

**CITY OF SCOTTSBORO, ALABAMA**

**FINANCIAL REPORT**

**SEPTEMBER 30, 2011**

**CITY OF SCOTTSBORO  
FINANCIAL REPORT  
SEPTEMBER 30, 2011**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report.....	1 - 2
Management's Discussion and Analysis.....	3 – 10
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	13
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances – Governmental Funds To the Statement of Activities.....	15
Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.....	16
Notes to the Financial Statements.....	17–40
<b>Required Supplementary Information</b>	
Schedule of Revenues and Expenditures– Budget and Actual-General Fund.....	41–43
Notes to RSI – Budget to Actual Comparison.....	44
Schedule of Pension Plan Funding Progress.....	45
Schedule of Employee Healthcare Plan Funding Progress.....	46
<b>Other Supplementary Information:</b>	
Combining and Individual Fund Financial Statements:	
Combining Balance Sheets Schedule–Non-major Governmental Funds	47
Combining Schedules of Revenues, Expenditures and Changes In Fund Balances – Non-major Governmental Funds.....	48
<b>Single Audit Section</b>	
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	49-50
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	51-52
Schedule of Expenditures of Federal Awards.....	53
Notes to Schedule of Expenditures of Federal Awards.....	54
Schedule of Findings and Questioned Costs.....	55-56

# Gann & Croft Associates, P.C.

**CERTIFIED PUBLIC ACCOUNTANTS**

611 EAST LAUREL STREET • P.O. BOX 757  
SCOTTSBORO, ALABAMA 35768  
(256) 259-1120 • FAX (256) 259-0858  
EMAIL dcroft007@aol.com

DON W. CROFT, C.P.A.  
MARY S. CROFT, C.P.A.  
C. GENE GOSSETT, JR., C.P.A.

**MEMBERS:** AICPA  
ALABAMA SOCIETY  
OF CPA'S

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Scottsboro, Alabama

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, with the exception of the Scottsboro City Board of Education and the Public Parks and Recreation Board, which were audited by other auditors as described below, each major fund, and the aggregate remaining fund information of the **City of Scottsboro, Alabama (the City)**, as of and for the year then ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of Scottsboro, Alabama's**, management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Scottsboro City Board of Education, which represent the amounts shown as the Component Unit – Scottsboro Board of Education, and the Public Parks and Recreation Board, which represent the amounts shown as the Component Unit - Public Parks and Recreation Board. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Component Units – Scottsboro Board of Education and Public Parks and Recreation Board, 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. The financial statements of the Public Parks and Recreation Board and the Scottsboro Public Library, component units of the City, were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit, and the reports of other auditors, provides a reasonable basis for our opinions.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Scottsboro, Alabama**, as of September 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2012, on our consideration of the City of Scottsboro, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Revenues and Expenditures-Budget and Actual, Schedule of Pension Plan Funding Progress, and Schedule of Employee Healthcare Plan Funding Progress, as listed in the table of contents under Required Supplementary Information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the 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 evidence sufficient 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 Scottsboro's basic financial statements. The combining fund financial statements and schedules listed in the table of contents as Other Supplementary Information and the Schedule of Expenditures of Federal Awards, required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Scottsboro, Alabama. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the combining fund financial statements and schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Gant, Croft and Associates, P.C.*

Scottsboro, Alabama  
September 20, 2012

## **CITY OF SCOTTSBORO, ALABAMA**

### **Management's Discussion and Analysis Fiscal Year Ended September 30, 2011**

As management of the City of Scottsboro (the "City"), we offer readers of the City's financial statements this narrative overview and analysis, Management's Discussion and Analysis (the "MD&A"), of the financial activities and financial position of the City for the fiscal year ended September 30, 2011. In the broadest sense, the financial health of a government lies in the underlying wealth and willingness of its citizens, businesses and property owners to pay adequate taxes combined with the leadership of the government's elected and appointed officials to spend the current period but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and changes in financial position. Therefore, the purpose of this MD&A is to provide a narrative about the transactions, events and conditions that are reflected in the government's financial report and of the fiscal policies that govern its operations. This analysis should be read in conjunction with the basic financial statements and notes thereto.

#### **Fiscal 2011 Financial Highlights**

Financial highlights of the year include the following:

##### **Government-wide**

- The City's total net assets were \$19,103,336 at September 30, 2011. Unrestricted net assets were \$(21,275,917). The negative unrestricted net assets reflect the inclusion of long-term liabilities incurred by the City to provide funds for the Scottsboro City School Board for the building of new schools and the Scottsboro Public Parks and Recreation Board for the construction and acquisition of improvements at its facilities, the capital assets neither of which are included with the City's capital assets. The City's net assets increased by \$138,982. Government-wide revenue totaled \$25,025,546 for the year ended September 30, 2011, including \$8,203,648 in program revenue and \$16,821,898 in general revenue.
- Total government-wide governmental expenses were \$24,886,565.

##### **Fund Level:**

- Total Governmental Fund Balance increased \$4,931,120 in fiscal 2011 to \$22,295,009. Governmental Fund revenue totaled \$24,351,167, with total expenditures of \$27,692,271, including capital outlay of \$5,366,927. Total Governmental Funds Other Financing Sources and (Uses) was \$8,272,223, including net proceeds from issuance of debt of \$7,549,551. General Fund revenue totaled \$20,434,313, with total expenditures of \$19,194,871, for an excess of revenue over expenditures of \$1,239,443. Total Other Financing Sources and (Uses) was \$(1,789,703) in the General Fund. The decrease in the General Fund Balance was \$(550,260) for Fiscal 2011, reflecting the expenditure of funds in the current year for capital outlay and capital projects that were obtained in prior years through grants and debt proceeds.

## **CITY OF SCOTTSBORO, ALABAMA**

### **Management's Discussion and Analysis Fiscal Year Ended September 30, 2011**

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Scottsboro's Annual Financial Report. The City's Basic Financial Report is comprised of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Financial Statements. This report contains other supplementary information in addition to the basic financial statements themselves.

#### **The Basic Financial Statements**

The Basic Financial Statements are comprised of the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the city's financial activities and financial position.

Government-wide Financial Statements provide a longer-term view of the City's activities as a whole and consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities using a full-accrual basis of accounting, similar to commercial enterprises. The Statement of Activities provides information about all the City's revenue and expense, also on a full-accrual basis, with the emphasis on measuring net revenue or expenditures of each of the City's programs. The Statement of Activities presents the changes in the net assets of the City for the year.

All of the City's activities are grouped into the following governmental activities: general government, public safety, streets, sanitation and landfill, recreation and culture, and education.

The Fund Financial Statements focus primarily on the short-term activities of the City's General Fund and Other Major Funds. Major Funds account for the major financial activities of the City and are presented individually while the activities of the Nonmajor Funds are presented in the aggregate. Supporting schedules, showing the individual aggregated Nonmajor funds, are provided as Supplementary Information. The Fund Financial Statements measure only current revenue and expenditures and the resulting changes in fund balances. They exclude capital assets, long-term debt and other long-term amounts.

Each Major Fund is presented individually, with all Nonmajor Funds aggregated and presented in a single column. The City's major funds for fiscal year 2011 are the General Fund, the Debt Service Fund, and the Capital Projects Fund. Comparisons of budget and actual financial information are presented as required supplementary information only for the General Fund.

