

CITY OF BOAZ
Boaz, Alabama

AUDITED FINANCIAL STATEMENTS
September 30, 2008

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i - viii
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Assets.....	4
Statement of Activities.....	5
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds.....	6
Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Funds.....	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	8
Statement of Net Assets - Fiduciary Funds.....	9
NOTES TO FINANCIAL STATEMENTS.....	10 - 30
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress - Employees' Retirement System of Alabama.....	32
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund.....	33
Notes to Required Supplementary Information.....	34
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	35 - 36

Schedule of Findings and Responses.....	37
---	----

OTHER FINANCIAL INFORMATION

Debt Service Requirements to Maturity - General Long-Term Debt Obligations.....	101 - 102
--	-----------

MDA PROFESSIONAL GROUP, P.C.

Certified Public Accountants and Business Consultants

203 SOUTH HAMBRICK STREET • P.O. BOX 1188
ALBERTVILLE, ALABAMA 35950
(256) 878-5548 • FAX (256) 878-8474 • www.mdacpa.com

MEMBERS OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS

AFFILIATED OFFICES IN
PRINCIPAL CITIES WORLDWIDE
THROUGH AGN INTERNATIONAL, LTD

Honorable Mayor and City Council
City of Boaz
Boaz, Alabama

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Boaz, Alabama, as of and for the year ended, September 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the Table of Contents. These financial statements are the responsibility of City of Boaz, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit.

We have 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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, 2008, and the changes in financial position for the year then 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, each major fund, and the aggregate remaining fund information for the primary government of the City of Boaz, Alabama, as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



From Vision To Reality

Honorable Mayor and City Council
Boaz, Alabama

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2009, on our consideration of the City of Boaz, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis, the budgetary comparison information, and the schedule of funding progress - Employees' Retirement System of Alabama on pages i through viii and 32 through 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boaz, Alabama's basic financial statements. The introductory section and the schedule of debt service requirements to maturity - general long-term debt obligations are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and the schedule of debt service requirements to maturity - general long-term debt obligations have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

MDA Professional Group, P.C.

January 27, 2009

CITY OF BOAZ, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Boaz's discussions 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, 2008. 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 net assets decreased \$352,004 in 2008 as a result of government spending increasing.
- As of September 30, 2008, the government's funds reported a combined ending fund balance of (\$3,430,214), a decrease of \$352,004 from the prior year.
- The City's total debt increased by \$115,139 during 2008. The City issued new debt during 2008.
- The City's total capital assets decreased by \$105,144 over the prior year due to the normal depreciation of assets in service.

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 where the City provides financial resources to other governmental entities, primarily the Boaz City Board of Education for support of the City school system. The City of Boaz has no functions that are classified as business type activities.

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 13 individual governmental funds:

- The General fund and Combined Debt Service 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 balance 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.

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 the financial statements can be found on pages 10 through 30 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 \$3,430,214 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.

Table 1
Summary of Net Assets
FYE 2008

Governmental Activities ASSETS	2008	2007	Change
Cash	\$ 319,148	\$ 540,990	\$ (221,842)
Other Assets	1,694,002	1,510,340	183,662
Capital Assets (net of accumulated depreciation)	15,935,124	16,040,267	(105,143)
Total Assets	<u>\$ 17,948,274</u>	<u>\$ 18,091,597</u>	<u>\$ (143,323)</u>
LIABILITIES			
Other Liabilities	\$ 726,495	\$ 632,767	\$ 93,728
Long-Term Debt Obligations	20,651,993	20,537,040	114,953
Total Liabilities	<u>\$ 21,378,488</u>	<u>\$ 21,169,807</u>	<u>\$ 208,681</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 7,128,464	\$ 7,741,366	\$ (612,902)
Restricted	124,389	219,222	(94,833)
Unrestricted	(10,683,067)	(11,038,798)	355,731
Total Net Assets	<u>\$ (3,430,214)</u>	<u>\$ (3,078,210)</u>	<u>\$ (352,004)</u>

Table 2
Changes in Net Assets
FYE 2008

Governmental Activities	<u>2008</u>	<u>2007</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services	\$ 1,140,239	\$ 1,231,587	\$ (91,348)
Operating Grants and Contributions	107,839	103,199	4,640
Capital Grants and Contributions	432,024	2,557	429,467
General Revenues:			
Property Taxes and Payments in Lieu of Taxes	1,329,237	1,414,159	(84,922)
Other Taxes	6,175,861	5,951,066	224,795
Other General Revenues	1,045,050	1,005,949	39,101
Total Revenues	<u>10,230,250</u>	<u>9,708,517</u>	<u>521,733</u>
Program Expenses:			
General Government and Administrative	2,323,964	1,823,905	500,059
Police	2,299,182	2,132,127	167,055
Fire	1,087,642	1,061,840	25,802
Street	1,685,682	1,535,808	149,874
Parks and Recreation	886,286	848,296	37,990
Library	429,881	395,859	34,022
Municipal Court	136,930	141,152	(4,222)
Senior Center	240,501	196,061	44,440
Capital Building	128	1,102	(974)
Education (Payment to School Board)	610,715	624,341	(13,626)
Interest and Fiscal Charges	881,343	852,005	29,338
Total Expenses	<u>10,582,254</u>	<u>9,612,496</u>	<u>969,758</u>
Change in Net Assets	(352,004)	96,021	(448,025)
Net Assets - Beginning of Year	<u>(3,078,210)</u>	<u>(3,174,231)</u>	<u>96,021</u>
Nets Assets - End of Year	<u><u>\$ (3,430,214)</u></u>	<u><u>\$ (3,078,210)</u></u>	<u><u>\$ (352,004)</u></u>

