

City of Tuscumbia, Alabama
Financial Statements
Fiscal Year Ended
September 30, 2011

CITY OF TUSCUMBIA, ALABAMA

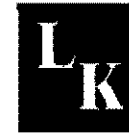
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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor Bill Shoemaker
and Members of the City Council
City of Tuscumbia, Alabama

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tuscumbia, 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 City of Tuscumbia, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements (the Electric Department, the Water & Sewer System, the Natural Gas Department of the City of Tuscumbia, Alabama and the City of Tuscumbia Board of Education) which represent 83 percent, 85 percent, and 80 percent, respectively of the assets, net assets, and revenues of the total reporting entity. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tuscumbia, Alabama, as of September 30, 2012, and the respective changes in financial position, and where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2012 on our consideration of the City of Tuscumbia, 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 and budgetary comparison information on pages 3 through 8 and 49 through 50 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 and the other auditors 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 methods 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 Tuscumbia, Alabama's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Leigh, King & Associates, P.C.

Leigh, King & Associates, P.C.

Sheffield, Alabama

August 15, 2012

CITY OF TUSCUMBIA, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

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

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2011 by \$4,865,175.
- The unrestricted net assets of the governmental activities are \$1,023,346 and may be used to meet the ongoing obligations of the governmental activities.
- Total revenues of the governmental activities for fiscal year 2011 were \$8,195,349 and expenses were \$8,264,333 creating a decrease in net assets of \$68,984 for the year.
- The General Fund reported a fund balance of \$767,054. The fund balance decreased \$25,330 from the prior year.
- The City's total long-term debt decreased \$87,905 during fiscal year 2011.

Overview of the Financial Statements

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

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

The *statement of net assets* includes all of the government's assets and liabilities. Over time, increases or decreases in the City's net assets are an indicator of whether its financial condition is improving or deteriorating.

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

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

As described in the notes to the financial statements, other entities' activities are included in this report because of the relationship of these legally separate entities to the City. Financial information of the Tuscumbia Utilities Electric, Water, and Gas Systems, and the Tuscumbia City Board of Education are collectively referred to in the financial statements as those of the *discretely presented component units*.

**CITY OF TUSCUMBIA, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

This discussion and analysis focuses on the primary government. The complete financial statements (including MD&A) of the component units may be obtained from the Finance Department of the City.

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

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flows in and out and (2) the balances left at year-end that are available for spending. The governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The City maintains individual governmental funds:

- The General Fund, 2003 Capital Improvements Fund, the 2009 Warrant Payment Fund and the Flexco Fund are considered major funds with information being presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for these funds.
- The other governmental funds are considered non-major governmental funds and they are combined into a single, aggregated presentation in the governmental funds financial statements. Individual fund data for each of these funds is provided in the form of combining statements in the supplementary information section.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 41 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The budgetary comparison schedule and combining non-major governmental funds statements referred to earlier can be found beginning on page 49 of this report.

CITY OF TUSCUMBIA, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$4,865,175 at the close of the most recent fiscal year. The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, and improvements other than buildings, infrastructure, and other) less any related debt outstanding used to acquire those assets. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. The City's investment in net capital assets, net of related debt, amounts to \$2,517,019.

	September 30,	
	2011	2010
Assets		
Current and other assets	\$ 2,885,936	\$ 3,213,358
Capital assets, net	8,336,318	7,904,350
Other noncurrent assets	95,665	153,601
Total assets	<u>\$ 11,317,919</u>	<u>\$ 11,271,309</u>
Liabilities		
Current liabilities	\$ 447,633	\$ 667,263
Noncurrent liabilities	6,005,112	5,669,887
Total liabilities	<u>\$ 6,452,745</u>	<u>\$ 6,337,150</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 2,517,019	\$ 1,978,207
Restricted	-	-
Expendable		
Capital Projects	803,976	1,015,488
Debt Service	520,834	407,355
Governmental Activities	1,023,346	1,533,109
Total net assets	<u>\$ 4,865,175</u>	<u>\$ 4,934,159</u>

CITY OF TUSCUMBIA, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

The most significant changes in the revenues were as follows:

- Charges for services decreased \$ 52,382.
- Capital grants and contributions from federal, state, and local agencies decreased \$ 23,108.
- General revenues decreased \$ 56,187.

CITY OF TUSCUMBIA, ALABAMA
Governmental Activities
Changes in Net Assets

	For the Year Ended September 30,	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 1,895,577	\$ 1,947,959
Operating grants and contributions	-	78,323
Capital grants and contributions	1,149,310	1,172,418
General revenues:		
Sales, use, and lodging taxes	2,410,395	2,381,861
Property taxes	2,041,770	2,125,669
Other taxes	690,583	570,450
Interest	7,716	16,296
Total revenues	<u>\$ 8,195,351</u>	<u>\$ 8,292,976</u>
Expenses		
General administration	\$ 1,743,942	\$ 1,698,349
Public safety	1,784,788	1,814,834
Public works	1,635,508	1,596,945
Public ways and facilities	114,992	110,891
Culture and recreation	1,059,544	1,072,676
Industrial Development	853,174	913,952
Other	80,657	36,861
Education—funding for school district	596,558	592,659
Interest and fiscal charges	395,172	188,663
Total expenses	<u>8,264,335</u>	<u>8,025,830</u>
Change in net assets	<u>\$ (68,984)</u>	<u>\$ 267,146</u>

**CITY OF TUSCUMBIA, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

Financial Analysis of the Governmental Funds

The focus of the City's governmental funds is to provide information on inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The combined fund balances of the City's governmental funds decreased \$397,314 in the 2011 fiscal year, and the total fund balance as of September 30, 2011 was \$2,656,400. The decrease was a result of capital expenditures made during the fiscal year.

2011 Budget

The City of Tuscumbia adopted a General Fund budget with revenues of \$ 7,169,449 for the year ended September 30, 2011. The beginning budgetary fund balance of \$741,724 increased the budgeted amount available for appropriation to \$7,911,173.

Actual operating revenues were \$7,795,714 and were \$626,265 more than the budgeted revenues.

Expenditures were originally budgeted at \$7,318,708. The actual operating expenditures were \$7,770,384 and were \$451,676 more than the budgeted expenditures.

The ending budgetary fund balance for fiscal year 2011 was \$767,054.

Capital Assets Highlights

The City has current and planned future capital projects that will utilize the restricted assets of \$803,976 and grant revenues. These include:

- The completion of a new City Hall.
- The completion of a new Roundhouse Museum.

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

**CITY OF TUSCUMBIA, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

Economic Factors and Next Year's Budget

The automobile industry experienced major restructuring due to the collapse of General Motors and Toyota manufacturers. Therefore we received a major decrease in our sales and rental taxes. Tuscumbia does not have a major retail base which makes us more conservative when projecting sales tax revenues. Other sources of revenue are following closely with predictions that were used to establish the current year budget.

Tuscumbia's Spring Park continues to be a major attraction for visitors from all over the southeastern states. The Railway Depot will allow the City to increase its main attractions by including the Railway Museum. Other main attractions at Spring Park are the Splash Pad, Roller Coaster, Carousel, Train and the educational resources that reflect our heritage. Visitors also come to our city because it's the Birthplace of Helen Keller. The Keller Festival, held during the last week of June, continues to grow and is enjoyed by thousands who come here to enjoy our historic town.

The mayor and council have passed the 2012 budget with an increase of 3.4% over the 2011 Budget. The 2012 Budget was adopted with total revenues of \$ 7,106,727.

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 Treasurer Department, P. O. Box 29, Tuscumbia, Alabama 35674, by calling (256) 383-5463 extension 12, or by sending an email to jarmstead@comcast.net.