## CITY OF SCOTTSBORO, ALABAMA

### Management's Discussion and Analysis Fiscal Year Ended September 30, 2011

#### Financial Activities of the City (Government-wide)

This analysis focuses on the net assets and changes in the net assets of the City's Governmental Activities, as presented in the Government-wide Statement of Net Assets and Statement of Activities:

	<u>2011</u>	<u>2010</u>
Current and other assets	\$28,940,519	\$23,496,873
Capital assets	<u>40,213,465</u>	<u>38,022,200</u>
<b>Total assets</b>	<b>\$69,153,984</b>	<b>\$61,519,073</b>
Long-term liabilities	\$46,835,020	\$39,959,118
Current liabilities	<u>3,215,628</u>	<u>2,555,706</u>
<b>Total liabilities</b>	<b>\$50,050,648</b>	<b>\$42,514,824</b>
Net assets		
Invested in capital assets, net of debt	\$29,348,303	\$29,562,236
Restricted	11,030,950	6,917,488
Unrestricted	<u>(21,275,917)</u>	<u>(17,475,475)</u>
<b>Total net assets</b>	<b>\$19,103,336</b>	<b>\$19,004,249</b>

The City's net assets in the amount of \$19.1 million are largely attributable to the City's investment in capital assets. The City uses these capital assets to provide services and transportation infrastructure to citizens, businesses, and visitors. These assets are not available to finance future operations. Approximately \$11 million is restricted by state law and bond covenants for use in paying debt service, constructing capital assets, and maintaining and improving roads.

**CITY OF SCOTTSBORO, ALABAMA**

**Management's Discussion and Analysis  
Fiscal Year Ended September 30, 2011**

The remaining balance is unrestricted net assets, a deficit of \$21.3 million. **The negative amount is due to the inclusion in long-term liabilities of \$19.6 million school warrants issued by the City to fund the City school board's construction and renovation of school buildings and \$4.3 million general obligation warrants issued by the City for the Public Parks and Recreation Board to fund construction and acquisition of improvements of its facilities.** The school bonds are paid from current and future City and county sales tax revenue budgeted by the City and by the school board, respectively. The City has a \$4.3 million note receivable payable by the Public Parks and Recreation Board, payments on which are used to make the payments on the City's related debt as they are due. The capital assets constructed or acquired with proceeds of these debt issues are not included in the City's capital assets, but rather are included in the capital assets of the School Board and Public Parks and Recreation Board component units.

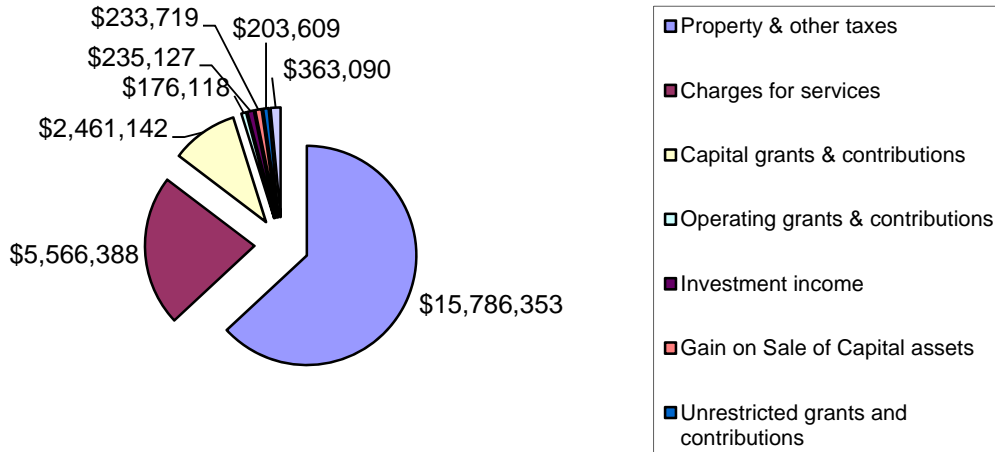
	<u>2011</u>	<u>2010</u>
<u>Sources of Revenue</u>		
Program revenue		
Charges for services	\$5,566,388	\$5,257,973
Operating grants and contributions	176,118	321,463
Capital grants and contributions	<u>2,461,142</u>	<u>334,286</u>
	<u>8,203,648</u>	<u>5,913,722</u>
General revenue		
Property and other taxes	15,786,353	15,595,144
Unrestricted grants and contributions	203,609	63,584
Unrestricted investment income	235,127	235,026
Miscellaneous revenues	363,090	153,418
Gain on Sale of Capital Assets	<u>233,719</u>	<u>28,282</u>
	<u>16,821,898</u>	<u>16,075,455</u>
Total revenue	<u>25,025,546</u>	<u>21,989,177</u>
<u>Functional Expenses</u>		
General government	4,402,871	4,486,547
Public safety	7,833,029	7,649,280
Streets	3,063,739	3,289,493
Sanitation and landfill	4,267,993	2,704,385
Recreation and culture	1,534,109	1,496,859
Education	1,606,412	1,901,250
Interest on debt	<u>2,178,411</u>	<u>1,606,837</u>
Total expenses	<u>24,886,564</u>	<u>23,134,651</u>
Increase (Decrease) in net assets	<u>138,982</u>	<u>(1,145,474)</u>
Net assets-beginning of year (restated for 2010)	<u>18,964,354</u>	<u>20,149,724</u>
Net assets-end of year	<u>\$19,103,336</u>	<u>\$19,004,249</u>



**CITY OF SCOTTSBORO, ALABAMA**

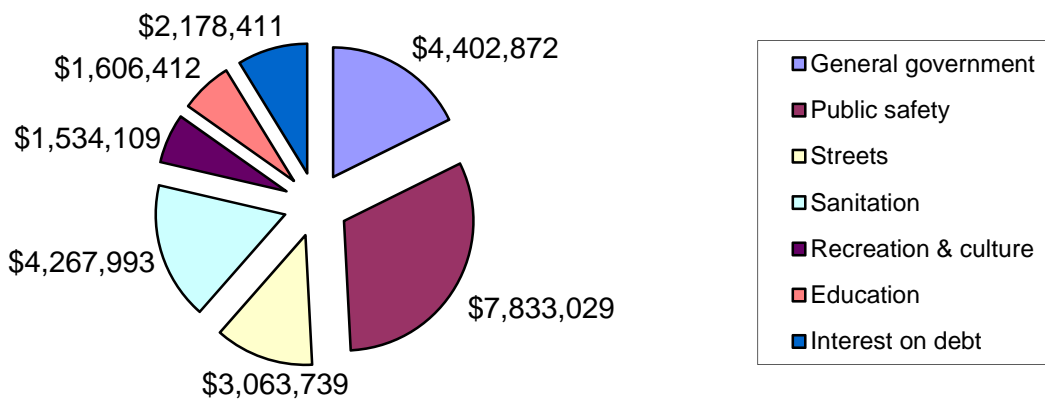
**Management’s Discussion and Analysis  
Fiscal Year Ended September 30, 2011**

**Revenue Sources**



As the Source of Revenue chart above shows, 67% of the City’s fiscal 2011 governmental activities revenue came from property and other taxes, 1% came from other general revenue sources such as gain on sale of assets, unrestricted investment earnings, and reimbursements. The majority of the remainder of total revenue, 22% came from charges for services.

**Functional Expenses**



As the above graph shows, Public Safety is the largest activity, reflecting the City’s commitment to a safe community. Streets are also a substantial activity.