Revenues from governmental activities increased during 2008. The most significant changes were as follows:

Sales tax increased \$81,473 due to the increase of business activity. Garbage collection fees increased by \$60,458 due to rate increases. Business Licenses increased \$121,888 due to rate increases as of January 1. Grant revenue increased \$203,401 due to the Henderson Road project.

Expenses of governmental activities increased approximately \$969,758 from 2007. Salaries and wage expenses increased due to scheduled employee step increases and one time pay increase. Additionally, the City had various paving projects in the amount of \$255,471. Garbage Collection fees increased \$164,387 from 2007. The City also supported evacuees from hurricane Gustav for FEMA spending approximately \$40,000.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The combined fund balances of the City's governmental funds decreased to \$713,565 at September 30, 2008, a decrease of \$103,077 over the prior fiscal year. Of this amount, \$301,382 constitutes 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 \$412,183, 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 decrease 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 \$5,783 primarily due to the refinancing of debt.
- Combined Debt Service Fund decreased \$108,452 due to standard debt payments.

Governmental Funds Budgetary Highlights

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

- Revenues from Sales and Use Taxes were \$160,832 under projected amounts due to overestimation of tax from new and existing business.

- Licenses and Permit revenues were less than the projected amount by \$70,711 in revenue because of over projection.
- Ad Valorem taxes were less than budgeted amounts by \$45,337 due to annual appraisal and normal collection.
- Expenditures in the General and Administrative Government exceeded the projected amount by \$405,679 primarily due to underestimating operating costs and pay increases and grant project activity.
- Expenditures in the Police Department were over budget \$236,360 due to increased overtime, training, repairs and maintenance, and pay raises.
- Expenditures in the Fire Department were over budget by \$36,056 because of pay raises, overtime, fuel and medical supplies.
- Expenditures in the Street Department were over budget by \$123,582 due to salaries, utilities, repairs and maintenance, fuel and road repairs.
- Expenditures in the Parks and Recreation Department were over budget by \$121,819 from summertime employees, umpire fees, pay raises, building repairs and pool supplies.
- Expenditures in the Library Department were over budget by \$41,224 due to pay increases and utilities.
- Capital Outlay exceeded the budget by \$741,135 as a result of purchasing three new vehicles for the Police and Fire Department. An excavator was purchased for the Street Department. The Henderson Road paving project was also started.

Capital Asset and Debt Administration

CAPITAL ASSETS – The City’s investment in capital assets for governmental activities as of September 30, 2008, totaled \$15,935,124 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 \$105,144 in 2008.

City of Boaz’s Net Capital Assets

	<u>Governmental Activities – 2008</u>
Land and Land Improvements	\$ 4,145,037
Buildings	7,488,558
Building Improvements	1,151,450
Heavy Equipment	1,396,702
Other Equipment	150,814
Vehicles	1,159,595
Electronic Equipment	70,273
Construction in Progress	<u>372,695</u>
Total	<u>\$ 15,935,124</u>

LONG-TERM DEBT – As of September 30, 2008, the city had \$20,651,993 of long-term debt outstanding. Of this amount, \$19,746,708 is general obligation warrants backed by the full faith and credit of the City and \$770,379 is comprised of capital lease obligations collateralized by vehicles.

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

In April 2008, the City issued General Obligation warrants in the amount of \$2,000,000. The new debt was used to refinance some of the City’s debt and for capital outlay. In June 2008, the City entered into two capital leases for the purchase of vehicles and equipment for the City.

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 assessed value of real and personal property. As of September 30, 2008, the City’s allowable debt limit is \$15,849,776. Because \$11,825,000 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, 2008.

City of Boaz’s Outstanding Debt

	Governmental Activities
General Obligation Warrants	\$ 19,746,708
Capital Leases	770,379
Compensated Absences	134,906
Total	\$ 20,651,993

Additional Information

In November 2008, the City obtained a short-term note payable in the amount of \$500,000. The Mayor and City Council has not yet approved the 2009 budget.

