40,891	4,550,000	-	-	4,590,891
Interest and Fiscal Agents Fees	23,638	1,125,516	-	-	1,149,154
Capital Outlay	417,804	-	-	4,000	421,804
Education	-	-	-	673,000	673,000
	<u>8,424,996</u>	<u>5,727,981</u>	<u>95,052</u>	<u>677,068</u>	<u>14,925,097</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>193,039</u>	<u>(4,814,320)</u>	<u>12,361</u>	<u>302,697</u>	<u>(4,306,223)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds From Debt Issued	171,780	4,230,000	-	-	4,401,780
Transfers From Other Funds	533,456	519,438	-	-	1,052,894
Transfers to Debt Service	(519,438)	-	-	-	(519,438)
Transfers to Other Funds	(2,600)	-	(32,900)	(497,956)	(533,456)
	<u>183,198</u>	<u>4,749,438</u>	<u>(32,900)</u>	<u>(497,956)</u>	<u>4,401,780</u>
Net Change in Fund Balance	376,237	(64,882)	(20,539)	(195,259)	95,557
FUND BALANCES - Beginning of Year	<u>62,642</u>	<u>274,014</u>	<u>(52,273)</u>	<u>264,812</u>	<u>549,195</u>
FUND BALANCES - End of Year	<u>\$ 438,879</u>	<u>\$ 209,132</u>	<u>\$ (72,812)</u>	<u>\$ 69,553</u>	<u>\$ 644,752</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT  
OF ACTIVITIES

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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Amounts reported for governmental activities in the Statement of Activities  
(page 5) are different because:

Net Change in fund balances - total governmental funds (page 7)	\$	95,557
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. This is the amount by which capital outlays exceeded depreciation in the current period.		(424,682)
The issuance of long-term debt (e.g., bonds, leases) 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.		421,280
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>(16,820)</u>
Change in Net Assets - Governmental Activities	\$	<u>75,335</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

STATEMENT OF NET ASSETS - PROPRIETARY FUND

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

	<u>Recycling Center</u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ -
Grant Receivables	-
	<hr/>
Total Current Assets	-
	<hr/>
<b>Noncurrent Assets:</b>	
<b>Capital Assets:</b>	
Buildings and Improvements	-
Equipment	-
Vehicles	-
Recycling Fixtures	-
Computer Equipment	-
	<hr/>
Total Capital Assets	-
	<hr/>
Less Accumulated Depreciation	-
	<hr/>
Net Capital Assets	-
	<hr/>
Total Noncurrent Assets	-
	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ -</b>
	<hr/> <hr/>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Due to Other Governments	\$ -
Short-Term Note Payable	-
	<hr/>
Total Current Liabilities	-
	<hr/>
<b>TOTAL LIABILITIES</b>	<b>\$ -</b>
	<hr/> <hr/>
<b>NET ASSETS</b>	
Unrestricted	-
	<hr/>
<b>TOTAL NET ASSETS</b>	<b>\$ -</b>
	<hr/> <hr/>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 - PROPRIETARY FUND

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Recycling Center</u>
<b>OPERATING REVENUES</b>	
Recycling Revenues	\$ 27,373
Grant Revenues	6,768
Other Revenues	47
	<hr/>
Total Revenues	34,188
	<hr/>
<b>OPERATING EXPENSES</b>	
Depreciation	17,888
Repairs and Maintenance	7,319
Supplies	3,352
Auto Expenses	1,647
Professional Fees	1,000
Utilities	786
Miscellaneous Expenses	207
Dues and Subscriptions	84
Training	50
	<hr/>
Total Expenses	32,333
	<hr/>
<b>OPERATING INCOME</b>	1,855
	<hr/>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Transfer To Other Governments	(117,001)
Interest Expense	(479)
	<hr/>
Total Nonoperating Revenues (Expenses)	(117,480)
	<hr/>
<b>CHANGE IN NET ASSETS</b>	(115,625)
	<hr/>
<b>TOTAL NET ASSETS - BEGINNING</b>	115,625
	<hr/>
<b>TOTAL NET ASSETS - ENDING</b>	<u>\$ -</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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	<u>Recycling Center</u>
<b>Cash Flows From Operating Activities:</b>	
Receipts From Customers and Users	\$ 27,373
Other Receipts	6,498
Payments to Suppliers	<u>(14,445)</u>
Net Cash Provided by Operating Activities	<u>19,426</u>
<b>Cash Flows From Noncapital Financing Activities:</b>	
Cash Received From Other Funds	<u>447</u>
Net Cash Provided by Noncapital Financing Activities	<u>447</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Acquisition and Construction of Capital Assets	(64,085)
Interest Payments on Short-Term Note Payable	(479)
Proceeds From Short-Term Note Payable	48,951
Distribution to Other Government	<u>(47,518)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(63,131)</u>
Net Decrease In Cash and Cash Equivalents	<u>(43,258)</u>
Beginning Cash and Cash Equivalents	<u>43,258</u>
Ending Cash and Cash Equivalents	<u>\$ -</u>

(Continued)

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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(Continued)