## **CITY OF SCOTTSBORO, ALABAMA**

### **Management's Discussion and Analysis Fiscal Year Ended September 30, 2011**

#### **Financial Analysis of the Government's Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,295,009, an increase of \$4,931,120, in comparison with the prior year. Approximately 66% of this total amount (\$14,608,033) constitutes fund balance restricted for various specific purposes (Restricted for capital improvements \$142,385, jail/court expenditures \$35,125; road repairs and maintenance \$124,274; capital projects \$9,166,451; and debt service (\$5,139,798). The remainder of the fund balance is either unspendable (\$4,452,483) or unrestricted (\$3,234,493).

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$3,234,493. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 17% of total general fund expenditures.

During the current fiscal year, the fund balance of the City's general fund decreased by \$550,260. It should be noted that this decrease includes net transfers from the general fund to the debt service fund in the amount of \$2,564,568. In addition, capital outlay purchases and spending on capital projects totaling \$1,975,525 were made during the fiscal year.

The debt service fund has a total fund balance of \$9,399,798, all of which is to be used for the payment of future debt service. The net increase in fund balance during the current year in the debt service fund was \$270,911. Interest expenditures were \$1,876,416 and principal retirements during the year were \$1,925,000.

The capital projects fund has a total fund balance of \$9,166,451, all of which is restricted for various construction projects. The net increase in fund balance during the current year in the capital project fund was \$5,120,079, due to the issuance of debt of approximately \$7.2 million, \$6.3 million of the proceeds of which will be used in the future for construction of new access roads along U.S. Highway 72 and approximately \$900,000 which was used for construction of the landfill gas collection system. Also, expenditures of approximately \$3.4 million for construction projects were made during the year.

## **CITY OF SCOTTSBORO, ALABAMA**

### **Management's Discussion and Analysis Fiscal Year Ended September 30, 2011**

#### **Capital Asset and Debt Administration**

**Capital assets-** The City's investment in capital assets for its governmental type activities as of September 30, 2011 amounts to \$40,213,465 (net of accumulated depreciation).. This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, and roads and bridges that were added during the current fiscal year. The total amount added to capital assets in 2011 was \$5,868,568. Depreciation expense, which is an estimate of the amount of the underlying capital asset's usefulness used during the year, decreases the net amount of capital assets reported on the Statement of Net Assets and was \$3,642,445 for 2011.

**Long-term liabilities-** At the end of the current fiscal year, the City had total long-term debt outstanding of \$44,265,500, which is comprised entirely of debt backed by the full faith and credit of the City. Other long-term liabilities, including an accrual for closure and post-closure care for the landfill (\$2,226,606) and an accrual for the cost of providing health care coverage to the City's retirees (\$167,999) totaled \$2,569,520, for a total of long-term liabilities at September 30, 2011, of \$46,835,020. Of that total, \$2,428,307 will be due within the year ending September 30, 2012.

During the current fiscal year, the City's principal retirements of debt totaled \$1,925,000. The City issued its General Obligation Recovery Zone Economic Development Warrants, Series 2010B in the amount of \$6,500,000 during the year. The proceeds of this debt issue will be used for construction of access roads along a portion of U.S. Highway 72 within the City. Also during the year the City issued its \$5,230,000 General Obligation Warrants, Series 2011 to refund a portion of its General Obligation Warrants, Series 2002. Additionally, the City issued a \$1,250,000 note payable to a local bank during the year to finance the cost of the landfill gas collection system. At the end of the year, the balance due on this note was \$590,500.

#### **Budgetary Analysis-General Fund**

Budgeted revenue for Fiscal 2011 was \$18,626,668 and actual revenue was \$20,430,935, which resulted in a favorable variance of \$1,804,267, due primarily to the receipt of grant revenue of \$1,216,276, which was not budgeted. Budgeted expenditures were \$15,928,335 and actual expenditures were \$18,883,927, which resulted in an unfavorable variance of \$(2,955,592). Of this unfavorable variance, some \$2,132,275 was for various capital outlays and debt service related to capital projects. See page 41 for a detail of the budget versus actual comparison.

## **CITY OF SCOTTSBORO, ALABAMA**

### **Management's Discussion and Analysis Fiscal Year Ended September 30, 2011**

#### **Economic Factors and Next Year's Budgets and Rates**

The City continues to employ personnel from the local area pool, trying to help decrease the high unemployment that exists in Jackson County. That rate for the past year reached over 10%. Inflation continues to rise at the same rate as nationwide. Due to this rise in inflation, our budget needs have also continued to rise. Our department heads, along with the Mayor and Council, have managed to keep this rise as low as possible without any loss of services to the citizens of Scottsboro. Over the past year sales taxes decreased by 4.44% from 2008. We have maintained the same level of personnel allowing our citizens the same quality of services. The economy in and around our area has been stable to the extent that our receipts have not dropped off as much as the majority of the rest of the state. During the year citizens seemed to be more conservative with spending, only spending funds for essentials. We have new facilities at all major locations at the present time. The 2009-2010 budget was prepared being very conservative due to the reduction in receipts for 2008. Budget expenditures were kept at the 2007-2008 level in most cases with some reductions being made where possible. We continue to be conservative and to monitor and control cost on a daily basis which allows us to quickly control any areas that may develop problems. As personnel leave we are slow to fill the vacant positions, being conservative in that respect.

#### **Requests for Information**

The preparation of this financial report was made possible by the dedicated service of our finance department staff and our auditors, Gant, Croft, & Associates, CPAs. We wish to express our appreciation to them. Further, we wish to thank the City Council for their continued support as we strive to excel in financial reporting.

For information concerning the component units included in the financial statements, we refer you to the separately issued financial statements of each component unit.

This financial report is designed to provide a general overview of the City of Scottsboro's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Scottsboro, Attn: Finance Director  
316 S. Broad Street, Scottsboro, Alabama 35768

**City of Scottsboro, Alabama**  
**Statement of Net Assets**  
**September 30, 2011**

	Primary	Component Units		
	Government			
	Governmental	Public Park	Scottsboro	Public
	Activities	& Recreation	Board of	Library
		Board	Education	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,347,499	\$ 332,353	\$ 2,392,707	\$ 142,407
Taxes receivable	2,019,356	-	-	-
Accounts receivable	681,091	32,256	13,451	-
Certificates of deposit	728,107	-	-	-
Restricted cash and investments	15,630,846	-	-	-
Other receivables	-	64,926	-	-
Prepaid expenses	256,689	16,544	-	5,210
Inventories	64,679	38,922	58,051	-
Due from other governmental units	-	113,664	1,854,652	-
Other assets	1,056,438	161,288	-	-
Note receivable	6,155,813	-	-	-
Investment in land	1,631,826	-	-	-
Capital assets not being depreciated	7,548,173	2,081,712	1,389,265	-
Capital assets being depreciated (net)	31,033,466	3,051,776	30,211,873	206,823
	<u>\$ 69,153,984</u>	<u>\$ 5,893,441</u>	<u>\$ 35,919,999</u>	<u>\$ 354,440</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 2,083,323	\$ 184,808	\$ 2,119,553	\$ 12,403
Deposits	-	1,247	-	-
Due to Scottsboro City Board of Education	469,536	-	-	-
Accrued interest payable	658,357	2,735	-	-
Deferred revenue	4,412	182,773	27,708	-
Long-term liabilities:				
Due within one year	2,428,307	366,423	63,697	-
Due in more than one year	44,406,713	3,938,368	100,384	-
	<u>\$ 50,050,648</u>	<u>\$ 4,676,354</u>	<u>\$ 2,311,342</u>	<u>\$ 12,403</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 29,348,303	\$ 967,941	\$ 31,601,138	\$ 206,823
Restricted for capital projects	-	-	939,561	-
Restricted for capital improvements	142,385	-	-	-
Restricted for debt service	10,637,250	-	-	-
Restricted for roads	124,274	-	-	-
Restricted for cemetery improvements	91,916	-	-	-
Restricted for city jail and court costs	35,125	-	-	-
Restricted for special revenue	-	-	79,092	-
Unrestricted	(21,275,917)	249,146	988,866	135,214
	<u>\$ 19,103,336</u>	<u>\$ 1,217,087</u>	<u>\$ 33,608,657</u>	<u>\$ 342,037</u>
	<u>\$ 69,153,984</u>	<u>\$ 5,893,441</u>	<u>\$ 35,919,999</u>	<u>\$ 354,440</u>