Request for Information

This financial report is designed as 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, 2008

	Primary Government <u>Governmental Activities</u>
ASSETS	
Cash	\$ 137,589
Receivables, net	
Tax and Tax Equivalents	874,858
Refuse Collections	34,447
Grants	255,391
Prepaid Expenditures	159,233
Unamortized Bond Issuance Costs	370,073
Restricted Assets:	
Cash	181,559
Capital Assets (net of accumulated depreciation)	
Land and Land Improvements	4,145,037
Buildings	7,488,558
Building Improvements	1,151,450
Heavy Equipment	1,396,702
Other Equipment	150,814
Vehicles	1,159,595
Computer Equipment	70,273
Construction in Progress	372,695
	<u>17,948,274</u>
Total Assets	<u>\$ 17,948,274</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	\$ 421,418
Due to State of Alabama	67,756
Interest Payable	237,321
Non-Current Liabilities	
Due within one year	930,852
Due in more than one year	19,721,141
	<u>21,378,488</u>
Total Liabilities	<u>21,378,488</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	7,181,324
Restricted For:	
Highways, Streets, and Other Purposes	65,086
Capital Projects	57,095
Unrestricted	(10,733,719)
	<u>(3,430,214)</u>
Total Net Assets	<u>\$ (3,430,214)</u>

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, 2008

Functions/Programs	Program Revenues			Charges For Services	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Operating Grants and Contributions	Operating Grants and Contributions		Operating Grants and Contributions	Total Governmental Activities		
Governmental Activities								
General Government and Administrative	\$ 2,240,406	\$ -	\$ 54,886	\$ -	\$ -	\$ -	\$ (2,185,520)	
Police	2,299,182	16,500	52,953	(159)	227,916		(2,001,813)	
Fire	1,087,642						(1,087,801)	
Street	1,685,682	387,097			204,108		(1,094,477)	
Park and Recreation	886,286	149,697					(736,589)	
Library	429,881	42,305					(387,576)	
Municipal Court	136,930	544,562					407,632	
Senior Center	240,501	237					(240,264)	
Capital Building	128						(128)	
Education (payment to school board)	610,715						(610,715)	
Interest, Fiscal Charges, and Amortization of Bond Costs	964,901						(964,901)	
Total Governmental Activities	\$ 10,582,254	\$ 1,140,239	\$ 107,839	\$ -	\$ 432,024	\$ -	\$ (8,902,152)	
General Revenues:								
Taxes:								
Property Taxes and Payments in Lieu of Taxes						\$ -	1,329,237	
Local Sales Tax							4,739,168	
Beverage Taxes							4,066	
Tobacco Taxes							58,374	
Motor Fuel Taxes							168,694	
Licenses, Permits, and Other Revenue							1,205,559	
Investment Income							6,447	
Contributions From Component Units							903,626	
Miscellaneous							134,977	
Total General Revenues and Transfers							8,550,148	
Change in Net Assets							(352,004)	
Net Assets - Beginning of Year							(3,078,210)	
Net Assets - End of Year							\$ (3,430,214)	

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

BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

	General Fund	Combined Debt Service Fund	Nonmajor Governmental Funds	Totals Governmental Funds
ASSETS				
Cash	\$ 39,765	\$ -	\$ 97,824	\$ 137,589
Receivables, Net				
Tax and Tax Equivalents	874,658	-	-	874,658
Refuse Collection	34,447	-	200	34,647
Grants	255,391	-	-	255,391
Due From Other City Funds	3,565	43,763	-	47,328
Restricted Assets - Cash	-	92,514	89,045	181,559
Prepaid Expenses	159,233	-	-	159,233
Total Assets	<u>\$ 1,367,059</u>	<u>\$ 136,277</u>	<u>\$ 187,069</u>	<u>\$ 1,690,405</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 262,814	\$ 1,943	\$ 16,170	\$ 280,927
Accrued Payroll and Other Withholdings	151,168	-	-	151,168
Deferred Revenue	420,000	-	-	420,000
Due to Other Funds	43,763	-	3,565	47,328
Other Liabilities	28,695	-	48,718	77,413
Total Liabilities	<u>906,440</u>	<u>1,943</u>	<u>68,453</u>	<u>976,836</u>
Fund Balances (Deficits):				
Reserved for:				
Prepaid Expenses	159,233	-	-	159,233
Unreserved, reported in:				
General Fund	301,382	-	-	301,382
Debt Service	-	134,334	-	134,334
Special Revenue Funds	-	-	118,616	118,616
	<u>460,615</u>	<u>134,334</u>	<u>118,616</u>	<u>713,565</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 1,367,055</u>	<u>\$ 136,277</u>	<u>\$ 187,069</u>	<u>\$ 1,690,401</u>

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

Fund Balance - Governmental Funds	\$ 713,565
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds	15,935,124
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	370,073
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	420,000
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	<u>(20,868,976)</u>
	<u>\$ (3,430,214)</u>