	<u>Recycling Center</u>
Reconciliation of Operating Income to Net Cash From Operating Activities:	
Operating Income	<u>\$ 1,855</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	17,888
Changes in Assets and Liabilities:	
Increase in Grant Receivables	<u>(317)</u>
Total Adjustments	<u>17,571</u>
Net Cash Provided by Operating Activities	<u><u>\$ 19,426</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Boaz, Alabama (the City) is a chartered municipality organized under the laws of the State of Alabama. The City is governed by a Mayor and a City Council consisting of five members elected to terms of four years. The City complies with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards (FASB) pronouncements and Accounting Principal Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB, in which case, GASB prevails. Accounting principles generally accepted in the United States of America require that the City report the entire reporting entity which consists of the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. However, these financial statements omit all discretely presented component units, and report only on the primary government. Were the component units included in this report, each component unit of the City would be presented in a separate column in the basic financial statements to emphasize the fact that it is legally separate from the City.

Omitted Discretely Presented Component Units

*Boaz City Board of Education* - The Boaz City Board of Education's five member governing body is appointed by the City.

Complete financial statements for the Boaz City Board of Education may be obtained at the administrative office of the entity.

Government -Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: (1) charges to customers or applicants 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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government -Wide and Fund Financial Statements (Continued)

of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum funds are maintained consistent with legal and managerial requirements. The City of Boaz currently has no fiduciary funds to report.

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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are used to account for the City's general governmental activities. Governmental fund financial statements use the *current financial resource measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within forty-five (45) days of the end of the fiscal period. Expenditures generally are recorded when the related fund liability is incurred, as in accrual accounting. However, debt service expenditures are recognized only when payment is due. Certain compensated absences, claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, sales and use taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other taxes and receipts become measurable when cash is received by the City and are recognized as revenue at that time. Shared revenues and entitlements are recorded at the time of receipt or earlier if the accrual criteria are met.

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Payments in lieu of taxes are revenues from other governmental entities paid in lieu of property taxes.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports the following major governmental funds:

**General Fund** - The General Fund accounts for all of the revenues and expenditures of the City, except those which must be accounted for in other funds, and it is the largest and most important accounting activity for the City. General Fund revenues finance all of the current operations of governmental units which basically benefit the citizenry as a whole.

**Combined Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources and the payment of general long-term debt, including capital lease obligations, principal, interest, and related costs.

**Corrections Fund** - The Corrections Fund accounts for the revenues and expenditures related to the municipal court.

The City reports the following major proprietary fund:

**Recycling Center** - The Recycling Center Fund accounts for the activities of the City's Recycling Center. The City jointly operates a recycling center with the City of Albertville, Alabama.

Additionally, the government reports the following fund types:

**Special Revenue Funds** - A Special Revenue Fund accounts for the proceeds of specific revenue sources (other than those derived from expendable trusts or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the various state shared gasoline taxes.

**Capital Projects Funds** - A Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Auditing Standards Board (GASB).

During the course of normal operations, the City has numerous transactions between funds to provide services, to pay debt, etc. These transactions are generally reflected as operating transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. These transactions are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund reimbursed. As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements.

In the government-wide financial statements, amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues 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 revenues of the recycling center are charges to customers for sales and services.

Operating expenses for proprietary funds include the administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use unrestricted resources first, then restricted resources as they are needed, except in the case of grant monies which are used for their required purpose.

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS

Cash

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property Taxes

Property taxes are levied on October 1 for the prior fiscal year beginning October 1, at which time a lien is attached. These taxes are due and payable October 1 and delinquent after December 31 each year after which a penalty and interest are required to be charged. Revenue is recognized in the year when the taxes are levied and collected at the fund level and in the year for which they are levied at the government-wide level. The taxes are collected by the Marshall County tax collector and remitted to the City.

Prepaid Items

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

Restricted Assets

Cash accounts and other assets restricted for specific purposes are classified as restricted assets on the balance sheet and statement of net assets.

Capital Assets

Capital assets of the City, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, or if inadequate records were available to determine the actual cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of governmental-type activities is not capitalized.

It is the City's policy not to depreciate historical objects and museum exhibits that are held for public exhibition. These objects are maintained by the City at a reasonable level and, if sold, proceeds are used to purchase more historical objects for public display.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and infrastructure	40-60
Building improvements	15-40
Machinery, equipment, and vehicles	5-25
Books	3

Risk Management

The City is exposed to normal business risk in the course of operations. Commercial insurance is purchased by the City to cover any normal, insurable loss up to policy limits. During the past three years, there have been no losses which exceeded insured amounts.

Compensated Absences

Employees can earn vested annual vacation leave based on years of service as follows:

0-2 years	6 days
3-10 years	12 days
11-20 years	18 days
21 years and over	24 days

Unused vacation leave not exceeding one year's annual vacation can be carried over to succeeding years. Excess unused vacation is converted into sick leave. The City has accrued a liability for vacation pay which has been earned but not taken by City employees. Vacation leave that is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. All unused annual leave is accrued when earned by the employees in the government-wide financial statements. Vacation leave that is expected to be liquidated during the next twelve months is considered a current liability on the government-wide financial statements.