CITY OF TUSCUMBIA, ALABAMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Governmental Activities	Component Units
ASSETS		
Cash and cash equivalents	\$ 1,947,558	\$ 7,581,296
Receivables (net)	417,543	4,276,767
Inventories		542,186
Prepaid expenses	-	230,508
Prepaid purchased power		51,656
Restricted Assets:		
Cash and investments	520,835	12,976,735
Conservation loan receivables		1,013,192
Capitalization fee	76,727	
Deferred charges (net)	18,939	581,673
Capital assets (net)	8,336,318	27,446,766
Total Assets	\$ 11,317,919	\$ 54,700,779
LIABILITIES		
Accounts payable and accrued expenses	\$ 240,655	\$ 4,517,309
Customer deposits		529,449
Deferred revenues		14,548
Liabilities payable from restricted assets:		
Matured warrants payable		637,754
Accrued interest	206,978	227,731
Construction Costs Payable		1,639,547
Long-term liabilities:		
Portion due or payable within one year:		
Warrants and notes payable	518,923	
Compensated absences	65,608	
Portion due or payable after one year:		
Warrants and notes payable	5,319,315	18,473,003
Compensated absences	101,266	189,943
Advances for conservation loans	-	951,200
Total Liabilities	\$ 6,452,745	\$ 27,180,484
NET ASSETS		
Invested in capital assets, net of related debt	\$ 2,517,019	\$ 7,137,572
Restricted net assets	-	11,387,779
Expendable:		
Capital Projects	803,976	1,662,745
Debt Service	520,834	41,834
Governmental activities	1,023,346	620,560
Unrestricted	-	6,669,805
Total Net Assets	\$ 4,865,175	\$ 27,520,295

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

CITY OF TUSCUMBIA, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grant and Contributions		
Primary government:						
Government activities						
General administration	\$ 1,743,942	\$ 345,761	\$ -	\$ -	\$ (1,398,181)	
Public safety	1,784,788	142,522	-		(1,642,266)	
Public works	1,635,508	973,632	-		(661,876)	
Public ways and facilities	114,992	25,446		296,136	206,590	
Culture and recreation	1,059,544	408,216	-		(651,328)	
Industrial Development	853,174		-	853,174	(0)	
Other	80,657		-		(80,657)	
Education-funding for school district	596,557				(596,557)	
Interest and fiscal charges	395,172				(395,172)	
Total primary government	<u>\$ 8,264,333</u>	<u>\$ 1,895,577</u>	<u>\$ -</u>	<u>\$ 1,149,310</u>	<u>\$ (5,219,447)</u>	
Component units						
All	<u>\$ 30,238,289</u>	<u>\$ 18,102,618</u>	<u>\$ 9,656,025</u>	<u>\$ 503,667</u>		<u>\$ (1,975,979)</u>
General revenues						
Taxes:						
Sales, use and lodging					\$ 2,410,395	\$ -
Other Taxes						2,328,262
Property					2,041,770	
Motor fuel					259,907	
Miscellaneous					337,723	1,125,644
Alcoholic beverages					92,953	
Grants and contributions not restricted for specific programs						428,311
Investment revenues					7,716	66,451
Total general revenues					<u>\$ 5,150,463</u>	<u>\$ 3,948,668</u>
Change in net assets					\$ (68,984)	\$ 1,972,689
Net assets-beginning,					4,934,159	25,547,606
Net Assets - ending					<u>\$ 4,865,175</u>	<u>\$ 27,520,295</u>

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

CITY OF TUSCUMBIA, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	2003 Capital Improvements	Flexco Fund	2009 Warrant Payment	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 577,073	\$ 384,052	\$ -	\$ -	\$ 986,433	\$ 1,947,558
Receivables (net)	417,543	-				417,543
Restricted cash and investments				440,719	80,116	520,835
Capitalization fee	76,727					76,727
Total assets	<u>\$ 1,071,343</u>	<u>\$ 384,052</u>	<u>\$ -</u>	<u>\$ 440,719</u>	<u>\$ 1,066,549</u>	<u>\$ 2,962,663</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued expenses	\$ 238,681	\$ -	\$ -	\$ -	\$ 1,974	\$ 240,655
Compensated absences	65,608					65,608
Total liabilities	<u>\$ 304,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,974</u>	<u>\$ 306,263</u>
Fund balances						
Reserved for:						
Other purposes	\$ 76,727	\$ -		\$ 440,719	\$ -	\$ 517,446
Unreserved, reported in:						
General fund	690,327					690,327
Special revenue funds			-	-	564,535	564,535
Debt service funds					80,116	80,116
Capital projects funds		384,053			419,923	803,976
Total fund balances	<u>\$ 767,054</u>	<u>\$ 384,053</u>	<u>\$ -</u>	<u>\$ 440,719</u>	<u>\$ 1,064,574</u>	<u>\$ 2,656,400</u>
Total liabilities and fund balances	<u>\$ 997,715</u>	<u>\$ 384,053</u>	<u>\$ -</u>	<u>\$ 440,719</u>	<u>\$ 1,066,548</u>	<u>\$ 2,962,663</u>

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

**CITY OF TUSCUMBIA, ALABAMA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

Fund balances - total governmental funds			\$ 2,656,400
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets	\$ 13,245,550		
Less accumulated depreciation	<u>(4,909,232)</u>	8,336,318	
Debt issuance costs are reported as a current expenditure in the governmental funds. However, in the statement of activities, debt issuance costs are deferred and amortized over the life of the debt and are included as deferred charges in the statement of net assets.			
Unamortized debt issuance costs			18,939
Long-term liabilities, including warrants and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Warrants and notes payable	\$ (5,838,238)		
Accrued interest on warrants	(206,978)		
Compensated absences	<u>(101,266)</u>	(6,146,482)	
Net assets of governmental activities			<u>\$ 4,865,175</u>

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

CITY OF TUSCUMBIA, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	2003 Capital Improvements	Flexco Fund	2009 Warrant Payment	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 4,956,612	\$ -	\$ -	\$ -	\$ 63,956	\$ 5,020,568
Licenses and permits	345,761	-	-	-	-	345,761
Fines and forfeitures	142,522	-	-	-	41,452	183,974
Charges for services	1,407,295	-	-	-	-	1,407,295
Intergovernmental	239,909	-	853,174	-	56,227	1,149,310
Interest revenues	1,198	1,071	-	57	5,390	7,716
Other	38,196	42,530	-	-	-	80,726
Total revenues	\$ 7,131,493	\$ 43,601	853,174	57	\$ 167,025	\$ 8,195,350
EXPENDITURES						
Current operating:						
General administration	\$ 1,740,211	\$ -	\$ -	\$ -	\$ -	\$ 1,740,211
Public safety	1,701,644	-	-	-	-	1,701,644
Public works	1,573,097	-	-	-	-	1,573,097
Culture and recreation	996,331	-	-	-	-	996,331
Industrial Development	-	-	853,174	-	-	853,174
Appropriations	65,226	-	-	-	-	65,226
Bank Fees	3,808	-	-	-	-	3,808
Education - funding for school district	596,557	-	-	-	-	596,557
Capital outlay and improvements	403,465	97,912	-	-	258,082	759,459
Debt service:						
Principal payments	83,717	-	-	25,000	284,000	392,717
Interest and fiscal charges	11,218	-	-	80,795	122,648	214,661
Total expenditures	\$ 7,175,274	\$ 97,912	\$ 853,174	\$ 105,795	\$ 664,730	\$ 8,519,036
Excess (deficiency) of revenues over expenditures	\$ 260,440	\$ (54,311)	\$ 0	\$ (105,738)	\$ (497,705)	\$ (397,314)
OTHER FINANCING SOURCES (USES)						
Proceeds from debt issuance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	360,000	-	-	450,000	145,110	955,110
Transfers out	595,110	-	-	-	360,000	955,110
Total other financing sources (uses)	\$ (235,110)	\$ -	\$ -	\$ 450,000	\$ (214,890)	\$ -
Net change in fund balances	\$ 25,330	\$ (54,311)	\$ 0	\$ 344,262	\$ (712,595)	\$ (397,314)
Fund balances - beginning	741,724	438,364	-	96,456	1,777,170	3,053,714
Fund balances - ending	\$ 767,054	\$ 384,053	\$ 0	\$ 440,718	\$ 1,064,575	\$ 2,656,400

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

CITY OF TUSCUMBIA, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds \$ (397,314)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense

Expenditures for capital assets	\$ 759,459	
Less current year depreciation	<u>(327,491)</u>	431,968

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in long-term compensated absences	(11,623)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred on the statement of net assets and are amortized over the life of the debt. The net effect of these differences in the treatment of long-term debt and related items are detailed below.