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

**City of Scottsboro, Alabama**  
**Statement of Activities**  
**For the Year Ended September 30, 2011**

Functions/programs	Expenses	Program Revenues			Net (expense) revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Public Park & Recreation Board	Scottsboro Board of Education	Public Library
Primary government								
Governmental activities								
General government	\$ (4,402,872)	\$ 1,178,078	\$ 6,402	\$ 1,419,744	\$ (1,798,648)			
Public Safety	(7,833,029)	936,613	11,927	430,000	(6,454,489)			
Streets	(3,063,739)	13,035	157,789	611,398	(2,281,517)			
Sanitation	(4,267,993)	2,910,198	-	-	(1,357,795)			
Recreation & culture	(1,534,109)	528,464	-	-	(1,005,645)			
Education (payments to school board)	(1,606,412)	-	-	-	(1,606,412)			
Interest on debt	(2,178,411)	-	-	-	(2,178,411)			
Total governmental activities	<u>\$ (24,886,565)</u>	<u>\$ 5,566,388</u>	<u>\$ 176,118</u>	<u>\$ 2,461,142</u>	<u>\$ (16,682,916)</u>			
<b>Total primary government</b>	<b><u>\$ (24,886,565)</u></b>	<b><u>\$ 5,566,388</u></b>	<b><u>\$ 176,118</u></b>	<b><u>\$ 2,461,142</u></b>	<b><u>\$ (16,682,916)</u></b>			
Component units								
Public Park & Recreation Board	\$ (2,892,377)	\$ 3,042,837	\$ -	\$ -	\$ -	\$ 150,460	\$ -	\$ -
Scottsboro Board of Education	(29,040,529)	1,577,015	19,192,332	1,810,452	-	-	(6,460,730)	-
Scottsboro Public Library	(313,236)	15,239	270,776	-	-	-	-	(27,221)
<b>Total component units</b>	<b><u>\$ (32,246,142)</u></b>	<b><u>\$ 4,635,091</u></b>	<b><u>\$ 19,463,108</u></b>	<b><u>\$ 1,810,452</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 150,460</u></b>	<b><u>\$ (6,460,730)</u></b>	<b><u>\$ (27,221)</u></b>
General revenues:								
Taxes								
Sales Taxes					\$ 9,560,466	\$ -	\$ 2,588,963	\$ -
Property Taxes, levied for general purposes, and payments in lieu of tax					3,063,050	-	2,052,179	-
Property Taxes, levied for debt service					2,198,792	-	-	-
Franchise Fees					225,175	-	-	-
Other Taxes					738,870	-	1,113,490	-
Total Taxes					<u>15,786,353</u>	<u>-</u>	<u>5,754,632</u>	<u>-</u>
Grants and contributions not restricted to specific purposes					203,609	-	626,392	-
Unrestricted investment earnings					235,127	2,574	55,023	-
Miscellaneous revenues					363,090	-	43,736	-
Gain on Sale of Capital Assets					233,719	-	9,434	-
Transfers					-	-	-	12,280
Special Item - Payments on Debt of Industrial Development Bd					-	-	-	-
Total general revenues, transfers and special items					<u>\$ 16,821,898</u>	<u>\$ 2,574</u>	<u>\$ 6,489,217</u>	<u>\$ 12,280</u>
					<u>\$ 138,982</u>	<u>\$ 153,034</u>	<u>\$ 28,487</u>	<u>\$ (14,941)</u>
					<b>Change in net assets</b>			
Net assets, beginning-as originally reported					\$ 19,004,250	\$ 1,064,053	\$ 33,580,170	\$ 356,978
Prior period adjustment					(39,896)	-	-	-
Net assets, beginning-as restated					<u>\$ 18,964,354</u>	<u>\$ 1,064,053</u>	<u>\$ 33,580,170</u>	<u>\$ 356,978</u>
Net assets, ending					<u>\$ 19,103,336</u>	<u>\$ 1,217,087</u>	<u>\$ 33,608,657</u>	<u>\$ 342,037</u>

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

**City of Scottsboro, Alabama**  
**Balance Sheet-Governmental Funds**  
**September 30, 2011**

	General Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 3,033,247	\$ -	\$ -	\$ -	\$ 3,033,247
Taxes receivable	1,994,491	-	1,895,813	24,865	3,915,169
Other receivables, net	626,603	42,491	-	-	669,094
Prepaid items	256,354	-	-	-	256,354
Due from Other Governmental Funds	165,779	31,918	346,265	-	543,962
Restricted cash and investments	663,187	9,289,142	5,263,069	458,241	15,673,639
Inventories	64,679	-	-	-	64,679
Due from other governmental units	11,580	-	-	-	11,580
Deposits	335	-	-	-	335
Note receivable	-	-	4,260,000	-	4,260,000
	<u>\$ 6,816,255</u>	<u>\$ 9,363,551</u>	<u>\$ 11,765,147</u>	<u>\$ 483,106</u>	<u>\$ 28,428,059</u>

<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 2,113,689	\$ 197,100	\$ -	\$ -	\$ 2,310,789
Due to Scottsboro Board of Education	-	-	431,412	-	431,412
Due to Other Governmental Funds	362,640	-	-	181,322	543,962
Public Park & Recreation Board Escrow	-	-	38,124	-	38,124
Deferred revenue	912,950	-	1,895,813	-	2,808,763
	<u>\$ 3,389,279</u>	<u>\$ 197,100</u>	<u>\$ 2,365,349</u>	<u>\$ 181,322</u>	<u>\$ 6,133,050</u>

<b>FUND BALANCE</b>					
Unspendable	\$ 192,483	\$ -	\$ 4,260,000	\$ -	\$ 4,452,483
Restricted for:					
Road Repairs and Maintenance	-	-	-	124,274	124,274
Capital Improvements	-	-	-	142,385	142,385
Capital projects	-	9,166,451	-	-	9,166,451
Jail and court expenses	-	-	-	35,125	35,125
Debt Service	-	-	5,139,798	-	5,139,798
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned					
General fund	3,234,493	-	-	-	3,234,493
	<u>\$ 3,426,976</u>	<u>\$ 9,166,451</u>	<u>\$ 9,399,798</u>	<u>\$ 301,784</u>	<u>\$ 22,295,009</u>
	<u>\$ 6,816,255</u>	<u>\$ 9,363,551</u>	<u>\$ 11,765,147</u>	<u>\$ 483,106</u>	

**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	\$ 40,213,465
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	2,804,351
Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the funds	(46,209,489)
<b>Net assets of governmental activities</b>	<u>\$ 19,103,336</u>

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

**City of Scottsboro, Alabama**  
**Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds**  
**For the Year Ended September 30, 2011**