Sick leave is earned at the rate of eight hours per month. Sick leave liability has not been accrued because of the uncertainty of expense during the succeeding years.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs and gains/losses on refundings, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium, discount, or gains/losses on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**Use of Estimates in Preparation of Financial Statements**

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

**Government-wide and Proprietary Fund Net Assets**

Government-wide and proprietary fund net assets are divided into three components:

- a) Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and outstanding balances of any bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets - consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- a) Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b) Restricted - Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- c) Committed - Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.
- d) Assigned - Amounts that are designated by the City Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by the City Council.
- e) Unassigned - All amounts not included in other spendable classifications.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

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

Bonds and Notes Payable	\$ 19,427,478
Accrued Interest Payable	200,169
Capital Leases Payable	461,824
Other Post Employment Benefits Payable	49,160
Compensated Absences	<u>111,404</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 20,250,035</u>

(Continued)



NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)**

**Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a 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	\$ 417,805
Depreciation Expense	<u>(842,487)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (424,682)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) 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:

Net Proceeds of Debt	\$ (4,131,630)
Payment of Debt	4,694,239
Amortization of bond issue costs and original issue discounts	<u>(141,329)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 421,280</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)**

**Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)**

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment is a combination of the following items:

Accrued Interest	\$	34,251
Loss on Disposal of Fixed Assets		(44,189)
Other Post Employment Benefit Obligations		179
Compensated Absences		<u>(7,061)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$	<u>(16,820)</u>

**NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

An annual budget is prepared for the City's general fund and is adopted on the modified accrual basis. All annual appropriations lapse at the fiscal year end. The City is authorized to transfer budget amounts between departments within the general fund; however, any revisions that alter the total appropriations of any fund must be approved by the Council.

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The City maintains a level of control at the department level. The following departments had expenditures exceeding appropriations as of September 30, 2011.

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS (Continued)

<u>Fund</u>	<u>Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General	General Government and Administrative	\$ 1,642,300	\$ 1,665,578	\$ (23,278)
	Police	1,806,250	2,040,352	(234,102)
	Fire	1,075,850	1,232,559	(156,709)
	Street	1,337,300	1,555,001	(217,701)
	Senior Center	198,050	209,607	(11,557)
	Park and Recreation	736,600	759,169	(22,569)
	Library	275,500	294,962	(19,462)
	Municipal Court	10,000	134,552	(124,552)

The City's general fund total expenditures exceeded total appropriations by \$1,349,911. The City does not adopt a budget for the special revenue, capital project, or debt service funds.

NOTE 4 - DEPOSITS AND INVESTMENTS

At September 30, 2011, the carrying amounts of the City's deposits with three financial institutions were \$346,155 of which all were covered by the Federal Deposit Insurance Corporation or the SAFE Plan enacted by the State of Alabama. Some of the cash accounts are interest bearing accounts and earn interest at 0.50% as of September 30, 2011.

Cash held in the corrections fund is restricted for uses which meet certain regulatory and administrative approved functions.

Cash held in special revenue funds is restricted for uses which meet certain regulatory and administrative approved functions.

Cash held in the debt service fund is restricted for use in the payment of principal and interest on general long-term debt obligations as they become due.

At September 30, 2011, the City had the following investments held by a trustee:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Federated U.S. Treasury Cash Reserves	169,817	40 days or less

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)**

*Interest rate risk* - The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

*Credit risk* - State statutes limit the City's investments to U.S. Treasury obligations, State of Alabama and Alabama County obligations, and general obligations of Alabama municipalities. At September 30, 2011, the City's investments consisted of Federated U.S. Treasury Cash Reserves Fund. This money market fund seeks current income consistent with stability of principal and liquidity by investing only in a portfolio of short-term U.S. Treasury securities. The Fund seeks to maintain a stable net asset value of \$1.00 per share.

**NOTE 5 - RECEIVABLES**

Receivables at September 30, 2011, consist of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Sales Tax	\$ 447,747	\$ -	\$ 447,747
Grant Revenues	113,244	-	113,244
Garbage Collection Fees	37,313	-	37,313
Returned Checks	404	200	604
Ad Valorem Tax	565,649	-	565,649
	<u>\$ 1,164,357</u>	<u>\$ 200</u>	<u>\$ 1,164,557</u>

**NOTE 6 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds are as follows:

	<u>Unavailable</u>
Property Taxes Receivable (General Fund)	<u>\$ 455,000</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

NOTE 7 - CAPITAL ASSETS

The following is a summary of changes in the City's capital asset activity for the fiscal year:

	Balance October 1, 2010	Additions	Disposals	Balance September 30, 2011
<b><u>Governmental Activities:</u></b>				
<b>Land and Land</b>				
Improvements	\$ 4,159,700	\$ -	\$ -	\$ 4,159,700
Total Capital Assets not Being Depreciated	<u>4,159,700</u>	<u>-</u>	<u>-</u>	<u>4,159,700</u>
Building and Improvements	9,147,666	-	-	9,147,666
Computer Equipment	204,648	22,328	-	226,976
Heavy Equipment	2,779,010	72,494	199,650	2,651,854
Furniture and Fixtures	352,988	39,861	-	392,849
Infrastructure	3,262,552	-	-	3,262,552
Motor Vehicles	<u>3,032,305</u>	<u>283,121</u>	<u>224,474</u>	<u>3,090,952</u>
<b>Total Capital Assets     Being Depreciated</b>	<u>18,779,169</u>	<u>417,804</u>	<u>424,124</u>	<u>18,772,849</u>
<b>Less Accumulated     Depreciation for:</b>				
Building and Improvements	1,955,912	271,102	-	2,227,014
Computer Equipment	173,288	16,980	-	190,268
Heavy Equipment	1,813,784	231,601	155,461	1,889,924
Furniture and Fixtures	318,273	33,858	-	352,131
Infrastructure	355,460	98,267	-	453,727
Motor Vehicles	<u>2,213,634</u>	<u>190,678</u>	<u>224,474</u>	<u>2,179,838</u>
	<u>6,830,351</u>	<u>842,486</u>	<u>379,935</u>	<u>7,292,902</u>
<b>Total Capital Assets     Being Depreciated, Net</b>	<u>11,948,818</u>	<u>(424,682)</u>	<u>44,189</u>	<u>11,479,947</u>
<b>Governmental Activities,     Capital Assets, Net</b>	<u>\$ 16,108,518</u>	<u>\$ (424,682)</u>	<u>\$ 44,189</u>	<u>\$ 15,639,647</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

NOTE 7 - CAPITAL ASSETS (Continued)

The following is a summary of changes in the City's capital asset activity for the fiscal year:

	Balance October 1, 2010	Additions	Disposals	Balance September 30, 2011
<b><u>Business-Type Activities</u></b>				
Building and Improvements	\$ 12,292	\$ 14,068	\$ 26,360	\$ -
Computer Equipment	487	-	487	-
Equipment	68,683	34,560	103,243	-
Recycling Fixtures	-	2,675	2,675	-
Motor Vehicles	16,032	12,781	28,813	-
	<u>97,494</u>	<u>64,084</u>	<u>161,578</u>	<u>-</u>
<b>Total Capital Assets Being Depreciated</b>	<u>97,494</u>	<u>64,084</u>	<u>161,578</u>	<u>-</u>
Less Accumulated Depreciation for:				
Building and Improvements	449	1,405	1,854	-
Computer Equipment	-	97	97	-
Equipment	8,327	10,936	19,263	-
Recycling Fixtures	-	351	351	-
Motor Vehicles	2,136	5,099	7,235	-
	<u>10,912</u>	<u>17,888</u>	<u>28,800</u>	<u>-</u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u>86,582</u>	<u>46,196</u>	<u>132,778</u>	<u>-</u>
<b>Business-Type Activities, Capital Assets, Net</b>	<u>\$ 86,582</u>	<u>\$ 46,196</u>	<u>\$ 132,778</u>	<u>\$ -</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

**NOTE 7 - CAPITAL ASSETS (Continued)**

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

**Governmental Activities:**

Municipal Court	\$	4,458
Library		139,962
Administration		27,268
General Government		119,063
Parks and Recreation		54,979
Senior Center		40,421
Fire		145,958
Police		162,155
Street		148,222
		<u>842,486</u>
Total depreciation expense - governmental activities	\$	<u>842,486</u>

**Business-Type Activities:**

Recycling Center	\$	<u>17,888</u>
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**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of September 30, 2011, is as follows:

**Due To/From other funds (Primary Government):**

<u>Payable Fund</u>		<u>Receivable Fund</u>	
Corrections Fund	\$ 73,932	General Fund	\$ 73,932
General Fund	<u>43,763</u>	Debt Service Fund	<u>43,763</u>
	<u>\$ 117,695</u>		<u>\$ 117,695</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES (Continued)

Interfund transfers to/from for the year ended September 30, 2011, are as follows:

<u>Transfer From</u>	<u>Transfer To</u>		
General Fund	Debt Service Fund	\$	519,438
General Fund	Nonmajor Funds		2,600
Corrections Fund	General Fund		32,900
Nonmajor Funds	General Fund		497,956
			<u>497,956</u>
		<u>\$</u>	<u>1,052,894</u>

NOTE 9 - CAPITAL LEASES

The Capital Lease Obligations of the City of Boaz can be summarized as follows as of September 30, 2011:

Capital lease obligation dated June 28, 2007, to First Bankers Corporation payable in ten annual installments of \$69,534 including interest at 4.56%	\$	357,929
Capital lease obligation dated June 1, 2008, to Regions Equipment Finance Corporation payable in monthly installments of \$1,312 through June 2013 including interest at 3.75%		26,599
Capital lease obligation dated August 18, 2008, to Regions Equipment Finance Corporation payable in monthly installments of \$3,496 through August 2013 including interest at 3.99%		77,296
		<u>77,296</u>
	<u>\$</u>	<u>461,824</u>



NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

**NOTE 10 - LONG-TERM DEBT**

The government issues general obligation warrants to provide funds for the acquisition and construction of major capital facilities. General obligation warrants have been issued for general government activities. In addition, general obligation warrants have been issued to refund general obligation warrants.