Bond Proceeds	\$ (304,221)	
Repayment of debt principal	392,717	
Amortization of debt issuance costs	(58,526)	
Change in accrued interest on warrants	<u>(121,985)</u>	<u>(92,015)</u>

Change in net assets of governmental activities	\$ <u>(68,984)</u>
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The accompanying notes to the financial statements are an integral part of this statement.

CITY OF TUSCUMBIA, ALABAMA
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Governmental Activities	Business-type Activities				
	City Board of Education	Tuscumbia Utilities			Total Business-Type Activities	Total
	September 30, 2011	Electricity June 30, 2011	Natural Gas September 30, 2011	Water and Sewer September 30, 2011		
ASSETS						
Cash and cash equivalents	\$ 3,768,857	\$ 2,991,402	\$ 764,953	\$ 56,084	\$ 3,812,439	\$ 7,581,296
Receivables (net)	357,224	1,939,379	1,505,684	474,480	3,919,543	4,276,767
Inventories	35,201	104,437	344,254	58,294	506,985	542,186
Prepaid expenses		212,364	7,921	10,223	230,508	230,508
Prepaid purchased power		51,656			51,656	51,656
Bond Issuance Costs		-		581,673	581,673	581,673
Restricted assets:						
Cash and investments	475,206	680,199	263,750	11,557,580	12,501,529	12,976,735
Conservation loan receivables		1,013,192			1,013,192	1,013,192
Capital assets (net)	7,076,658	7,807,015	2,015,845	10,547,248	20,370,108	27,446,766
Total assets	\$ 11,713,146	\$ 14,799,644	\$ 4,902,407	\$ 23,285,582	\$ 42,987,633	\$ 54,700,779
LIABILITIES						
Accounts payable and accrued expenses	\$ 681,631	\$ 3,703,906	\$ 77,954	\$ 53,818	\$ 3,835,678	\$ 4,517,309
Customer deposits		529,449			529,449	529,449
Deferred revenues	2,475	12,073			12,073	14,548
Liabilities payable from restricted assets:						
Matured warrants and notes payable	212,754	105,000		320,000	425,000	637,754
Accrued interest	13,714	4,012		210,005	214,017	227,731
Construction Costs Payable				1,639,547	1,639,547	1,639,547
Long-term liabilities:						
Portion due or payable after one year:						
Warrants and notes payable	2,203,003	840,000		15,430,000	16,270,000	18,473,003
Compensated absences		89,823	49,156	50,964	189,943	189,943
Advances for conservation loans		951,200			951,200	951,200
Total liabilities	\$ 3,113,577	\$ 6,235,463	\$ 127,110	\$ 17,704,334	\$ 24,066,907	\$ 27,180,484
NET ASSETS						
Invested in capital assets, net of related debt	\$ 4,672,363	\$ 6,919,995	\$ 2,015,845	\$ (6,470,631)	\$ 2,465,209	\$ 7,137,572
Restricted net assets:	-	180,199		11,207,580	11,387,779	11,387,779
Expendable:						
Capital Projects	1,662,745					1,662,745
Debt Service	41,834					41,834
Governmental activities	620,560					620,560
Unrestricted	1,602,067	1,463,987	2,759,452	844,299	5,067,738	6,669,805
Total net assets	\$ 8,599,569	\$ 8,564,181	\$ 4,775,297	\$ 5,581,248	\$ 18,920,726	\$ 27,520,295

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

CITY OF TUSCUMBIA, ALABAMA
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	City Board of Education September 30, 2011
Component units:					
Tusculmbia City Board of Education	\$ 14,650,816	\$ 1,570,648	\$ 9,656,025	\$ 418,729	\$ (3,005,414)
Tusculmbia Utilities -					
Electricity	10,482,434	10,740,066		84,938	
Natural Gas	3,002,454	3,036,925		-	
Water and Sewer	2,102,585	2,754,979		-	
Total component units	\$ 30,238,289	\$ 18,102,618	\$ 9,656,025	\$ 503,667	\$ (3,005,414)
General revenues:					
Taxes					\$ 2,328,262
Grants and contributions not restricted for specific programs					428,311
Miscellaneous					1,125,644
Investment revenues					12,032
Total general revenues					<u>\$ 3,894,249</u>
Change in net assets					\$ 888,835
Net assets-beginning					<u>7,710,734</u>
Net assets-ending					<u>\$ 8,599,569</u>

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

Net (Expense) Revenue and Changes in Net Assets				
Business-type Activities				
Tuscumbia Utilities				
Electricity June 30, 2011	Natural Gas September 30, 2011	Water and Sewer September 30, 2011	Total Business-Type Activities	Total
\$ -	\$ -	\$ -	\$ -	\$ (3,005,414)
342,570			342,570	342,570
	34,471		34,471	34,471
		652,394	652,394	652,394
<u>\$ 342,570</u>	<u>\$ 34,471</u>	<u>\$ 652,394</u>	<u>\$ 1,029,435</u>	<u>\$ (1,975,979)</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,328,262
			-	428,311
			-	1,125,644
42,233	8,395	3,791	54,419	66,451
<u>\$ 42,233</u>	<u>\$ 8,395</u>	<u>\$ 3,791</u>	<u>\$ 54,419</u>	<u>\$ 3,948,668</u>
\$ 384,803	\$ 42,866	\$ 656,185	\$ 1,083,854	\$ 1,972,689
8,179,378	4,732,431	4,925,063	17,836,872	25,547,606
<u>\$ 8,564,181</u>	<u>\$ 4,775,297</u>	<u>\$ 5,581,248</u>	<u>\$ 18,920,726</u>	<u>\$ 27,520,295</u>

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

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

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

Discretely Presented Component Units

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

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tuscumbia City Board of Education – The Tuscumbia City Board of Education is a legally separate entity that is governed by a five-member board appointed by the City Council. The Board of Education derives a significant amount of revenue for its general fund from appropriations and other City imposed taxes (primarily property and sales tax). Additionally, the city owns a significant portion of the school facilities and property. These were purchased through general obligation warrants of the city.

Related Organizations

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property and sales taxes, grants, entitlements, and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

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

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

The *Flexco Fund* accounts for a guaranteed federal loan in favor of Flexco, Inc. (a local manufacturer).

The *2009 Warrant Payment Fund* accounts for the transfers in and payments of principal and interest in regard to the City's 2009 G.O. Bond Issue.

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

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

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

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

Receivables and Payables

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

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

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

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

Property Tax Calendar

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Prepaid Expenses

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

Capitalization Fee

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

Restricted Assets

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

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

Capital Assets

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

Utility Plant

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Compensated Absences

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

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

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

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds and warrants payable are reported net of the applicable premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize debt premiums, discounts, and issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received upon issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds of the issue, are reported as debt service expenditures.

Net Assets/Fund Balance

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

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

Fund Balance for governmental funds is reported in classifications which comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as non-spendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

- *Non-spendable fund balances* consist of amounts that cannot be spent because they are either (a) not in spendable for or (b) legally or contractually required to be maintained in-tact. Examples of non-spendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- *Restricted fund balances* consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Examples of restricted fund balances include: restricted grants and debt service fund assets.
- *Committed fund balances* consist of amounts that are subject to a purpose constraint imposed by formal action of the Council before the end of the fiscal year and that require the same level of formal action to remove constraint.
- *Assigned fund balances* consist of amounts that are intended to be used by the government for specific purposes.
- *Unassigned fund balances* consist of all spendable amounts not contained in the other classifications. This portion of the total fund balance in the general fund is available to finance operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, it is the policy of the Council to consider restricted amounts to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the Council to consider committed amounts to have been reduced first, followed by assigned amounts and the unassigned amounts.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Concentrations

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Primary Government

A. BUDGETARY PROCESS

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

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following governmental funds incurred expenditures in excess of appropriations of the following amounts for the year ended September 30, 2011:

<u>Debt Service Funds</u>	
2009 Warrant Payment	\$ 105,738
2003 Debt Service	\$ 391,876
Rural Development	\$ 14,718
<u>Special Revenue Funds</u>	
State Gas Tax (\$.07)	\$ 9,153
<u>Capital Projects Funds</u>	
2003 Capital Improvements	\$ 54,311
Municipal Capital Improvement	\$ 108,361
Other Capital Projects	\$ 39,780

The excess expenditures were provided by available fund balance in the funds, and by transfers from the general fund.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

Primary Government and Discretely Presented Component Units

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

The City has not adopted a formal investment policy and, as of September 30, 2009, do not have any investments that require disclosure. However, under the terms of bond indentures, the City and the Utilities are required to deposit into certain bond funds for debt service. These investments are governed by the bond indentures and are invested in cash and U. S. Government securities.