	General Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes and payments in lieu of tax	\$ 13,595,750	\$ -	\$ 2,219,221	\$ -	\$ 15,814,971
Charges for services	3,390,469	-	-	-	3,390,469
Intergovernmental	481,469	-	-	248,649	730,119
Licenses & permits	904,524	-	-	-	904,524
Grant Income	786,276	1,213,554	-	-	1,999,830
Fees & fines	291,361	-	-	105,368	396,729
Investment earnings	105,070	1,140	119,585	9,337	235,132
Other Income	879,394	-	-	-	879,394
	<u>\$ 20,434,313</u>	<u>\$ 1,214,694</u>	<u>\$ 2,338,806</u>	<u>\$ 363,354</u>	<u>\$ 24,351,167</u>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 2,796,578	\$ -	\$ 8,601	\$ -	\$ 2,805,179
Public safety	6,962,724	-	-	114,569	7,077,293
Street	3,325,065	-	-	-	3,325,065
Sanitation & landfill	2,040,110	-	-	-	2,040,110
Recreation	1,331,869	-	-	-	1,331,869
Education	425,000	-	1,181,412	-	1,606,412
<b>Debt service</b>					
Principal	338,000	-	1,925,000	-	2,263,000
Interest	-	-	1,876,416	-	1,876,416
Capital projects construction and outlay	1,975,525	3,388,007	-	3,395	5,366,927
	<u>\$ 19,194,871</u>	<u>\$ 3,388,007</u>	<u>\$ 4,991,429</u>	<u>\$ 117,964</u>	<u>\$ 27,692,271</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,239,443</u>	<u>\$ (2,173,313)</u>	<u>\$ (2,652,623)</u>	<u>\$ 245,390</u>	<u>\$ (3,341,103)</u>
<b>Other financing sources/uses</b>					
Contribution from WSG Bd for CDBG Match	\$ -	\$ 112,128	\$ -	\$ -	\$ 112,128
Issuance of long-term debt-Refunding Bonds	5,230,000	7,428,500	-	-	12,658,500
Payment of Debt Issuance Costs	(96,559)	(182,420)	-	-	(278,979)
Transfer to Refd Bond Escrow Agent	(4,829,970)	-	-	-	(4,829,970)
Proceeds from sale of capital assets	251,577	-	-	-	251,577
Federal government interest subsidy	-	-	185,768	-	185,768
Principal and Interest payments received from Public Park & Rec Bd component Unit	-	-	173,198	-	173,198
Transfers from other funds	719,816	-	2,564,568	-	3,284,384
Transfers to other funds	(3,064,567)	(64,816)	-	(155,000)	(3,284,383)
	<u>\$ (1,789,703)</u>	<u>\$ 7,293,392</u>	<u>\$ 2,923,534</u>	<u>\$ (155,000)</u>	<u>\$ 8,272,223</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (550,260)</u>	<u>\$ 5,120,079</u>	<u>\$ 270,911</u>	<u>\$ 90,390</u>	<u>\$ 4,931,120</u>
<b>Fund balance, beginning of year-as originally reported</b>					
	3,878,581	4,046,227	9,128,887	350,089	17,403,784
Prior period adjustment	98,655	145	-	(138,695)	(39,895)
Fund balance, beginning of year-as restated	<u>3,977,236</u>	<u>4,046,372</u>	<u>9,128,887</u>	<u>211,394</u>	<u>17,363,889</u>
Fund balance, end of year	<u>\$ 3,426,976</u>	<u>\$ 9,166,451</u>	<u>\$ 9,399,798</u>	<u>\$ 301,784</u>	<u>\$ 22,295,009</u>

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



**City of Scottsboro, Alabama**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2011**

Net changes in fund balances - total governmental funds per	
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	\$ 4,931,120
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	
Capital outlays capitalized	5,849,749
Depreciation	(3,642,445)
<p>The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.</p>	
Issuance of debt	(12,658,500)
Payment of debt issuance costs	278,979
Transfer to refunded bonds escrow agent	4,829,970
Principal payments	2,263,000
<p>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 the governmental funds.</p>	
Increase in landfill closure and postclosure care cost accrual	(1,475,502)
Increase in OPEB liability accrual	(37,445)
Amortization of bond issue costs	(75,008)
Amortization of bond premiums/discounts	25,352
Amortization of loss on early retirement of debt	(47,565)
Increase in accrued interest payable	(204,774)
Decrease in accrued compensated absences liability	148,528
<p>Some revenues reported in the statement of activities do not provide current financial resources. Therefore, these revenues are deferred in the governmental funds.</p>	
Decrease in accrued taxes receivable	(28,619)
<p>Governmental funds report proceeds from the sale of assets as revenues or other financing sources. However, in the Statement of Activities, the original cost of the underlying assets sold, less the accumulated depreciation of the assets taken through the date of sale, reduces the sales proceeds to arrive at a gain or loss on sale. This is the amount by which sales proceeds exceeded the gain on sale of the assets.</p>	
Proceeds from sale of assets	(251,577)
Gain on sale of assets	233,719
	233,719
Change in net assets of governmental activities per Statement of Activities	\$ 138,982

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

**City of Scottsboro, Alabama**  
**Statement of Fiduciary Net Assets**  
**September 30, 2011**

Scottsboro Public Library  
A Component Unit

	Endowment Fund	Retirement Fund	Total
<b>ASSETS</b>			
Deposits			
General	\$ 42,647	\$ 24,765	\$ 67,412
Christine Jones Trust	78,208	-	78,208
Rudolph Jones Trust	5,313	-	5,313
Jane Hodges Foundation	70,023	-	70,023
Total Deposits	<u>\$ 196,191</u>	<u>\$ 24,765</u>	<u>\$ 220,956</u>
Investments			
Christine Jones Trust	\$ 22,918	\$ -	\$ 22,918
Rudolph Jones Trust	17,619	-	17,619
Retirement Fund	-	15,050	15,050
Total Investments	<u>\$ 40,537</u>	<u>\$ 15,050</u>	<u>\$ 55,587</u>
Total Assets	<u>\$ 236,728</u>	<u>\$ 39,815</u>	<u>\$ 276,543</u>
<b>NET ASSETS</b>			
Reserved for Investing	\$ 236,728	\$ -	\$ 236,728
Reserved for employee benefits	-	39,815	39,815
Total Net Assets	<u>\$ 236,728</u>	<u>\$ 39,815</u>	<u>\$ 276,543</u>

**City of Scottsboro, Alabama**  
**Statement of Changes in Fiduciary Net Assets**  
**September 30, 2011**

Scottsboro Public Library  
A Component Unit

	Endowment Fund	Retirement Fund	Total
<b>Additions</b>			
Program Revenue			
Interest	\$ 7,433	\$ 1,110	\$ 8,543
Investment Earnings			-
Net Decrease in Fair Value of Investments	1,536	1,050	2,586
Excess of Support and Revenue Over Expenses and Other Uses	<u>\$ 8,969</u>	<u>\$ 2,160</u>	<u>\$ 11,129</u>
<b>Other Financing Uses</b>			
Operating Transfers to Other Funds	\$ (10,155)	\$ (2,125)	\$ (12,280)
Net Assets at Beginning of Year	\$ 237,914	\$ 39,780	\$ 277,694
Net Assets at End of Year	<u>\$ 236,728</u>	<u>\$ 39,815</u>	<u>\$ 276,543</u>

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

# CITY OF SCOTTSBORO, ALABAMA

## Notes to Financial Statements September 30, 2011

---

### Note 1 – Summary of Significant Accounting Policies

#### Reporting Entity

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

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

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

- Scottsboro City Board of Education – The five members of the Board of Education are elected and are responsible for the general administration and supervision of the public schools within the City. The Board of Education is an agency of the State of Alabama under the general supervision and financial jurisdiction of the Alabama State Department of Education. The City is obligated in some manner for the debt of the Board of Education and receives sales tax revenue as part of several funding agreements with the Board of Education.