Changes in long-term obligations for the year ended September 30, 2011, are as follows:

	<u>Interest Rate</u>	<u>Beginning Balance Outstanding</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance Outstanding</u>	<u>Amounts Due Within One Year</u>
<b>General Obligation Warrants:</b>						
Dated July 1, 2004	1.75 - 5.00%	\$ 11,090,000	\$ -	\$ 385,000	\$ 10,705,000	\$ 400,000
Dated July 1, 2004	2.70 - 5.00%	1,325,000	-	45,000	1,280,000	45,000
Dated November 1, 2001	5.40 - 6.25%	3,890,000	-	3,890,000	-	-
Dated November 1, 2009	3.00 - 4.50%	3,435,000	-	230,000	3,205,000	140,000
Dated October 1, 2010	2.00 - 2.875%	-	4,230,000	-	4,230,000	380,000
Less, Unamortized Bond Discount		(218,323)	-	(14,229)	(204,094)	-
		<u>19,521,677</u>	<u>4,230,000</u>	<u>4,535,771</u>	<u>19,215,906</u>	<u>965,000</u>
<b>Other Liabilities:</b>						
Note Payable - People's Independent Bank	4.35%	80,682	-	33,214	47,468	37,773
Note Payable - People's Independent Bank	4.65%	-	171,780	7,676	164,104	31,614
Compensated Absences		134,488	154,197	144,964	143,721	143,721
Other Post Employment Benefit Obligations		53,248	27,103	27,339	53,012	26,208
Capital Leases		565,173	-	103,349	461,824	107,778
		<u>\$ 20,355,268</u>	<u>\$ 4,583,080</u>	<u>\$ 4,852,313</u>	<u>\$ 20,086,035</u>	<u>\$ 1,312,094</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

NOTE 10 - LONG-TERM DEBT (Continued)

The following is a schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at September 30, 2011:

<u>Fiscal Years Ending September 30</u>	<u>General Long-Term Debt</u>
2012	\$ 127,230
2013	119,799
2014	69,534
2015	69,534
2016	69,534
Thereafter	<u>69,534</u>
Total Minimum Lease Payments	525,165
Less Amount Representing Interest	<u>63,341</u>
Present Value of Future Minimum Lease Payments	<u>\$ 461,824</u>

Annual debt service requirements to maturity for general obligations warrants and notes payable are as follows:

<u>Fiscal Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 1,034,387	\$ 782,808	\$ 1,817,195
2013	1,172,811	748,818	1,921,629
2014	1,164,689	713,015	1,877,704
2015	1,081,337	678,242	1,759,579
2016	1,108,348	642,917	1,751,265
2017 - 2021	5,870,000	2,624,280	8,494,280
2022 - 2026	4,630,000	1,546,172	6,176,172
2027 - 2030	<u>3,570,000</u>	<u>354,746</u>	<u>3,924,746</u>
	<u>\$ 19,631,572</u>	<u>\$ 8,090,998</u>	<u>\$ 27,722,570</u>

Interest expense charged to functions of the primary government for the year ended September 30, 2011, totaled \$1,046,564.

**NOTE 11 - ADVANCE REFUNDING OF LONG-TERM DEBT**

On October 1, 2010, the City issued \$4,230,000 in general obligation warrants with interest rates ranging from 2.00% to 2.875%. The City issued the warrants to advance refund \$3,890,000 of the outstanding 2001 general obligation warrants. Of the remaining proceeds of the 2010 general obligation warrants, \$340,000 was used to pay interest and other costs of issuing the 2010 general obligation warrants. Proceeds of the issuance used to refund the 2001 general obligation warrants were used by the City to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2001 general obligation warrants. As a result, the 2001 general obligation warrants are considered defeased, and the City has removed the liability from its accounts. The outstanding principle of the defeased bonds is \$3,890,000 at September 30, 2011.

The advance refunding decreased total debt service payments over the next twenty years by approximately \$205,000. This decrease results in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$209,000.

**NOTE 12 - DEFINED BENEFIT PENSION PLAN**

The City contributes to the Employees' Retirement System of Alabama, 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 Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City. Each employee is required to contribute 5% of his/her annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 8.18% of covered payroll. 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 higher monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the higher monthly benefit. Under this method retirees are allowed 2.0125% 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 is provided to plan members.

(Continued)

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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**NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)**

The Employees' Retirement System 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 operation and general administration of the Employees' Retirement System 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. However, the legislature has granted the commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

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

**Annual Pension Cost**

For the year ended September 30, 2011, the City's annual pension cost of \$246,219 was equal to the City's required and annual contribution. The required contribution was determined as part of the September 30, 2010, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return, (b) projected salary increases ranging from 4.61% - 7.75% per year, and no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.50%. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2011, was 30 years.