NOTE 4 – INTERFUND TRANSFERS

Primary Government

Inter-fund transfers for the year ended September 30, 2011 consisted of the following:

Transfer From:	Transfer To:			Total
	General Fund	Debt Service Funds	Other Governmental	
General	\$	\$ 595,110	\$ -	\$ 595,110
Other Funds	<u>360,000</u>	<u>-</u>	<u>-</u>	<u>360,000</u>
Total	<u>\$ 360,000</u>	<u>\$ 595,110</u>	<u>\$ -</u>	<u>\$ 955,110</u>

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

NOTE 5 – RESTRICTED ASSETS

Primary Government

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

Series 2003 Debt Service Fund	
Cash and Short-term U. S. Government Securities (Interest yield rate of approx. 0%)	\$ 80,116
Series 2009 Warrant Fund	
Cash and Short-term U.S. Government Securities (Interest yield rate of approx. 0%)	<u>440,719</u>
Total	<u>\$ 380,675</u>

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 5 – RESTRICTED ASSETS (continued)

Discretely Presented Component Units

Electricity Department

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

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

Series 2009 Warrant Funds	
Sinking fund	\$ 63,365
Reserve Fund	115,001
Other Investments	1,833
Board Designated Reserve Fund	<u>500,000</u>
Total	\$ 686,199

Natural Gas Department

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

Board Designated Reserve Fund	\$ 263,750
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Water and Sewer Department

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

The Board adopted a policy to set aside a cash reserve of three months operating expenses for emergency repairs and replacements and for current operating expense shortfalls. Management estimates that reserve amount should be approximately \$422,285 consequently resulting in a violation of the Board's policy at year-end.

Series 2010 Warrant Funds	
Sinking fund	\$ 317,747
Reserve Fund	954,801
Board Designated Reserve Fund	<u>350,000</u>
2010 Construction Fund	<u>9,935,032</u>
Total	\$ 1,611,126

Board of Education

The Board of Education has various outstanding bond issues. Cash and investments on hand which are restricted for the future payment of these liabilities at September 30, 2011 was \$620,560.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 6 - RECEIVABLES AND PAYABLES

Receivables

Receivables at year-end were as follows:

	Accounts	Taxes	Due from Other Governments	Special Assessments	Total Receivables
Primary Government	\$ -	\$ 203,120	\$ 202,703	\$ 11,721	\$ 417,543
Total	\$ -	\$ 203,120	\$ 202,703	\$ 11,721	\$ 417,543
Discretely Presented Component Units					
Electricity	\$ 1,898,319	\$ -	\$ 41,060		\$ 1,939,379
Natural Gas	-	-	1,505,684		1,505,684
Water and Sewer	-	-	474,480		474,480
Board of Education	-	126,382	76,634		203,016
Total	\$ 1,898,319	\$ 126,382	\$ 2,097,858	\$ -	\$ 4,122,559

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

Payables

Payables at year-end were as follows:

	Vendors	Salaries and Benefits	Due Other Governments	Accrued Interest	Total Payables
Primary Government	\$ 112,740	\$ 127,915	\$ -	\$ 206,978	\$ 447,634
Total	\$ 112,740	\$ 127,915	\$ -	\$ 206,978	\$ 447,634
Discretely Presented Component Units					
Electricity	\$ 1,231,543	\$ -	\$ 2,472,363	\$ -	\$ 3,703,906
Natural Gas	77,341				77,341
Water and Sewer	5,714		48,104		53,818
Board of Education	-	681,631		13,714	695,345
Total	\$ 1,314,598	\$ 681,631	\$ 2,520,467	\$ 13,714	\$ 4,530,410

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year is as follows:

Primary Government	Balance	Additions	Retirements	Balance
Nondepreciable assets:				
Land and land rights	\$ 217,099	\$ -	\$ -	\$ 217,099
Construction in progress	57,473	329,999	-	387,472
Depreciable assets:				
Parks and improvements	2,578,550	2,380		2,580,930
Buildings and improvements	2,495,759	-		2,495,759
Equipment and vehicles	3,570,325	413,304		3,983,630
Infrastructure	3,566,885	13,775		3,580,660
Total capital assets	\$ 12,486,091	\$ 759,459	\$ -	\$ 13,245,550
Less accumulated depreciation	4,581,741	327,491	-	4,909,232
Capital assets, net	\$ 7,904,350	\$ 431,968	\$ -	\$ 8,336,318

Depreciation expense was charged to the government functions as follows:

General administration	\$ 3,731
Public safety	83,144
Public works	62,411
Public ways and facilities	114,992
Culture and recreation	63,213
Total depreciation expense	\$ 327,491

Discretely Presented Component Units	Beginning Balance	Additions	Retirements	Ending Balance
Tuscumbia Utilities				
Nondepreciable assets:				
Land and land rights:				
Electricity	\$ 20,100	\$ -	\$ -	\$ 20,100
Natural Gas	306	-	-	306
Water and Sewer	122,288	-	-	122,288
Construction in progress:				
Electricity	53,907	45,109	-	99,016
Water and Sewer	968,084	5,637,944		6,606,028
Depreciable assets:				
Utility plant in service:				
Electricity	14,353,133	612,431	203,254	14,762,310
Natural Gas	4,805,109	242,661	7,163	5,040,607
Water and Sewer	9,530,400	151,581	10,438	9,671,543
Total capital assets	\$ 29,853,327	\$ 6,689,726	\$ 220,855	\$ 36,322,198
Less accumulated depreciation:				
Electricity	\$ 6,767,857	\$ 531,125	\$ 224,571	\$ 7,074,411
Natural Gas	2,884,410	147,821	7,163	3,025,068
Water and Sewer	5,590,657	272,392	10,438	5,852,611
Total accumulated depreciation	\$ 15,242,924	\$ 951,338	\$ 242,172	\$ 15,952,090
Capital assets, net	\$ 14,610,403	\$ 5,738,388	\$ (21,317)	\$ 20,370,108

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 7 – CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Tuscumbia Board of Education				
Non-depreciable assets:				
Land and land rights:	\$ 297,956	\$ -	\$ -	\$ 297,956
Depreciable assets				
Buildings	6,556,634	-		6,556,634
Building improvements	6,656,583	165,297		6,821,880
Equipment and furniture	863,033	33,396		896,429
Vehicles	339,669	8,999	-	348,668
Total Capital Assets	<u>\$ 14,713,875</u>	<u>\$ 207,692</u>	<u>\$ -</u>	<u>\$ 14,921,567</u>
Less: accumulated depreciation for:				
Buildings	\$ 3,464,405	\$ 152,361	\$ -	\$ 3,616,766
Building improvements	2,972,532	306,557	-	3,279,089
Equipment and furniture	584,083	45,136	-	629,219
Vehicles	305,343	14,492	-	319,835
Total accumulated depreciation	<u>\$ 7,326,363</u>	<u>\$ 518,546</u>	<u>\$ -</u>	<u>\$ 7,844,909</u>
Capital assets, net	<u>\$ 7,387,512</u>	<u>\$ (310,854)</u>	<u>\$ -</u>	<u>\$ 7,076,658</u>

NOTE 8 – TVA POWER AND CONSERVATION PROGRAMS

Electricity Department

Conservation Program

The Department has entered into a contract with TVA jointly establishing a home energy conservation program that provides eligible customers with arranged financing for home energy conservation improvements. As a part of this contract, the Department is a fiscal intermediary for the conservation loans provided by the program. The Department had at June 30, 2011, a total of \$951,200 of energy conservation loans due from customers participating in the program. These loans are to be repaid in monthly installments by the customer over periods ranging from 3 to 10 years. Interest accrues at rates ranging from 7% to 14% per annum.