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, 2008

	General Fund	Combined Debt Service Fund	Nonmajor Governmental Funds	Totals (Memorandum Only)
REVENUES				
Taxes				
Property and Payments in Lieu of Taxes	\$ 715,663	\$ -	\$ 618,575	\$ 1,334,238
Sales and Use	4,739,168	-	-	4,739,168
Rental	10,900	-	-	10,900
Motor Fuel	104,799	-	63,895	168,694
Tobacco	58,374	-	-	58,374
Licenses and Permits	1,084,289	-	-	1,084,289
Charges for Services	501,014	-	222,188	723,202
Fines and Costs	425,287	-	-	425,287
Intergovernmental Revenues	563,307	-	63,641	626,948
Contributions From Component Units	-	903,626	-	903,626
Other Revenues	155,785	1,072	3,216	160,073
	<u>8,358,586</u>	<u>904,698</u>	<u>971,515</u>	<u>10,234,799</u>
EXPENDITURES				
General Government and Administrative	2,144,979	-	-	2,144,979
Police	2,009,610	-	-	2,009,610
Fire	961,806	-	-	961,806
Street	1,439,732	-	51,576	1,491,308
Senior Center	202,769	-	128	202,897
Park and Recreation	716,519	-	112,522	829,041
Library	267,224	-	1,181	268,405
Municipal Court	13,813	-	215,306	229,119
Capital Lease Payments	-	34,613	-	34,613
Principal Retirements on Long-Term Debts	1,470,790	675,000	-	2,145,790
Interest and Fiscal Agents Fees	83,558	839,596	-	923,154
Capital Outlay	741,135	-	6,718	747,853
Education	-	-	610,715	610,715
	<u>10,051,935</u>	<u>1,549,209</u>	<u>998,146</u>	<u>12,599,290</u>
Deficiency of Revenues Under Expenditures	<u>(1,693,349)</u>	<u>(644,511)</u>	<u>(26,631)</u>	<u>(2,364,491)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds From Debt Issued	261,414	2,000,000	-	2,261,414
Transfers From Other Funds	2,227,714	-	111,709	2,339,423
Transfers to Debt Service	(684,915)	-	-	(684,915)
Transfers to Other Funds	(105,081)	(1,463,941)	(85,486)	(1,654,508)
	<u>1,699,132</u>	<u>536,059</u>	<u>26,223</u>	<u>2,261,414</u>
Excess (Deficiency) of Revenues Over (Under) Other Sources (Uses) and Expenditures	5,783	(108,452)	(408)	(103,077)
FUND BALANCES - Beginning of Year	<u>454,832</u>	<u>242,786</u>	<u>119,024</u>	<u>816,642</u>
FUND BALANCES (DEFICITS) - End of Year	<u>\$ 460,615</u>	<u>\$ 134,334</u>	<u>\$ 118,616</u>	<u>\$ 713,565</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, 2008

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)	\$ (103,077)
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.	(105,144)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(5,000)
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.	(125,707)
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>(13,076)</u>
Change in Net Assets - Governmental Activities	<u><u>\$ (352,004)</u></u>

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

CITY OF BOAZ, ALABAMA

STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

SEPTEMBER 30, 2008

	Alabama State Agriculture & Industries Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ 53,850
TOTAL ASSETS	<u>\$ 53,850</u>
LIABILITIES	
Amounts Due to Other Parties	\$ 53,850
TOTAL LIABILITIES	<u>\$ 53,850</u>

The accompanying Notes to the 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 to all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government -Wide and Fund Financial Statements (Continued)

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 proprietary or 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 tax, 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.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Special Revenue Funds - The 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.

Debt Service Funds - 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.

Capital Projects Funds - The 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).

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City adheres to GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences - an Amendment of GASB Statement No. 34*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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 the expenditure 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.

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 governmental activities column 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 employee 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, long-term debt and other long-term obligations are reported as liabilities in the governmental activities 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 type 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.

Equity Classifications

Government Wide statements - Equity is classified as net assets and displayed in 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".

Fund financial statements - Governmental fund equity is classified as fund balances. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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	\$ 19,746,708
Accrued Interest Payable	237,321
Capital Leases Payable	770,379
Compensated Absences	<u>114,568</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 20,868,976</u>

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	\$ 747,853
Depreciation Expense	<u>(852,997)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (105,144)</u>

(Continued)

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)

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:

Issuance of Debt	\$ (2,261,414)
Payment of Debt	2,176,912
Amortization of bond issue costs and original issue discounts	<u>(41,205)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (125,707)</u>

As a result of the timing differences for the collection of revenues, certain revenues are recognized for the City's governmental activities when susceptible to accrual (i.e., when they are "measurable and available"). The details of this difference are as follows:

Accrued property tax	<u>\$ (5,000)</u>
----------------------	-------------------

(Continued)

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	\$ 2,508
Compensated Absences	<u>(15,584)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (13,076)</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

An annual budget is prepared for the City's general fund and most of its special revenue funds and is adopted on the modified accrual basis. All annual appropriations lapse at 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, 2008.