**Trend Information**

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
09/30/08	\$ 187,668	100%	\$ -
09/30/09	\$ 205,285	100%	\$ -
09/30/10	\$ 203,760	100%	\$ -

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

**NOTE 13 - RESTRICTED NET ASSETS AND RESERVED FUND BALANCE**

The statement of net assets shows certain amounts as restricted net assets. These amounts are restricted in their use by parties outside the City such as creditors, grantors, or contributors, or are restricted by law or regulation. Components of restricted net assets include:

<u>Activity</u>	<u>Restricted By</u>	
Highways, Streets, and Other Purposes	Law	\$ 71,574
Capital Projects	General Obligation Warrants	16

The balance sheet shows certain amounts as restricted, assigned, or unassigned fund balances. Restricted amounts are restricted by either federal or state law; assigned amounts are designated by the City leaders to use for a specific purpose; and unassigned amounts are to use in any City function. Components of fund balances are:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Corrections Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Fund Balances:</b>					
<b>Restricted for:</b>					
Library	\$ -	\$ -	\$ -	\$ 2,907	\$ 2,907
Road Surface and Repairs	-	-	-	12,686	12,686
Education	-	-	-	20,849	20,849
<b>Assigned to:</b>					
Reserve	-	-	-	1,502	1,502
2009 Bond Proceeds	-	-	-	1,503	1,503
Dixie Youth and Men's Softball	-	-	-	280	280
Fire and Rescue	-	-	-	29,668	29,668
Cemetery	-	-	-	61	61
Debt Service	-	209,132	-	-	209,132
Capital Improvement	-	-	-	97	97
<b>Unassigned:</b>					
General	438,879	-	-	-	438,879
Corrections	-	-	(72,812)	-	(72,812)
<b>Total Fund Balances</b>	<b>\$ 438,879</b>	<b>\$ 209,132</b>	<b>\$ (72,812)</b>	<b>\$ 69,553</b>	<b>\$ 644,752</b>

# NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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## NOTE 14 - EMPLOYEE BENEFITS

The City pays for certain health, dental, and life insurance benefits for its employees. All full-time employees are eligible for these benefits. The City pays for 100% of single coverage health and dental benefits and 78% of family coverage health and dental benefits. In addition, the City pays for a \$25,000 life insurance policy for all full-time employees. During the year ended September 30, 2011, the City paid \$716,925 for insurance premiums under the employee benefit program.

## NOTE 15 - OTHER POST EMPLOYMENT BENEFITS

The City extends health care coverage to qualifying retirees as a part of post employment benefits. The health care coverage is available for three years beginning on the date of the employee's retirement. Retirees qualify for the benefit at age 60 or after 25 years of service. The City pays for the benefit when incurred. The estimated liability for these benefits at September 30, 2011 is \$53,012.

The alternative measurement method was used to determine the City's OPEB liability at September 30, 2011. In using the alternative measurement method to determine the liability, several assumptions were used, including an expected annual increase of 5% for a retiree's health insurance premiums and a discount rate of 5% to calculate the net present value of future payments.

## NOTE 16 - CONTINGENT LIABILITIES

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Litigation - In addition to those suits in which claims for liability are adequately covered by insurance, the City is defendant in various suits arising in the normal course of business. Management is unable to predict the outcome of the litigation but believes it has strong grounds upon which to defend these proceedings and will vigorously oppose the asserted claims. Accordingly, no provision for possible loss, if any, is included in the financial statements.

# NOTES TO FINANCIAL STATEMENTS

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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### NOTE 17 - COMMITMENTS

The City has received a grant from the Alabama Department of Transportation to assist in construction of additional sidewalks in the area around the City's schools. As of September 30, 2011, only engineering costs had been incurred in the amount of \$23,750. Estimated costs to complete the project are approximately \$93,000.

The City has received a grant from the State of Alabama in the amount of \$221,900 to purchase and install advanced lighting retrofits for street lighting. No costs for the project have been incurred by the City as of September 30, 2011. Estimated costs to complete the project are approximately \$350,000.

The City acts as guarantee for the Boaz Industrial Development Board on two notes at the First Bank of Boaz and two notes at People's Independent Bank. At September 30, 2011, the balances of the notes were \$352,180 and \$424,481 at First Bank of Boaz and \$352,180 and \$424,481 at People's Independent Bank.

### NOTE 18 - RECYCLING CENTER JOINT VENTURE

During 2009, the City signed an agreement with the City of Albertville to operate a recycling center. The center receives grant funds and revenue from the sale of recycling material collected. Expenses incurred by the recycling center, not covered by revenues generated at the center, are provided for by the Cities of Boaz and Albertville jointly. The allocation of revenues and expenses is based on population of the two cities. The City of Boaz is responsible for one-third of the expenses the cities are required to pay and receives one-third of the revenues received. On April 21, 2011, the Recycling Center was incorporated and separated from the City of Boaz.

### NOTE 19 - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through January 19, 2012, which is the date the financial statements were available to be issued.

In November 2011, the City obtained a note payable in the amount of \$500,050 bearing interest at 3.50% and that matures on February 1, 2012.