Power Programs

The Department entered into an agreement with TVA to participate in the TVA Power Invoice Prepayment Program. This program allows the Department to electronically transfer funds, which are nonrefundable, on a weekly basis to be applied to the monthly TVA power invoice. An early payment credit is computed on a daily basis at a rate established monthly by TVA and is added to the prepayment account. At any time, with a 30-day written notice, the Department may borrow up to 100% of the outstanding prepayment balance from TVA for operations. The prepayment balance of \$51,656 as of June 30, 2011 is reflected as a prepaid expense.

NOTE 9 – LONG-TERM OBLIGATIONS

Primary Government

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 9 - LONG-TERM OBLIGATIONS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Primary Government</i>					
General Obligation Warrants, Series 1996	\$ 14,000	\$ -	\$ 14,000	\$ -	\$ -
General Obligation Warrants, Series 2003	3,235,000	-	270,000	2,965,000	-
Debt discount	(20,116)		(1,177)	(18,939)	(1,177)
General Obligation Warrants, Series 2009	2,610,000	-	25,000	2,585,000	405,000
Note payable - banks and finance companies Payable in monthly installments; interest rate of 3.45% to 6.25%; secured by equipment	87,259	304,221	103,242	288,238	115,100
Compensated absences	154,013	12,861	-	166,874	57,312
Total	\$ 6,080,156	\$ 317,082	\$ 411,065	\$ 5,986,173	\$ 576,235
<i>Discretely Presented Component Units</i>					
<i>Tuscumbia Utilities</i>					
<i>Electricity</i>					
Electric Revenue Warrants, Series 2009	\$ 1,050,000	-	\$ 105,000	945,000	105,000
Debt discount	-		-	-	-
Debt Premium	69,491	-	7,499	61,992	-
Compensated absences	82,758	7,065		89,823	-
<i>Natural Gas</i>					
Compensated absences	46,180	2,976		49,156	-
<i>Water and Sewer</i>					
Water and Sewer Revenue Warrants Series 2010	15,750,000	-	-	15,750,000	320,000
Compensated absences	56,140	-	5,176	50,964	-
Total	\$ 17,054,569	\$ 10,041	\$ 117,675	\$ 16,946,935	\$ 425,000
<i>Tuscumbia City Board of Education</i>					
Special tax school warrants	\$ 830,000	\$ -	\$ 120,000	\$ 710,000	\$ 125,000
Capital outlay pool warrants, series 2003	645,046		34,954	\$ 610,092	36,397
Capital outlay pool warrants, series 2006	1,144,675		49,010	\$ 1,095,665	51,357
Total	\$ 2,619,721	\$ -	\$ 203,964	\$ 2,415,757	\$ 212,754

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

On March 24, 2009, the City issued General Obligation Warrants, Series 2009 in the amount of \$ 2,785,000. These warrants were used to retire the City's previously issued 1998 warrants. These warrants bear interest at rates of 1.75% to 3.9% and will be paid fully in 2018. Principal is payable annually on November 1. Interest is payable semi-annually on each May 1 and November 1.

Bond issuance costs have been deferred and are being amortized over the life of the associated warrants. At year-end, the unamortized deferred charges amounted to \$18,939.

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

<u>Year Ended</u> <u>September</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2012	405,000	198,358	603,358
2013-2017	1,860,000	827,392	2,687,392
2018-2022	1,470,000	502,441	1,972,441
2023-2027	1,480,000	204,337	1,684,337
2028	335,000	1,186	336,186
	<u>\$ 5,550,000</u>	<u>\$ 1,733,714</u>	<u>\$ 7,283,914</u>

The City has entered into several secured note agreements with banks and finance companies to provide financing for various vehicles, machinery, and equipment. The notes are payable in monthly installments; bear interest rates of 3.45% to 6.25%; and, mature at varying dates through 2015.

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

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2012	\$ 115,100	\$ 8,620	\$ 123,720
2013	70,530	5,276	75,806
2014	67,169	3,527	70,696
2015	35,437	734	36,171
	<u>\$ 288,236</u>	<u>\$18,157</u>	<u>\$ 306,393</u>

Discretely Presented Component Units

Electricity Department

The City of Tuscumbia Electric Revenue Warrants, Series 1997 were issued in the amount of \$2,055,000 with interest rates ranging from 4.50% to 5.20%.

During the year the 1997 issue was retired with the issuance of the Series 2009 Revenue Bonds in the amount of \$ 1,150,000. The interest rate on the 2009 bonds range from 1.5% to 4.10%. The stated maturity of the bonds is as follows:

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt</u> <u>Service</u>
2012	105,000	30,148	135,148
2013	110,000	27,513	137,513
2014	110,000	24,488	134,488
2015	115,000	20,969	135,969
2016	120,000	17,000	137,000
Thereafter	<u>385,000</u>	<u>23,126</u>	<u>408,126</u>
	<u>\$ 945,000</u>		

Water & Sewer Department

Water & Sewer Revenue Warrants, Series 2010, were issued in the original principal amount of \$ 15,750,000. The bonds are due in annual installments on June 1 each year and bear interest ranging from 2.0% to 4.5%.

Stated maturity of the warrants is summarized as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt</u> <u>Service</u>
2012	320,000	630,014	950,014
2013	330,000	623,614	953,614
2014	335,000	617,014	952,014
2015	340,000	610,314	950,314
2016	350,000	601,814	951,814
2016-2040	<u>14,075,000</u>	<u>8,766,297</u>	<u>22,841,297</u>
	<u>\$ 15,750,000</u>	<u>\$ 11,849,067</u>	<u>\$ 27,599,067</u>

City Board of Education

The Board of Education had the following long-term debt obligations outstanding at September 30, 2011:

Special tax school warrants (5.6%)	\$ 125,000
Capital outlay pool (4.129%)	
School warrants, series 2003	610,092
Capital outlay pool warrant	
series 2006 (4.181%)	<u>1,095,665</u>
	<u>\$ 2,415,757</u>

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

<u>Year</u> <u>Ending</u> <u>September</u> <u>30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt</u> <u>Service</u>
2012	\$ 212,754	\$112,647	\$ 325,401
2013	226,849	101,293	328,142
2014	236,253	90,762	327,015
2015	250,723	78,019	328,742
2016	265,505	64,503	330,008
2017-202	<u>1,223,673</u>	<u>388,054</u>	<u>1,611,727</u>
	<u>\$2,415,757</u>	<u>\$835,278</u>	<u>\$3,251,035</u>

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 10 – PENSION AND DEFERRED COMPENSATION PLANS

Primary Government

Pension Plan

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

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

Primary Government

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

Funding Policy – Employees of the City are required to contribute 5% (6% for certified law enforcement officers, correctional officers, and firefighters) of their annual compensation. The City is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. The contribution requirements of the City are established by the Employees' Retirement System of Alabama based on annual actuarial valuations. The employer's contribution rate for the year ended September 30, 2010 was 10.89% based on the actuarial valuation performed as of September 30, 2010, as adjusted for COLAs granted to retirees.

Annual Pension Cost – For the year ended September 30, 2011, the City's annual pension contribution of \$275,605 was equal to their required and actual contribution. The required contribution was determined using the "entry age" actuarial cost method. The actuarial assumptions as of September 30, 2010 were: (a) an 8.00% investment rate of return, (b) projected salary increases ranging from 4.61% to 7.75%. Both (a) and (b) included an inflation component of 4.50%. The actuarial value of the assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over 16 years as a level percentage of projected on an open basis.