(Continued)

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	\$ 1,739,300	\$ 2,144,979	\$ (405,679)
	Police	1,773,250	2,009,610	(236,360)
	Fire	925,750	961,806	(36,056)
	Street	1,316,150	1,439,732	(123,582)
	Senior Center	196,900	202,769	(5,869)
	Park and Recreation	594,700	716,519	(121,819)
	Library	226,000	267,224	(41,224)
	Municipal Court	7,200	13,813	(6,613)
	Capital Outlay	-	741,135	(741,135)

The City's general fund total expenditures exceeded total appropriations by \$1,718,310. The City does not adopt a budget for the special revenue, capital project, or debt service funds.

NOTE 4 - DEPOSITS

At September 30, 2008, the carrying amounts of the City's deposits with three financial institutions were approximately \$588,735 of which all was covered by the Federal Deposit Insurance Corporation or the SAFE Plan enacted by the State of Alabama. Certain of the cash accounts are interest bearing accounts and earn interest at rates ranging from 1.25% to 2.75% as of September 30, 2008.

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.

NOTES TO FINANCIAL STATEMENTS - ALL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

NOTE 5 - RECEIVABLES

Receivables at September 30, 2008, consist of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Sales Tax	\$ 363,023	\$ -	\$ 363,023
Grant Revenues	255,391	-	255,391
Garbage Collection Fees	34,447	-	34,447
Returned Checks	183	200	383
Ad Valorem Tax	511,452	-	511,452
	<u>\$ 1,164,496</u>	<u>\$ 200</u>	<u>\$ 1,164,696</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>\$ 420,000</u>

NOTES TO FINANCIAL STATEMENTS - ALL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

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, 2007	Additions	Disposals	Balance September 30, 2008
Land and Land				
Improvements	\$ 4,145,037	\$ -	\$ -	\$ 4,145,037
Construction in Progress	184,888	202,307	14,500	372,695
Total Capital Assets, not Being Depreciated	<u>4,329,925</u>	<u>202,307</u>	<u>14,500</u>	<u>4,517,732</u>
Building and Improvements	8,909,922	-	-	8,909,922
Computer Equipment	184,377	15,177	-	199,554
Heavy Equipment	2,265,317	430,344	-	2,695,661
Furniture and Fixtures	352,169	1,299	-	353,468
Other Improvements	1,389,169	-	-	1,389,169
Motor Vehicles	<u>2,943,617</u>	<u>113,226</u>	<u>-</u>	<u>3,056,843</u>
Total Capital Assets Being Depreciated	<u>16,044,571</u>	<u>560,046</u>	<u>-</u>	<u>16,604,617</u>
Less Accumulated Depreciation for:				
Building and Improvements	1,157,294	264,070	-	1,421,364
Computer Equipment	97,012	32,269	-	129,281
Heavy Equipment	1,056,291	242,668	-	1,298,959
Furniture and Fixtures	140,175	62,479	-	202,654
Other Improvements	186,286	51,433	-	237,719
Motor Vehicles	<u>1,697,171</u>	<u>200,077</u>	<u>-</u>	<u>1,897,248</u>
	<u>4,334,229</u>	<u>852,996</u>	<u>-</u>	<u>5,187,225</u>
Total Capital Assets, Being Depreciated, Net	<u>11,710,342</u>	<u>(292,950)</u>	<u>-</u>	<u>11,417,392</u>
Governmental Activities, Capital Assets, Net	<u>\$ 16,040,267</u>	<u>\$ (90,643)</u>	<u>\$ 14,500</u>	<u>\$ 15,935,124</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - ALL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

NOTE 7 - CAPITAL ASSETS (Continued)

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

Municipal Court	\$	5,785
Library		161,190
Administration		23,368
General government		70,840
Parks and Recreation		54,522
Senior Center		37,385
Fire		124,348
Police		185,260
Street		190,298
		<u>190,298</u>
Total depreciation expense - governmental activities	\$	<u>852,996</u>

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2008, is as follows:

Due To/From other funds (Primary Government):

<u>Payable Fund</u>		<u>Receivable Fund</u>	
General Fund	\$ 43,763	Debt Service Fund	\$ 43,763
Nonmajor Funds	<u>3,565</u>	General Fund	<u>3,565</u>
	<u>\$ 47,328</u>		<u>\$ 47,328</u>

Interfund transfers to/from for the year ended September 30, 2008, are as follows:

<u>Transfer From</u>	<u>Transfer To</u>	
General Fund	Debt Service Fund	\$ 684,915
Debt Service Fund	General Fund	1,458,941
Nonmajor Funds	General Fund	85,486
Debt Service Fund	Nonmajor Funds	5,000
General Fund	Nonmajor Funds	<u>105,081</u>
		<u>\$ 2,339,423</u>

NOTES TO FINANCIAL STATEMENTS - ALL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

NOTE 9 - CAPITAL LEASES

The Capital Lease Obligation of the City of Boaz can be summarized as follows as of September 30, 2008:

Capital lease obligation dated May 31, 2006, to Ford Motor Credit Company payable in monthly installments of \$1,503 through April 2009 including interest at 5.80%	\$ 10,320
Capital lease obligation dated November 4, 2005, to Ford Motor Credit Company payable in monthly installments of \$759 through October 2008 including interest at 5.25%	755
Capital lease obligation dated June 28, 2007, to First Bankers Corporation payable in ten annual installments of \$69,534 including interest at 4.56%	504,015
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%	68,254
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%	<u>187,035</u>
	<u>\$ 770,379</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

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, 2008, are as follows:

	Interest Rate	Beginning Balance Outstanding	Additions	Reductions	Ending Balance Outstanding	Amounts Due Within One Year
General Obligation Warrants:						
Dated August 13, 2007	5.32%	\$ 1,385,324	\$ -	\$ 1,385,324	\$ -	\$ -
Dated July 1, 2004	1.75 - 5.00%	12,175,000	-	350,000	11,825,000	360,000
Dated July 1, 2004	2.70 - 5.00%	1,450,000	-	40,000	1,410,000	40,000
Dated September 1, 2003	1.10 - 3.40%	990,000	-	235,000	755,000	245,000
Dated November 1, 2001	5.40 - 6.25%	4,050,000	-	50,000	4,000,000	55,000
Dated April 28, 2008	3.87%	-	2,000,000	-	2,000,000	-
Less, Unamortized Bond Discount		(257,799)	-	(14,507)	(243,292)	-
		<u>19,792,525</u>	<u>2,000,000</u>	<u>2,045,817</u>	<u>19,746,708</u>	<u>700,000</u>
Other Liabilities						
Compensated Absences		118,962	138,203	122,073	135,092	121,628
Note Payable - Kubota Credit		38,016	-	38,016	-	-
Capital Leases		<u>587,537</u>	<u>261,414</u>	<u>78,572</u>	<u>770,379</u>	<u>109,224</u>
		<u>\$ 20,537,040</u>	<u>\$ 2,399,617</u>	<u>\$ 2,284,478</u>	<u>\$ 20,652,179</u>	<u>\$ 930,852</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - ALL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

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, 2008:

<u>Fiscal Years Ending September 30</u>	<u>General Long-Term Debt</u>
2009	\$ 142,003
2010	127,230
2011	127,230
2012	127,230
2013	115,680
Thereafter	<u>278,136</u>
Total Minimum Lease Payments	917,509
Less Amount Representing Interest	<u>147,130</u>
Present Value of Future Minimum Lease Payment	<u><u>\$ 770,379</u></u>

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

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 700,000	\$ 887,602	\$ 1,587,602
2010	779,968	864,862	1,644,830
2011	919,216	834,792	1,754,008
2012	940,882	799,679	1,740,561
2013	982,811	761,671	1,744,482
2014 - 2018	5,572,923	3,145,840	8,718,763
2019 - 2023	4,949,200	1,882,532	6,831,732
2024 - 2028	4,180,000	888,750	5,068,750
2029	<u>965,000</u>	<u>48,250</u>	<u>1,013,250</u>
	<u><u>\$ 19,990,000</u></u>	<u><u>\$ 10,113,978</u></u>	<u><u>\$ 30,103,978</u></u>

Interest expense charged to functions of the primary government for the year ended September 30, 2008, totaled \$915,926.

NOTE 11 - 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 6.47% 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 highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% 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.

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.

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Annual Pension Cost

For the year ended September 30, 2008, the City's annual pension cost of \$187,640 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2007, 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, 2008, was 20 years.

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
09/30/05	\$ 128,314	100%	\$ -
09/30/06	\$ 143,979	100%	\$ -
09/30/07	\$ 183,506	100%	\$ -

NOTE 12 - 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	\$ 65,086
Capital Projects	General Obligation Warrants	57,095

NOTE 13 - 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, 2008, the City paid \$600,016 for insurance premiums under the employee benefit program.

NOTE 14 - 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.

NOTE 15 - COMMITMENTS

Construction in progress is comprised of several projects. The Old Elementary School Project was not completed at September 30, 2008. At this time, the Old Elementary School Project does not have an estimated date of completion nor specific funds set aside to complete the project. As of September 30, 2008, the City has spent \$117,388 on the Old Elementary School Project.

The City has received a grant from the Alabama Department of Transportation for assistance in resurfacing and widening Henderson Road. The City will be responsible for the costs of relocating utilities, providing all right-of-way, engineering fees, and any overrun costs of the project. It has not been determined when this project will be completed or what the ultimate cost to the City for this project will be. As of September 30, 2008, the City has spent \$242,308 for this project. The completed project is expected to cost \$489,280.

The City has received a grant from the Alabama Department of Transportation to assist in revitalizing the City's downtown mall. Although initial engineering costs have been incurred towards the project, the City has yet to determine when the project will begin. As of September 30, 2008, the City has paid \$13,000 in engineering fees for this project.