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

Scottsboro City Board of Education  
305 South Scott Street  
Scottsboro, Alabama 35768

- The Public Park and Recreation Board of the City of Scottsboro, Alabama – The Public Park and Recreation Board of the City of Scottsboro, Alabama (the “Board”) is organized and operates as a nonprofit corporation under the provisions of the State of Alabama Acts 1967, Ex. Sess., No. 128 and is exempt from income taxes and applicable provisions of the Internal Revenue Code and the Code of Alabama. The Board oversees Goose Pond Colony, a recreation and vacation facility located in Scottsboro, Alabama.

## CITY OF SCOTTSBORO, ALABAMA

### Notes to Financial Statements September 30, 2011

---

#### Note 1 - Summary of Significant Accounting Policies – continued

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

Public Park and Recreation Board  
c/o Scottsboro City Hall  
316 South Broad Street  
Scottsboro, Alabama 35768

- The Scottsboro Public Library (the Library) is a component unit of the City of Scottsboro, Alabama, due to the operational and financial relationship that exists between the two entities. The members of the Library's Board of Trustees are appointed by the City Council and the City provided approximately 60% of the Library's revenue for the year ended September 30, 2011.

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

Scottsboro Public Library  
1002 South Broad Street  
Scottsboro, Alabama 35768

#### Related Organizations

The City is also responsible for appointing a voting majority of the boards of other organizations, but the City's financial accountability for these organizations does not extend beyond making the appointments, or the financial resources and obligations of these organizations are immaterial. The City appointed a voting majority of the following boards: Scottsboro Electric Power Board, Scottsboro Water, Sewer and Gas Board, Scottsboro Housing Authority, The Scottsboro Industrial Development Board and others. These organizations are related organizations, which have not been included in the reporting entity.

#### **Government-Wide and Fund Financial Statements**

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City does not currently have any activities accounted for as *business-type activities*. In addition, the primary government is reported separately from component units.

# CITY OF SCOTTSBORO, ALABAMA

## Notes to Financial Statements September 30, 2011

---

### Note 1 - Summary of Significant Accounting Policies – continued

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

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

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when the related liability is incurred. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as they are both measurable and available. Revenue is considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

The **Debt Service Fund** accounts for the payment of principal and interest on long-term debt.

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

# CITY OF SCOTTSBORO, ALABAMA

## Notes to Financial Statements September 30, 2011

---

### Note 1 - Summary of Significant Accounting Policies – continued

Additionally, the City reports the following fund types:

The City's non-major **Special Revenue Funds** are used to account for resources that are legally restricted to expenditure for specific purposes, not including those accounted for in capital projects funds or debt service funds.

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

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.

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

### **Assets, Liabilities, and Net Assets or Equity**

#### Cash and Investments

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

#### Receivables and Payables

Activity between funds that are representative of lending and borrowing arrangements, as well as all other outstanding balances between funds at year-end, are referred to as either due to/from other funds.

All receivables are shown net of an allowance for uncollectable accounts, if applicable.

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

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

# CITY OF SCOTTSBORO, ALABAMA

## Notes to Financial Statements September 30, 2011

---

### Note 1 - Summary of Significant Accounting Policies – continued

#### Inventories and Prepaid Items

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

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

#### Deferred Charges

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

#### Capital Assets

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

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

Capital assets are defined by the City as assets with an estimated useful life in excess of one year and with an individual cost of at least \$500. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land	Not Depreciated
Construction in progress	Not Depreciated
Buildings	40 years
Improvements	10-30 years
Equipment	1-7 years
Infrastructure	20 years

#### Compensated Absences

City employees earn sick leave at the rate of one-half day per month of service for up to five years of service. After five years, one day per month is accumulated up to 190 days. Upon separation from service, all sick-leave is cancelled and is not transferable unless the employee meets service retirement qualifications. Employees retiring at age 60 with ten years, or twenty-five years of service regardless of age, are entitled to convert unused accrued sick leave to retirement credit.

# CITY OF SCOTTSBORO, ALABAMA

## Notes to Financial Statements September 30, 2011

---

### Note 1 – Summary of Significant Accounting Policies – continued

All full-time employees accumulate annual leave as follows:

After 12 months of service	5 days
2 to less than 10 years	10 days per year
10 to less than 16 years	15 days per year
16 to less than 18 years	18 days per year
More than 18 years	20 days per year

Permanent part-time employees receive annual leave proportional to hours worked to a 40-hour week. Only five days of accumulated leave may be carried forward. Employees accruing annual leave in excess of fifteen days have the option of applying the excess days to sick leave accrual toward retirement or receiving pay for qualified annual days in excess of fifteen days per calendar year up to a maximum paid of ten days. Accumulated leave is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City reports a liability in the government-wide statements only for the pay for qualified annual days in excess of fifteen days per calendar year.

#### Long-Term Obligations

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

#### Net Assets/Fund Equity

##### Government-wide Financial Statements

Net assets are reported in the government-wide financial statements and are classified into the following categories:

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

Invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those whose use by the City is subject to externally imposed stipulations that can be fulfilled by actions of the City or that expire with the passage of time. Unrestricted net assets are not subject to external restrictions but may be designated for specific purposes by the City's management or the City Council.



## CITY OF SCOTTSBORO, ALABAMA

### Notes to Financial Statements September 30, 2011

---

#### Note 1 – Summary of Significant Accounting Policies – continued Net Assets/Fund Equity (continued)

##### Fund Financial Statements

In the governmental fund financial statements, the City reports fund balances in categories based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in the government funds. Fund balance is classified into one of the following five categories:

- Nonspendable fund balance – consists of amounts that are not in a spendable form or are required to be intact.
- Restricted fund balance – consists of fund balances with constraints placed on their use by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) the City's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance – consists of fund balances that are useable only for specific purposes by formal action (the passing of an ordinance) of the government's highest level of decision making authority, which is the City Council.
- Assigned fund balance – consists of fund balances that are intended to be used for specific purposes but are neither restricted nor committed. Intent is expressed by 1) the governing body itself, or 2) a subordinate high-level body or official which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance – all other fund balances that do not meet the definition of nonspendable, restricted, committed, or assigned fund balances.

The City considers restricted fund balances to have been spent when both restricted and unrestricted fund balances are available. Also, the City considers assigned and committed fund balances to have been spent when unassigned or unrestricted amounts are available.

##### Subsequent Events

The City of Scottsboro, Alabama, has evaluated subsequent events through September 20, 2012, the date these financial statements were available to be issued. See Note 14.

##### Reclassifications

Certain accounts in the prior year financial statements have been reclassified for presentation in the current year financial statements.