Other Pension Benefits – The City provides insurance to employees who retire with a combined age and years of service are 85. The insurance is paid at the single rate. The total cost for the year ended September 30, 2011 was approximately \$ 48,000. The City accounts for this cost on the pay-as-you go method.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 10 – PENSION AND DEFERRED COMPENSATION PLANS (Continued)

The trend and funding progress of the plan is shown below:

Trend Information			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2010	\$ 275,605	100%	-
9/30/2009	272,304	100%	-
9/30/2008	252,323	100%	-
9/30/2007	237,772	100%	-
9/30/2006	239,547	100%	-
9/30/2005	209,980	100%	-

Schedule of Funding Progress						
Actual Valuation Date	Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2010	\$ 5,202,943	\$ 8,125,852	\$ 2,922,909	64.00%	\$ 2,573,799	113.60%
9/30/2009	5,325,189	7,653,410	2,328,221	69.60%	2,438,756	95.50%
9/30/2008	5,419,720	7,429,164	2,009,444	73.00%	2,383,885	84.30%
9/30/2007	5,371,018	7,068,670	1,677,652	76.00%	2,207,671	76.90%
9/30/2006	5,055,127	6,725,029	1,669,902	75.20%	2,211,509	75.50%
9/30/2005	4,847,158	6,289,056	1,441,898	77.10%	2,133,855	67.60%

Deferred Compensation Plan

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

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

Discretely Presented Component Units

Tuscumbia Utilities Board

Defined Benefit Contribution Plan

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

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 10 – PENSION AND DEFERRED COMPENSATION PLANS (Continued)

The City of Tuscumbia Utility Departments contribute to The Plan, a governmental plan that was a target benefit plan but was amended to a defined benefit contribution plan on December 31, 1993. The Plan uses ING Life Insurance and Annuity Company to underwrite the funds of The Plan. There are two plans; one for union employees, Plan “A”, and one for non-union employees, Plan “B”.

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

The Plan issues a summary of the performance of The Plan and individual participant data to each Plan participant annually prepared by Northeast Retirement Plan Consulting. At June 30, 2009 the number of active employees in The Plan for all departments was 34.

Covered employees contribute 3 percent of their salary to The Plan. The Utilities is required to contribute the remaining amounts necessary to pay benefits when due. For the fiscal year beginning July 1, 2010, the Utilities’ portion consisted of a 3.14% normal contribution rate, a 4.64% accrued liability rate, a .15% pre-retirement death benefit and a .18% administrative expense rate, totaling an 8.11% rate.)

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system’s funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the system and employers. The most recent financial information available is at July 1, 2011, and is as follows:

Plan “A”

Actual Valuation Date	Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2006	1,027,346	1,895,065	867,719	54.21%	1,030,340	84.21%
9/30/2007	1,268,337	2,122,437	854,100	59.76%	1,135,694	75.20%
9/30/2008	1,463,059	2,302,655	839,596	63.54%	1,182,868	70.97%
9/30/2009	1,719,602	2,543,751	824,149	67.60%	1,239,956	66.47%
9/30/2010	2,002,520	3,031,011	1,028,491	66.07%	1,237,072	83.14%

Plan “B”

Actual Valuation Date	Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2006	704,231	1,357,300	653,069	51.88%	620,324	100.05%
9/30/2007	930,072	1,572,891	642,819	59.13%	650,511	98.81%
9/30/2008	1,194,933	1,826,836	631,903	65.41%	711,490	88.81%
9/30/2009	1,161,222	1,781,500	620,278	65.18%	753,159	82.35%
9/30/2010	857,223	1,562,904	705,681	54.85%	667,163	105.77%

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 10 – PENSION AND DEFERRED COMPENSATION PLANS (Continued)

The trend information for both Plans “A” and “B” is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2006	371,309	100%	-
9/30/2007	443,722	100%	-
9/30/2008	438,132	100%	-
9/30/2009	461,040	100%	-
9/30/2010	533,006	100%	-

Tuscumbia City Board of Education

The Tuscumbia City Board of Education contributes to the Teachers’ Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. The plan is administered by the Retirement Systems of Alabama.

Substantially all employees are members of the Teachers’ Retirement System. Membership is mandatory for covered or eligible employees. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers’ Retirement System was established as of October 1, 1941, under the provisions of act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers’ Retirement System is vested in its Board of Control. Benefit provisions are established by the code of Alabama 1975, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

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

Funding Policy

Employees of the Board are required to contribute 5 percent of their salary to the Teachers’ Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers’ Retirement System recommends to the Alabama Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 10 – PENSION AND DEFERRED COMPENSATION PLANS (Continued)

The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

	<u>Fiscal Year Ended September 30</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Percentage of Covered Payroll	17.51%	17.51%	17.07%
Contributions:			
Percentage Contributed By the Board	12.51%	12.51%	12.07%
Percentage Contributed By Employees	5.00%	5.00%	5.00%
Amount Contributed By the Board	\$ 963,447	\$ 969,378	\$ 924,720
Amount Contributed By Employees	<u>385,071</u>	<u>387,442</u>	<u>383,066</u>
Total Contributions	<u>\$1,348,518</u>	<u>\$1,307,786</u>	<u>\$ 1,307,786</u>

NOTE 11 – STORAGE GAS

Discretely Presented Component Units

Natural Gas Department

Under the Federal Energy Regulatory Commission Order Number 636, the natural gas and propane supply and storage from its vendor is unbundled. The result led to an election by the Department to store gas rather than be penalized for no-notice service. The stored gas inventory of \$329,183 is reflected as inventories at the aggregate amount of the lower cost (average cost) or market.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Electricity and Natural Gas Departments are required to pay to the City a tax equivalent that is determined by applying the current property tax rate to their net plant in service at the end of the preceding fiscal year. The amount of tax equivalents paid to the City during the fiscal year was \$362,170 by the Electricity Department and \$142,154 by the Natural Gas Department. The Water and Sewer Department is required, through enabling legislation, to pay its *net revenues*, although the term was not defined in the enabling legislation, on a quarterly basis. The Water and Sewer Department paid \$120,920 during the fiscal year. These amounts are reported as payments in lieu of taxes in the financial statements of the City and as operating expenses by the Utilities.

Under the provisions of Act 2007-502 (HB961) passed by the Alabama Legislature on June 14, 2007, (a) the Electricity Department is required to disburse payments in lieu of taxes in accordance with the terms of the power contract between the Tennessee Valley Authority and the Department, which currently is based on 4.7% of the net plant in service at the end of the preceding fiscal year; (b) the Natural Gas Department is required to disburse payments in lieu of taxes based on 7.4% of the value of the plant in service at the end of the preceding fiscal year, but not to exceed 4.5% of gross sales of natural gas in the preceding fiscal year; and, (c) the Water and Sewer Department is required to disburse payments in lieu of taxes based on thirty-cents (\$.30) per thousand gallons of gross sales of water in the preceding fiscal year.

The City made appropriations to the Tuscumbia City Board of Education for the fiscal year in the amount of \$596,557.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 13 – RISK MANAGEMENT

Primary Government

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

NOTE 14 – CONTINGENCIES AND COMMITMENTS

Primary Government

The City is a party to various claims and legal proceedings. These matters are not likely to have a material adverse impact on the funds of the City. The City has not made an accrual in the General Fund for pending litigation.

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

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

Discretely Presented Component Units

Electricity Department

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

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

Natural Gas Department

The Gas System has entered into purchase contracts with vendors to establish the purchase price for natural gas. The contracts allow the Department to lock in certain volumes of gas to be purchased and prices for that gas. At September 30, 2011, the Department had no commitments to purchase for the upcoming fiscal year.

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 14 – CONTINGENCIES AND COMMITMENTS (Continued)

Water and Sewer Department

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

NOTE 15 – EVALUATION OF SUBSEQUENT EVENTS

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the City evaluated it's activity through August 3, 2012, and determined that the following subsequent event had occurred requiring disclosure in the notes to the financial statements.