**REQUIRED SUPPLEMENTARY  
INFORMATION**



**SCHEDULE OF FUNDING PROGRESS - EMPLOYEES' RETIREMENT SYSTEM  
OF ALABAMA**

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a) *****	Actuarial Accrued Liability (AAL) - Entry Age (b)*	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
9/30/05	\$ 7,767,842	\$ 8,254,471	\$ 486,629	94.1%	\$ 3,121,665	15.6%
9/30/06 **	8,284,129	9,274,576	990,447	89.3%	3,198,942	31.0%
9/30/07	8,824,548	9,669,942	845,394	91.3%	3,175,094	26.6%
9/30/08	9,019,122	10,352,829	1,333,707	87.1%	3,309,897	40.3%
9/30/09	9,111,941	11,183,813	2,071,872	81.5%	3,110,544	66.6%
9/30/10 ***	8,949,368	11,914,687	2,965,319	75.1%	3,136,915	94.5%
9/30/10 ****	8,949,368	11,947,872	2,998,504	74.9%	3,136,915	95.6%

\* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

\*\* Reflects changes in actuarial assumptions.

\*\*\* Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

\*\*\*\* Reflects the impact of Act 2011-27 as well as Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

\*\*\*\*\* Market value of assets as of September 30, 2010: \$7,448,027

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL - GENERAL FUND**

**CITY OF BOAZ, ALABAMA**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/(Negative)
	Original	Final		
<b>REVENUES</b>				
<b>Taxes</b>				
Property and Payments in Lieu of Taxes	\$ 955,000	\$ 955,000	\$ 797,070	\$ (157,930)
Sales and Use	4,500,000	4,500,000	5,031,406	531,406
Rental	15,300	15,300	12,825	(2,475)
Motor Fuel	110,000	110,000	104,853	(5,147)
Tobacco	59,000	59,000	52,199	(6,801)
Licenses and Permits	1,228,250	1,228,250	1,222,063	(6,187)
Charges for Services	706,750	706,750	562,011	(144,739)
Fines and Costs	453,600	453,600	340,387	(113,213)
Intergovernmental Revenues	500	500	172,811	172,311
Other Revenues	596,400	596,400	322,410	(273,990)
	<u>8,624,800</u>	<u>8,624,800</u>	<u>8,618,035</u>	<u>(6,765)</u>
<b>EXPENDITURES</b>				
General Government and Administrative	1,642,300	1,642,300	1,665,578	(23,278)
Police	1,806,250	1,806,250	2,040,352	(234,102)
Fire	1,075,850	1,075,850	1,232,559	(156,709)
Street	1,337,300	1,337,300	1,555,001	(217,701)
Senior Center	198,050	198,050	209,607	(11,557)
Park and Recreation	736,600	736,600	759,169	(22,569)
Library	275,500	275,500	294,962	(19,462)
Municipal Court	10,000	10,000	134,552	(124,552)
Capital Outlay	-	-	417,804	(417,804)
Capital Lease Payments	-	-	50,883	(50,883)
Principal Retirements on Long-Term Debt	-	-	40,891	(40,891)
Interest and Fiscal Agents Fees	-	-	23,638	(23,638)
	<u>7,081,850</u>	<u>7,081,850</u>	<u>8,424,996</u>	<u>(1,343,146)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,542,950</u>	<u>1,542,950</u>	<u>193,039</u>	<u>(1,349,911)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
10% Surplus	757,375	757,375	-	(757,375)
Proceeds From Debt Issued	-	-	171,780	171,780
Transfers From Other Funds	-	-	533,456	533,456
Transfers to Debt Service	-	-	(519,438)	(519,438)
Transfers To Other Funds	-	-	(2,600)	(2,600)
	<u>757,375</u>	<u>757,375</u>	<u>183,198</u>	<u>(574,177)</u>
Excess (Deficiency) of Revenues Over (Under) Other Sources (Uses) and Expenditures	<u>2,300,325</u>	<u>2,300,325</u>	<u>376,237</u>	<u>(1,924,088)</u>
<b>FUND BALANCES - Beginning of Year</b>	<u>62,642</u>	<u>62,642</u>	<u>62,642</u>	<u>-</u>
<b>FUND BALANCES (DEFICITS) - End of Year</b>	<u>\$ 2,362,967</u>	<u>\$ 2,362,967</u>	<u>\$ 438,879</u>	<u>\$ (1,924,088)</u>

# NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2011

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An annual budget is prepared for the City's general fund and adopted on the modified accrual basis. All annual appropriations lapse at fiscal year end. Accounting principles generally accepted in the United States of America require that budget comparisons be presented for special revenue funds if a budget is legally adopted. Such a presentation has not been made because the City does not adopt budgets for these funds. The Mayor and City Council approve, by ordinance, total general fund budget appropriations only. The City is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Council. The Council did not make any budgetary amendments throughout the year. In addition, there was a negative variance between the budgeted and actual expenditures of approximately \$417,804 in the Capital Outlay line item. This variance was due to the City not budgeting Capital Outlay.