# CITY OF SCOTTSBORO, ALABAMA

## Notes to Financial Statements September 30, 2011

---

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

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

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

Long-term debt	\$ (44,265,500)
Less: Deferred charge for issuance costs (to be amortized over the life of the debt)	1,056,438
Less: Deferred loss on early retirement of debt, net of amortization	598,832
Issuance discounts and premiums (to be amortized as interest expense)	(286,232)
Due to State of Alabama HUD Section 108 Loan	(255,000)
Compensated Absences	(5,065)
Accrued interest payable	(658,357)
Landfill closure and post-closure care	(2,226,607)
Net OPEB Obligation	<u>(167,998)</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets-governmental activities	<u>\$ (46,209,489)</u>

### Note 3 – Stewardship, Compliance, and Accountability

#### Budgetary Information

The City follows these procedures in adopting its annual budgets:

1. The City adopts a formal budget, annually, as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds and capital project funds because effective budgeting control is achieved through approved transfers to other funds, grant agreements, and contracts. Also, formal budgetary integration is not employed for the Debt Service Fund, other than through budgeting within the General Fund through operating transfers, because effective budgetary control is achieved through general obligation bond indenture provisions and the General Fund budgeted transfers. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP), with some exceptions.
2. The Mayor is responsible for preparing the General Fund budget for the coming fiscal year. The budget is then legally adopted through the passage of a resolution. The Mayor is authorized to transfer budgeted amounts between funds; however, any unbudgeted transfers between funds must be approved by the City Council.
3. Budgeted amounts are as originally adopted, or as amended by the city Council during the year.

## CITY OF SCOTTSBORO, ALABAMA

### Notes to Financial Statements September 30, 2011

---

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

##### Deficit Fund Balance

At September 30, 2011, no fund had a deficit fund balance.

#### Note 4 – Deposits and Investments

##### Custodial Credit Risk

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

The City's deposits, including certificates of deposit, were fully insured or collateralized as required by state statutes at September 30, 2011.

At September 30, 2011, the entire bank balances of the City's component units, the Scottsboro City Board of Education, the Scottsboro Public Library, and the Public Park and Recreation Board of the City of Scottsboro, were fully covered by federal depository insurance or the SAFE Program.

##### Interest Rate Risk

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

##### Restrictions

Assets held in the Debt Service Funds are considered restricted in accordance with applicable trust indentures. Assets in the Capital Projects Fund are considered restricted for approved projects. Assets in the Gas Tax Funds are restricted for street construction, repairs, and maintenance.

##### Investments

Investments of the component unit Scottsboro Public Library' fiduciary fund at September 30, 2011, consisted of mortgage-backed debt securities with fair values totaling \$55,586. The cost of these investments was \$53,000. Of these investments, \$29,751 was invested in securities having a rating of AAA (Moody's) and \$10,785 in securities having a rating of AAA (Standard and Poors). These investments are reported in the Statement of Fiduciary Net Assets under "Investments".

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements  
September 30, 2011**

**Note 5 – Receivables**

Receivables of the City’s governmental funds and component units in the aggregate were as follows at year-end:

	Primary Government	Park & Rec Board	Board of Education
Taxes receivable	\$ 2,019,356	\$ 0	\$ 0
Accounts receivable	681,091	97,182	13,451
Intergovernmental receivables	0	113,664	1,854,652
Net receivables	<u>\$2,700,447</u>	<u>\$ 210,846</u>	<u>\$ 1,868,103</u>

The City reports revenue net of uncollectible amounts. The component units do not have significant uncollectible receivables; therefore, no allowance is reported.

Mortgage Note Receivable

The City holds mortgage notes from the Public Park and Recreation Board with a balance of \$4,260,000 as of September 30, 2011. The debt is secured by the Board’s real estate assets. The original mortgage was executed in 1998 and amended in 1999 and 2005 as prior debt was refunded and new debt was incurred.

**Note 6 – Capital Assets**

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

	Balance September 30, 2010	Additions/ Completions	Retirements Adjustments	Balance September 30, 2011
Capital assets not being depreciated				
Land	\$ 4,222,561	\$ 7,700	\$ -	\$ 4,230,261
Construction in progress	61,182	3,256,730	-	3,317,912
Total capital assets not being depreciated	<u>4,283,743</u>	<u>3,264,430</u>	<u>-</u>	<u>7,548,173</u>
Capital assets being depreciated				
Buildings and capital facilities	20,756,460	812	-	20,757,272
Equipment and improvements	18,275,606	2,311,780	(815,032)	19,772,354
Infrastructure	41,706,860	291,546	-	41,998,406
Total capital assets being depreciated	<u>80,738,926</u>	<u>2,604,138</u>	<u>(815,032)</u>	<u>82,528,032</u>
Less accumulated depreciation				
Buildings and capital facilities	5,277,266	834,082	-	6,111,348
Equipment and improvements	12,201,836	1,276,044	(780,175)	12,697,705
Infrastructure	31,153,193	1,532,320	-	32,685,513
Total accumulated depreciation	<u>48,632,295</u>	<u>3,642,446</u>	<u>(780,175)</u>	<u>51,494,566</u>
Total capital assets being depreciated, net	<u>32,106,631</u>	<u>(1,038,308)</u>	<u>(34,857)</u>	<u>31,033,466</u>
Total capital assets, net	<u>\$ 36,390,374</u>	<u>\$ 2,226,122</u>	<u>\$ (34,857)</u>	<u>\$ 38,581,639</u>

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements  
September 30, 2011**

---

**Note 6 – Capital Assets – continued**

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

General government	\$ 1,477,057
Public safety	798,038
Streets	207,924
Sanitation and landfill	774,274
Culture and recreation	385,152
Total depreciation expense-governmental activities	<u>\$ 3,642,445</u>

**Construction Commitments:**

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

<u>Project</u>	<u>Incurred Spent-to-Date</u>	<u>Remaining Commitment</u>
Soccer fields	\$ 136,286	\$ 62,271
Sewer upgrades for industrial park	539,420	35,850
	<u>\$ 675,706</u>	<u>\$ 98,121</u>

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements  
September 30, 2011**

**Note 6 – Capital Assets – continued**

**Discretely Presented Component Units:**

**Public Park & Recreation Board**

	Balance <u>9/30/10</u>	Increase <u>(Decrease)</u>	Retirements/ <u>Reclassifications</u>	Balance <u>9/30/11</u>
Governmental activities				
Capital assets not being depreciated				
Land and land improvements	\$ 2,081,712	\$ 0	\$ 0	\$ 2,081,712
Construction in progress	65,018	0	(65,018)	0
Total capital assets not being depreciated	<u>2,146,730</u>	<u>0</u>	<u>(65,018)</u>	<u>2,081,712</u>
Other capital assets				
Buildings and improvements	8,059,916	208,706	0	8,268,622
Furniture and equipment	1,346,654	20,597	0	1,367,251
Total capital assets being depreciated	<u>9,406,570</u>	<u>229,303</u>	<u>0</u>	<u>9,635,873</u>
Less accumulated depreciation	<u>6,269,105</u>	<u>314,992</u>	<u>0</u>	<u>6,584,097</u>
Total capital assets being depreciated, net	<u>3,137,465</u>	<u>(85,689)</u>	<u>0</u>	<u>3,051,776</u>
Total governmental activities capital assets, net	<u>\$ 5,284,195</u>	<u>\$ (85,689)</u>	<u>\$ (65,018)</u>	<u>\$ 5,133,488</u>