- The City issued General Obligation Warrants, Series 2012, dated February 1, 2012 in the amount of \$3,405,000. The proceeds of the issue was used as follows:

1) Refunding of the Series 2003 Warrants	\$ 3,028,838
2) Capital Improvements	310,878
3) Fees and Interest	65,284

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TUSCUMBIA, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Grantor Agency</u>	<u>Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>US Department of Justice</u>			
Passed through State of Alabama: Department of Economic and Community Affairs	JAG Program	16.738	\$ 600
Total U.S. Department of Justice			\$ 600
<u>US Department of Housing and Urban Development</u>			
Passed through State of Alabama: Department of Economic and Community Affairs	State Administered CDBG Cluster	14.228	\$ 853,174
<u>US Department of Transportation</u>			
Passed through State of Alabama: North Alabama Highway Safety Office	Highway Safety Cluster	20.600	\$ 352
Alabama Department of Transportation	Highway Planning & Construction Cluster	20.205	93,597
Total U.S. Department of Transportation			\$ 93,949
<u>US Department of Homeland Security</u>			
Passed through State of Alabama: Department of Economic and Community Affairs	Hazard Mitigation	97.039	\$ 73,628
Total Federal Financial Assistance			\$ 1,021,351

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule

CITY OF TUSCUMBIA, ALABAMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Tuscumbia, Alabama under programs of the Federal government for the year ended September 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Tuscumbia, Alabama, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Tuscumbia, Alabama.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as reimbursement.

NOTE 3 - PASS-THROUGH LOAN

The Community Development program (CFDA 14.228) represents a pass-through loan from the Alabama Department of Economic and Community Affairs to a local commercial entity. The original amount was \$ 1,750,000. The loan is secured by a stand-by letter of credit. The City has assigned all rights to the note, which is due in full on October 3, 2012 to the Alabama Department of Economic and Community Affairs.

LEIGH, KING & ASSOCIATES, P.C.

B.T. (Tim) Leigh, CPA
Karen P. King, CPA
James Boyett, CPA



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CERTIFIED PUBLIC ACCOUNTANTS

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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*

The Honorable Mayor Bill Shoemaker
and Members of the City Council
City of Tuscumbia, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tuscumbia, Alabama, as of and for the year ended September 30, 2011, which collectively comprise City of Tuscumbia's basic financial statements and have issued our report thereon dated August 15, 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 City of Tuscumbia, 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 City of Tuscumbia, Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tuscumbia'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of City of Tuscumbia, Alabama in a separate letter dated August 15, 2012.

This report is intended solely for the information and use of management, the mayor and city council, 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.

Leigh, King + Associates, P.C.

Leigh, King & Associates, P.C.

Sheffield, Alabama

August 15, 2012

LEIGH, KING & ASSOCIATES, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Bill Shoemaker
and Members of the City Council
City of Tuscumbia, Alabama

Compliance

We have audited City of Tuscumbia, Alabama's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Tuscumbia, Alabama's major federal programs for the year ended September 30, 2011. City of Tuscumbia, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Tuscumbia, Alabama's management. Our responsibility is to express an opinion on City of Tuscumbia, Alabama's compliance based on our audit.

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

In our opinion, City of Tuscumbia, Alabama complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control over Compliance

Management of City of Tuscumbia, Alabama is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Tuscumbia, Alabama's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Tuscumbia, Alabama's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Tuscumbia, Alabama's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Tuscumbia, Alabama's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the mayor and city council, 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.

Leigh, King & Associates, P.C.

Leigh, King & Associates, PC

Sheffield, Alabama

August 15, 2012

CITY OF TUSCUMBIA, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|---------------|
| 1. Type of auditor's report issued: | |
| Governmental Activities | Unqualified |
| General Fund | Unqualified |
| 2003 Capital Improvement Fund | Unqualified |
| 2009 Warrant Payment Fund | Unqualified |
| Flexco Fund | Unqualified |
| Other Governmental Funds | Unqualified |
| 2. Internal Control over financial reporting | |
| a. Material weaknesses identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | |
|---|---|
| 4. Internal control over major programs | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 5. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. Any findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |
| 7. Identification of major awards | |
| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
| 14.228 | Department of HUD (Community Development) |
| 8. Dollar threshold to distinguish between type A and type B programs: | \$ 300,000 |
| 9. Auditee qualified as low-risk auditee? | No |

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings or questions costs related to the Federal awards.

CITY OF TUSCUMBIA, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary fund balance - beginning	\$ 741,724	\$ 741,724	\$ 741,724	\$ -
Resources (inflows):				
Taxes:				
Sales, use, and lodging	\$ 2,403,000	\$ 2,403,000	\$ 2,410,395	\$ 7,395
Property	2,132,000	2,132,000	2,041,770	(90,230)
Motor fuel	200,000	200,000	195,951	(4,049)
Tobacco	66,000	66,000	59,000	(7,000)
Alcoholic beverages	94,000	94,000	92,953	(1,047)
Other	105,000	105,000	156,544	51,544
Total taxes	\$ 5,000,000	\$ 5,000,000	\$ 4,956,612	\$ (43,388)
Licenses and permits:				
Business	266,000	266,000	305,704	\$ 39,704
Non-business	55,950	55,950	40,057	(15,893)
Total licenses and permits	\$ 321,950	\$ 321,950	\$ 345,761	\$ 23,811
Fines and forfeitures	\$ 126,000	\$ 126,000	\$ 142,522	\$ 16,522
Charges for services:				
Cultural and recreational	\$ 295,000	\$ 295,000	\$ 408,216	\$ 113,216
Solid waste disposal	1,010,000	1,010,000	973,632	(36,368)
Cemetery lot sales	1,000	1,000	4,876	3,876
Other	15,480	15,480	20,570	5,090
Total charges for services	\$ 1,321,480	\$ 1,321,480	\$ 1,407,295	\$ 85,815
Intergovernmental	\$ 90,419	\$ 90,419	\$ 239,909	\$ 149,490
Other:				
Interest	\$ 1,500	\$ 1,500	\$ 1,198	\$ (302)
Other	12,600	12,600	38,196	25,596
Total other	\$ 14,100	\$ 14,100	\$ 39,394	\$ 25,294
Proceeds from Debt Issuance	\$ -	\$ -	\$ 304,221	304,221
Transfers from other funds	\$ 295,500	\$ 295,500	\$ 360,000	64,500
Amounts available for appropriation	\$ 7,911,173	\$ 7,911,173	\$ 8,537,438	\$ 626,265
Charges to appropriations (outflows):				
Current operating:				
General administration:				
Mayor	\$ 47,363	\$ 47,363	\$ 46,131	\$ 1,232
Accounting	196,955	196,955	192,908	4,047
City council	38,377	38,377	37,415	962
Code enforcement	55,125	55,125	56,538	(1,413)
Legal	48,368	48,368	60,569	(12,201)
General government	44,300	44,300	54,705	(10,405)
Community promotion	56,917	56,917	60,530	(3,613)
Insurance-general	171,500	171,500	168,195	3,305
Employee benefits (unallocated)	1,174,717	1,174,717	1,063,221	111,496
Total general administration	\$ 1,833,622	\$ 1,833,622	\$ 1,740,211	\$ 93,411