**MDA PROFESSIONAL GROUP, P.C.**  
*Certified Public Accountants and Business Consultants*

203 SOUTH HAMBRICK STREET, P.O. BOX 1188, ALBERTVILLE, AL 35950 • PHONE 258.878.5548 • FAX 258.878.8474

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

Mayor and City Council  
City of Boaz, Alabama  
Boaz, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Boaz, Alabama, as of and for the year ended September 30, 2011, which collectively comprise the City of Boaz's basic financial statements, and have issued our report thereon dated January 19, 2012. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

City of Boaz, Alabama  
Boaz, Alabama

**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.

*MDA Professional Group, P.C.*

January 19, 2012



**OTHER FINANCIAL INFORMATION**

**DEBT SERVICE REQUIREMENTS TO MATURITY -  
GENERAL LONG-TERM DEBT OBLIGATIONS AND NOTES PAYABLE**

**CITY OF BOAZ, ALABAMA**

**SEPTEMBER 30, 2011**

Maturity Date	General Obligation Warrants Dated July 1, 2004			General Obligation Warrants Dated July 1, 2004			General Obligation Warrants Dated November 1, 2009		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
2012	4.00 %	\$ 45,000	\$ 60,610	3.90 %	\$ 400,000	\$ 503,685	3.00 %	\$ 140,000	\$ 119,232
2013	4.00	50,000	58,810	4.00	415,000	488,085	3.00	260,000	113,233
2014	4.25	50,000	56,810	4.00	435,000	471,485	3.00	230,000	105,882
2015	4.25	55,000	54,685	4.25	450,000	454,085	3.00	120,000	100,633
2016	4.25	55,000	52,348	4.25	470,000	434,960	3.00	125,000	96,957
2017	4.50	60,000	50,010	4.50	490,000	414,985	3.25	130,000	92,970
2018	4.50	60,000	47,310	4.50	515,000	392,935	3.45	130,000	88,615
2019	4.50	65,000	44,610	4.50	535,000	369,760	3.60	135,000	83,943
2020	4.85	70,000	41,685	4.70	560,000	345,685	3.75	140,000	78,887
2021	4.85	70,000	38,533	4.75	585,000	319,365	3.75	150,000	73,263
2022	4.85	75,000	35,137	4.85	615,000	291,577	3.75	155,000	67,162
2023	5.00	75,000	31,500	5.00	645,000	261,750	3.75	160,000	60,863
2024	5.00	80,000	27,750	5.00	675,000	229,500	3.75	165,000	54,362
2025	5.00	85,000	23,750	5.00	710,000	195,750	3.75	175,000	47,388
2026	5.00	90,000	19,500	5.00	745,000	160,250	3.75	180,000	39,932
2027	5.00	95,000	15,000	5.00	780,000	123,000	3.75	190,000	31,925
2028	5.00	100,000	10,250	5.00	820,000	84,000	3.75	200,000	23,248
2029	5.00	105,000	5,250	5.00	860,000	43,000	3.75	205,000	14,236
2030							4.50	215,000	4,838
		<b>\$ 1,280,000</b>	<b>\$ 673,548</b>		<b>\$ 10,705,000</b>	<b>\$ 5,583,857</b>		<b>\$ 3,205,000</b>	<b>\$ 1,297,569</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.



**DEBT SERVICE REQUIREMENTS TO MATURITY -  
GENERAL LONG-TERM DEBT OBLIGATIONS AND NOTES PAYABLE**

**CITY OF BOAZ, ALABAMA**

**SEPTEMBER 30, 2011**

Maturity Date	General Obligation Warrants Dated October 1, 2010			Note Payable People's Independent Bank		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
2012	2.00 %	\$ 380,000	\$ 91,000	4.35 %	\$ 37,773	\$ 1,318
2013	2.00	405,000	83,150	4.35	9,695	79
2014	2.00	415,000	74,950			
2015	2.00	420,000	66,600			
2016	2.00	430,000	58,100			
2017	2.00	435,000	49,450			
2018	2.25	445,000	40,094			
2019	2.50	455,000	29,400			
2020	2.75	465,000	17,318			
2021	2.88	380,000	5,463			
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
		<b>\$ 4,230,000</b>	<b>\$ 515,525</b>		<b>\$ 47,468</b>	<b>\$ 1,397</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**DEBT SERVICE REQUIREMENTS TO MATURITY -  
GENERAL LONG-TERM DEBT OBLIGATIONS AND NOTES PAYABLE**

**CITY OF BOAZ, ALABAMA**

**SEPTEMBER 30, 2011**

Maturity Date	Interest Rate	Note Payable	
		Principal	Interest
2012	4.65 %	\$ 31,614	\$ 6,963
2013	4.65	33,116	5,461
2014	4.65	34,689	3,888
2015	4.65	36,337	2,240
2016	4.65	28,348	551
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
		<b>\$ 164,104</b>	<b>\$ 19,103</b>

Totals	
Principal	Interest
\$ 1,034,387	\$ 782,808
1,172,811	748,818
1,164,689	713,015
1,081,337	678,243
1,108,348	642,916
1,115,000	607,415
1,150,000	568,954
1,190,000	527,713
1,230,000	483,575
1,185,000	436,624
845,000	393,876
880,000	354,113
920,000	311,612
970,000	266,888
1,015,000	219,682
1,065,000	169,925
1,120,000	117,498
1,170,000	62,486
215,000	4,838
<b>\$ 19,631,572</b>	<b>\$ 8,090,999</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.