NOTES TO FINANCIAL STATEMENTS - ALL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

NOTE 16 - SUBSEQUENT EVENTS

In November 2008, the City obtained a short-term note payable in the amount of \$500,000. The proceeds of the note is to be used for the City's operations, completing capital projects, and meeting debt service requirements. The loan bears interest at a rate of 4.25% and is due in May 2009.

REQUIRED SUPPLEMENTARY
INFORMATION

SCHEDULE OF FUNDING PROGRESS - EMPLOYEES' RETIREMENT SYSTEM
OF ALABAMA

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

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)
9/30/02 **	\$ 6,653,552	\$ 6,216,461	\$ (437,091)	107.0%	\$ 2,694,760	-16.2%
9/30/03 ***	6,980,942	6,872,370	(108,572)	101.6%	2,900,695	-3.7%
9/30/04 ****	7,360,001	7,536,797	176,796	97.7%	3,015,577	5.9%
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%

- * Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
- ** Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.
- *** Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.
- **** Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.
- ***** Reflects changes in actuarial assumptions

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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/(Negative)
	Original	Final		
REVENUES				
Taxes				
Property and Payments in Lieu of Taxes	\$ 761,000	\$ 761,000	\$ 715,663	\$ (45,337)
Sales and Use	4,900,000	4,900,000	4,739,168	(160,832)
Rental	11,000	11,000	10,900	(100)
Motor Fuel	100,000	100,000	104,799	4,799
Tobacco	61,000	61,000	58,374	(2,626)
Licenses and Permits	1,155,000	1,155,000	1,084,289	(70,711)
Charges for Services	495,750	495,750	501,014	5,264
Fines and Costs	610,300	610,300	425,287	(185,013)
Intergovernmental Revenues	30,000	30,000	563,307	533,307
Other Revenues	373,100	373,100	155,785	(217,315)
	<u>8,497,150</u>	<u>8,497,150</u>	<u>8,358,586</u>	<u>(138,564)</u>
EXPENDITURES				
General Government and Administrative	1,739,300	1,739,300	2,144,979	(405,679)
Police	1,773,250	1,773,250	2,009,610	(236,360)
Fire	925,750	925,750	961,806	(36,056)
Street	1,316,150	1,316,150	1,439,732	(123,582)
Senior Center	196,900	196,900	202,769	(5,869)
Park and Recreation	594,700	594,700	716,519	(121,819)
Library	226,000	226,000	267,224	(41,224)
Municipal Court	7,200	7,200	13,813	(6,613)
Capital Outlay	-	-	741,135	(741,135)
Principal Retirements on Long-Term Debt	-	-	1,554,348	(1,554,348)
	<u>6,779,250</u>	<u>6,779,250</u>	<u>10,051,935</u>	<u>(3,272,685)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,717,900</u>	<u>1,717,900</u>	<u>(1,693,349)</u>	<u>(3,411,249)</u>
OTHER FINANCING SOURCES (USES)				
10% Surplus	754,715	754,715	-	(754,715)
Proceeds From Debt Issued	-	-	261,414	261,414
Transfers From Other Funds	-	-	2,227,714	2,227,714
Transfers to Debt Service	-	-	(684,915)	(684,915)
Transfers To Other Funds	-	-	(105,081)	(105,081)
	<u>754,715</u>	<u>754,715</u>	<u>1,699,132</u>	<u>944,417</u>
Excess (Deficiency) of Revenues Over (Under) Other Sources (Uses) and Expenditures	<u>2,472,615</u>	<u>2,472,615</u>	<u>5,783</u>	<u>(2,466,832)</u>
FUND BALANCES (DEFICITS) - Beginning of Year	<u>454,832</u>	<u>454,832</u>	<u>454,832</u>	<u>-</u>
FUND BALANCES (DEFICITS) - End of Year	<u>\$ 2,927,447</u>	<u>\$ 2,927,447</u>	<u>\$ 460,615</u>	<u>\$ (2,466,832)</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2008

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 \$741,000 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, ALABAMA 35950
(256) 878-5548 • FAX (256) 878-8474 • www.mdacpa.com

MEMBERS OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS

AFFILIATED OFFICES IN
PRINCIPAL CITIES WORLDWIDE
THROUGH AGN INTERNATIONAL, LTD.

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

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

We have audited the financial statements of the governmental 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, 2008, which collectively comprise the City of Boaz, Alabama's basic financial statements and have issued our report thereon dated January 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Boaz, Alabama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Boaz, Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Boaz, Alabama's internal control over financial reporting.

A control deficiency exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Boaz, Alabama's ability to initiate, authorize, record, process, or report financial data reliably in accordance with general accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Boaz, Alabama's financial statements that is more than inconsequential will not be prevented or detected by the City of Boaz, Alabama's internal control.

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



From Vision To Reality

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies described in internal control over financial reporting (08-01; 08-02).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Boaz, Alabama'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 audit committee, the Mayor, City Council, Management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

MDA Professional Group, P.C.