CITY OF TUSCUMBIA, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public safety:				
Police	\$ 986,985	\$ 986,985	\$ 1,027,481	\$ (40,496)
Municipal court	99,404	99,404	98,958	446
Fire	551,711	551,711	575,205	(23,494)
Total public safety	\$ 1,638,100	\$ 1,638,100	\$ 1,701,644	\$ (63,544)
Public works:				
Streets	\$ 371,734	\$ 371,734	\$ 372,299	\$ (565)
Municipal lighting and utilities	235,000	235,000	217,581	17,419
Cemetery	91,220	91,220	82,215	9,005
Maintenance	67,165	67,165	70,193	(3,028)
Sanitation	737,589	737,589	830,809	(93,220)
Total public works	\$ 1,502,708	\$ 1,502,708	\$ 1,573,097	\$ (70,389)
Culture and recreation:				
Parks and recreation	\$ 684,361	\$ 684,361	\$ 715,424	\$ (31,063)
Golf course	126,277	126,277	123,357	2,920
Library	150,943	150,943	145,195	5,748
Senior citizens center	12,220	12,220	12,355	(135)
Total culture and recreation	\$ 973,801	\$ 973,801	\$ 996,331	\$ (22,530)
Nondepartmental:				
Appropriations	\$ 65,686	\$ 65,686	\$ 65,226	\$ 460
Education - funding for school district	593,125	593,125	596,557	(3,432)
Bank Fees	6,000	6,000	3,808	2,192
Transfers to other funds	602,072	602,072	595,110	6,962
Capital Outlay	-	-	403,465	(403,465)
Debt service - principal payments	94,594	94,594	83,717	10,877
Debt service - interest and fiscal charges	9,000	9,000	11,218	(2,218)
Total nondepartmental	\$ 1,370,477	\$ 1,370,477	\$ 1,759,101	\$ (388,624)
Total charges to appropriations	\$ 7,318,708	\$ 7,318,708	\$ 7,770,384	\$ (451,676)
Budgetary fund balance - ending	\$ 592,465	\$ 592,465	\$ 767,054	\$ 174,588

**CITY OF TUSCUMBIA, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

NOTE A – Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$8,537,438
Differences – budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial report purposes	(741,724)
Note proceeds are inflows of budgetary resources but are not revenues for financial reporting purposes	(304,221)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(360,000)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$7,131,493</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$7,770,384
Differences – budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(\$95,110)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$7,175,274</u>

SUPPLEMENTARY INFORMATION

**CITY OF TUSCUMBIA, ALABAMA
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

				Debt Service Funds		
	Municipal Capital Improvements	Other Capital Projects	Total	2003 Debt Service	Rural Development (USDA)	Total
ASSETS						
Cash and cash equivalents	\$ 140,536	\$ 281,362	\$ 421,898	\$ -	\$ -	\$ -
Restricted cash and investments			-	80,116		80,116
Total assets	<u>\$ 140,536</u>	<u>\$ 281,362</u>	<u>\$ 421,898</u>	<u>\$ 80,116</u>	<u>\$ -</u>	<u>\$ 80,116</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued expenses	\$ -	\$ 1,975	\$ 1,975	\$ -	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ 1,975</u>	<u>\$ 1,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances						
Unreserved, reported in:						
Special revenue funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt service funds			-	80,116		80,116
Capital project funds	140,536	279,387	419,923	-	-	-
Total fund balances	<u>\$ 140,536</u>	<u>\$ 279,387</u>	<u>\$ 419,923</u>	<u>\$ 80,116</u>	<u>\$ -</u>	<u>\$ 80,116</u>
Total liabilities and fund balance	<u>\$ 140,536</u>	<u>\$ 281,362</u>	<u>\$ 421,898</u>	<u>\$ 80,116</u>	<u>\$ -</u>	<u>\$ 80,116</u>

Special Revenue Funds						Total Other Governmental Funds
State Gas Tax (\$.07)	State Gas Tax (\$.04)	Local Motor Fuel	Special Fuuds	Special Corrections	Total	
\$ 218,721	\$ 227,415	\$ 46,518	\$ 32,364	\$ 39,518	\$ 564,535	\$ 986,433
						80,116
<u>\$ 218,721</u>	<u>\$ 227,415</u>	<u>\$ 46,518</u>	<u>\$ 32,364</u>	<u>\$ 39,518</u>	<u>\$ 564,535</u>	<u>\$ 1,066,549</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,975
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,975</u>
\$ 218,721	\$ 227,415	\$ 46,518	\$ 32,364	\$ 39,518	\$ 564,535	\$ 564,535
						80,116
-	-	-	-	-	-	419,923
<u>\$ 218,721</u>	<u>\$ 227,415</u>	<u>\$ 46,518</u>	<u>\$ 32,364</u>	<u>\$ 39,518</u>	<u>\$ 564,535</u>	<u>\$ 1,064,575</u>
<u>\$ 218,721</u>	<u>\$ 227,415</u>	<u>\$ 46,518</u>	<u>\$ 32,364</u>	<u>\$ 39,518</u>	<u>\$ 564,535</u>	<u>\$ 1,066,549</u>

CITY OF TUCUMBIA, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Capital Projects Funds			Debt Service Funds		
	Municipal Capital Improvements	Other Capital Projects	Total	2003 Debt Service	Rural Development (USDA)	Total
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures						
Intergovernmental	51,227	5,000	56,227			
Interest revenues	-	3,407	3,407	54		54
Proceeds from Bonds						-
Other						
Total revenues	<u>\$ 51,227</u>	<u>\$ 8,407</u>	<u>\$ 59,634</u>	<u>\$ 54</u>	<u>\$ -</u>	<u>\$ 54</u>
EXPENDITURES						
Current operating:						
General administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety						
Public works						-
Capital outlay and improvements	159,588	48,188	207,776			-
Debt service:						
Principal payments				270,000	14,000	284,000
Interest and fiscal charges				121,930	718	122,648
Total expenditures	<u>\$ 159,588</u>	<u>\$ 48,188</u>	<u>\$ 207,776</u>	<u>\$ 391,930</u>	<u>\$ 14,718</u>	<u>\$ 406,648</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (108,361)</u>	<u>\$ (39,780)</u>	<u>\$ (148,141)</u>	<u>\$ (391,876)</u>	<u>\$ (14,718)</u>	<u>\$ (406,594)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ -	\$ -	\$ -	\$ 145,000	\$ 110	\$ 145,110
Transfers out				-		-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,000</u>	<u>\$ 110</u>	<u>\$ 145,110</u>
Net change in fund balances	<u>\$ (108,361)</u>	<u>\$ (39,780)</u>	<u>\$ (148,141)</u>	<u>\$ (246,876)</u>	<u>\$ (14,608)</u>	<u>\$ (261,484)</u>
Fund balances - beginning	<u>248,897</u>	<u>319,168</u>	<u>568,065</u>	<u>326,992</u>	<u>14,608</u>	<u>341,600</u>
Fund balances - ending	<u>\$ 140,536</u>	<u>\$ 279,388</u>	<u>\$ 419,923</u>	<u>\$ 80,116</u>	<u>\$ -</u>	<u>\$ 80,116</u>

Special Revenue Funds						Total Other Governmental Funds
State Gas Tax (\$.07)	State Gas Tax (\$.04)	Local Motor Fuel	Special Funds	Special Corrections	Total	
\$ 35,899	\$ 28,057	\$ -	\$ -	\$ -	\$ 63,956	\$ 63,956
				41,452	41,452	41,452
						56,227
292	289	495	798	54	1,928	5,390
						-
						-
<u>\$ 36,191</u>	<u>\$ 28,346</u>	<u>\$ 495</u>	<u>\$ 798</u>	<u>\$ 41,506</u>	<u>\$ 107,336</u>	<u>\$ 167,025</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
						-
						-
45,344				4,962	50,306	258,082
						-
						284,000
						122,648
<u>\$ 45,344</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,962</u>	<u>\$ 50,306</u>	<u>\$ 664,729</u>
<u>\$ (9,153)</u>	<u>\$ 28,346</u>	<u>\$ 495</u>	<u>\$ 798</u>	<u>\$ 36,544</u>	<u>\$ 57,030</u>	<u>\$ (497,705)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 145,110
		250,000	75,000	35,000	360,000	360,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (250,000)</u>	<u>\$ (75,000)</u>	<u>\$ (35,000)</u>	<u>\$ (360,000)</u>	<u>\$ (214,890)</u>
<u>\$ (9,153)</u>	<u>\$ 28,346</u>	<u>\$ (249,505)</u>	<u>\$ (74,202)</u>	<u>\$ 1,544</u>	<u>\$ (302,970)</u>	<u>\$ (712,595)</u>
227,874	199,069	296,023	106,566	37,974	867,505	1,777,170
<u>\$ 218,721</u>	<u>\$ 227,415</u>	<u>\$ 46,518</u>	<u>\$ 32,364</u>	<u>\$ 39,518</u>	<u>\$ 564,535</u>	<u>\$ 1,064,575</u>