January 27, 2009

SCHEDULE OF FINDINGS AND RESPONSES

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of audit report issued:	qualified
Internal control over financial reporting:	
Material weakness identified	no
Significant Deficiency identified not considered to be material weakness?	yes
Noncompliance material to financial statements noted?	none reported

SECTION II - FINANCIAL STATEMENT FINDINGS

08-01: Travel Expense Reimbursement Policy

Condition: There is no written policy regarding the reimbursement of expenses incurred by employees while performing duties for the City.

Criteria: There is no guidance for City employees on what is a reimburseable expense.

Effect: The potential exists for the misappropriation of the City's assets.

Recommendation: We recommend that the Mayor and Council adopt a written policy on what expenses incurred by employees are reimburseable.

Response: The Mayor and Council will consider a written policy for reimbursing expenses.

08-02: Separation of Duties - Cash

Condition: One City employee is responsible for preparing checks, opening and reconciling bank statements, and posting transactions to the general ledger.

Criteria: One employee handles all facets of recording transactions in the cash accounts of the general ledger.

Effect: The potential exists for the misappropriation of the City's assets.

Recommendation: We recommend that the City re-evaluate internal controls over cash and re-assign one or more of these duties to a different employee.

Response: We have a separate employee review bank statements for unusual activity.

OTHER FINANCIAL INFORMATION

DEBT SERVICE REQUIREMENTS TO MATURITY -
GENERAL LONG-TERM DEBT OBLIGATIONS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

Maturity Date	General Obligation Warrants Dated November 1, 2001		General Obligation Warrants Dated September 1, 2003		General Obligation Warrants Dated July 1, 2004	
	Interest Rate	Principal	Interest Rate	Principal	Interest Rate	Principal
2009	4.10	\$ 55,000	2.75	\$ 245,000	3.50	\$ 40,000
2010	4.10	55,000	3.00	250,000	3.50	45,000
2011	4.10	60,000	3.40	260,000	4.00	45,000
2012	4.10	320,000			4.00	45,000
2013	4.25	335,000			4.00	50,000
2014	4.40	350,000			4.25	50,000
2015	4.50	365,000			4.25	55,000
2016	4.60	380,000			4.25	55,000
2017	4.70	395,000			4.50	60,000
2018	4.75	415,000			4.50	60,000
2019	4.80	435,000			4.50	65,000
2020	4.85	455,000			4.85	65,000
2021	4.85	380,000			4.85	70,000
2022					4.85	75,000
2023					5.00	75,000
2024					5.00	80,000
2025					5.00	85,000
2026					5.00	90,000
2027					5.00	95,000
2028					5.00	100,000
2029					5.00	105,000
		\$ 4,000,000		\$ 755,000		\$ 1,410,000
		\$ 1,491,674		\$ 36,719		\$ 865,328

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

DEBT SERVICE REQUIREMENTS TO MATURITY -
GENERAL LONG-TERM DEBT OBLIGATIONS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2008

Maturity Date	General Obligation Warrants Dated July 1, 2004			General Obligation Warrants Dated April 28, 2008			Totals	
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Principal	Interest
2009	3.25	\$ 360,000	\$ 542,948		\$ -	\$ 77,400	\$ 700,000	\$ 887,602
2010	3.50	375,000	531,247		54,968	77,135	779,968	864,862
2011	3.75	385,000	518,123		169,216	72,292	919,216	834,793
2012	3.90	400,000	503,685		175,882	65,626	940,882	799,678
2013	4.00	415,000	488,085		182,811	58,698	982,811	761,672
2014	4.00	435,000	471,485		190,012	51,496	1,025,012	721,051
2015	4.25	450,000	454,085		197,498	44,010	1,067,498	678,127
2016	4.25	470,000	434,960		205,278	36,230	1,110,278	631,933
2017	4.50	490,000	414,985		213,365	28,144	1,158,365	583,511
2018	4.50	515,000	392,935		221,770	19,738	1,211,770	531,217
2019	4.50	535,000	369,760		230,506	11,002	1,265,506	476,310
2020	4.70	560,000	345,685		158,694	2,311	1,238,694	419,145
2021	4.75	585,000	319,365				1,035,000	367,112
2022	4.85	615,000	291,577				690,000	326,715
2023	5.00	645,000	261,750				720,000	293,250
2024	5.00	675,000	229,500				755,000	257,250
2025	5.00	710,000	195,750				795,000	219,500
2026	5.00	745,000	160,250				835,000	179,750
2027	5.00	780,000	123,000				875,000	138,000
2028	5.00	820,000	84,000				920,000	94,250
2029	5.00	860,000	43,000				965,000	48,250
		<u>\$ 11,825,000</u>	<u>\$ 7,176,175</u>		<u>\$ 2,000,000</u>	<u>\$ 544,082</u>	<u>\$ 19,990,000</u>	<u>\$ 10,113,978</u>

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