**Scottsboro Public Library**

	Balance <u>9/30/10</u>	Increase <u>(Decrease)</u>	Retirements/ <u>Reclassifications</u>	Balance <u>9/30/11</u>
Governmental activities				
Capital assets being depreciated				
Leasehold improvements	\$ 122,720	\$ 0	\$ 0	\$ 122,720
Books and audio visual materials	201,543	19,528	0	221,071
Furniture and equipment	193,946	3,030	0	196,976
Total capital assets being depreciated	<u>518,209</u>	<u>22,558</u>	<u>0</u>	<u>540,767</u>
Less accumulated depreciation	<u>295,715</u>	<u>38,229</u>	<u>0</u>	<u>333,944</u>
Total governmental activities capital assets, net	<u>\$ 222,494</u>	<u>\$ (15,671)</u>	<u>\$ 0</u>	<u>\$ 206,823</u>

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements  
September 30, 2011**

**Note 6 – Capital Assets – continued**

**Scottsboro Board of Education**

	<u>Balance 9/30/2010</u>	<u>Increase (Decrease)</u>	<u>Retirements/ Reclassifications</u>	<u>Balance 9/30/2011</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,117,300	\$ 0	\$ 0	\$ 1,117,300
Construction in progress	132,985	289,919	(150,939)	271,965
Total capital assets not being depreciated	<u>1,250,285</u>	<u>289,919</u>	<u>(150,939)</u>	<u>1,389,265</u>
Other capital assets				
Land improvements	2,306,679	0	0	2,306,679
Buildings and improvements	37,579,452	169,540	150,939	37,899,931
Furniture and equipment	4,342,033	45,674	(24,265)	4,363,442
Vehicles	2,636,966	321,819	(113,750)	2,845,035
Total capital assets being depreciated	<u>46,865,130</u>	<u>537,033</u>	<u>12,924</u>	<u>47,415,087</u>
Less accumulated depreciation				
Land improvements	1,375,862	90,519	0	1,466,381
Buildings and improvements	9,293,637	742,694	0	10,036,331
Furniture and equipment	3,074,871	420,683	(19,505)	3,476,049
Vehicles	2,160,591	168,270	(104,408)	2,224,453
Total accumulated depreciation	<u>15,904,961</u>	<u>1,422,166</u>	<u>(123,913)</u>	<u>17,203,214</u>
Total capital assets being depreciated, net	<u>30,960,169</u>	<u>(885,133)</u>	<u>136,837</u>	<u>30,211,873</u>
Total governmental activities capital assets, net	<u>\$ 32,210,454</u>	<u>\$ (595,214)</u>	<u>\$ (14,102)</u>	<u>\$ 31,601,138</u>
Depreciation expense was charged to governmental functions as follows:				
Governmental activities				
Instructional services		\$ 779,182		
Instructional support services		245,490		
Operation and maintenance		34,316		
Auxiliary services		257,264		
General administrative services		105,914		
Total governmental activities depreciation expense		<u>\$ 1,422,166</u>		

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements  
September 30, 2011**

**Note 7 – Interfund Receivables, Payables and Transfers**

The following is a detailed listing of interfund balances at year-end and transfers during the year:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
<u>Due to/From Other Funds</u>		
General	\$ 165,779	\$ 362,640
Debt service	346,265	-
Capital projects	31,918	
Non-major governmental funds	-	181,322
	<u>543,962</u>	<u>543,962</u>
Total Due To/From Other Funds	<u>\$ 543,962</u>	<u>\$ 543,962</u>
	<u>Purpose</u>	<u>Total</u>
<u>Transferred From General Fund - Transfers To</u>		
Debt service fund	Debt service	\$ 2,564,568
<u>Transferred From Debt Service Fund - Transfers To</u>		
General Fund	Debt service	\$ 500,000
<u>Transferred From Capital Projects Fund - Transfers To</u>		
General Fund	Reimbursement	64,816
<u>Transferred From Nonmajor Fund - Transfers To</u>		
General Fund	Operations	<u>155,000</u>
Total		<u>\$ 3,284,384</u>



# CITY OF SCOTTSBORO, ALABAMA

## Notes to Financial Statements September 30, 2011

---

### Note 8 – Intra-Entity Receivables and Payables

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

#### Due To Component Units

The City earns interest on funds deposited in the various escrow and debt service accounts held for the Public Parks and Recreation Board. When the remaining debt is paid off, any earned interest is to be refunded to the Board. The cumulative total of this interest is \$38,124.

\$ 38,124

Total due to Public Park and Recreation Board

38,124

Under a funding agreement that requires debt service to be paid on the Series 1997-B and 2004-A school warrants from sales taxes levied, the City collects tax revenue and returns a portion of the proceeds not used for debt service to the Scottsboro City Board of Education. Tax revenue in excess of debt service requirements as of September 30, 2011 was \$431,412. Additional amounts are appropriations payable to the School system.

856,412

Total due to Scottsboro City Board of Education

856,412

Total Due To Component Units

\$ 894,536

### Note 9 – Long-term Liabilities

#### General Obligation Warrants and Notes Payable

The City issues long-term warrants to provide funds for the acquisition and construction of major capital facilities. The warrants have been issued for governmental activities. The City is in compliance with all significant limitations and restrictions contained in the advances authorizing the issuance of the warrants. General obligation debt represents direct obligations and pledges the full faith and credit of the City. These warrants are generally issued as serial warrants with varying amounts of principal maturing each year. Compensated absence liabilities of governmental activities typically have been liquidated from the general fund in prior years.

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements  
September 30, 2011**

---

**Note 9 – Long-term Liabilities (continued)**

**Governmental Activities:**

**General Obligation (GO) Warrants**

GO Warrants dated May 1, 2002, are due in annual principal installments ranging from \$240,000 to \$1,340,000 through May 1, 2022, with interest payable semi-annually at rates varying from 2.00 percent to 5.10 percent	\$ 1,000,000
GO Warrants date May 1, 2005, are due in annual principal installments ranging from \$50,000 to \$435,000 through June 1, 2023, with interest payable semi-annually at rates varying from 2.90 percent to 4.20 percent	4,260,000
GO Warrants dated November 1, 2009, are due in annual principal installments ranging from \$205,000 to \$335,000 through August 1, 2019, with interest payable semi-annually at fixed rates from 3.00 percent to 4.00 percent	2,940,000
GO Warrants Recovery Zone Economic Development Bonds dated July 1, 2010, are due in annual principal installments beginning July 1, 2023, and ranging from \$175,000 to \$300,000 through July 1, 2040, with interest payable semi-annually at fixed rates from 5.5 percent to 6.375 percent (weighted average interest rate is 6.1215%).	4,145,000
GO Warrants Recovery Zone Economic Development Bonds dated November 1, 2010, are due in annual principal installments beginning November 1, 2023, and ranging from \$270,000 to \$475,000 through November 1, 2040, with interest payable semi-annually at fixed rates from 5.3 percent to 6.40 percent (weighted average interest rate is 6.0626%).	6,500,000
GO Warrants dated May 1, 2011, are due in annual principal installments beginning May 1, 2012 ranging from \$115,000 to \$575,000 through May 1, 2022, with interest payable semi-annually at fixed rates from 2.00 percent to 3.25 percent (weighted average interest rate is 2.47%).	5,230,000
<b>TOTAL GENERAL OBLIGATION WARRANTS</b>	<b><u>24,075,000</u></b>

**General Obligation School Warrants**

GO School Warrants dated March 15, 2004, are due in annual principal installments ranging from \$595,000 to \$910,000 through July 1, 2028, with interest payable semi-annually at rates varying from 2.00 percent to 4.50 percent	17,345,000
GO School Warrants dated November 1, 2009 are due in annual principal installments ranging from \$140,000 to \$215,000 through August 1 2024 , with interest payable semi-annually at rates varying from 3.00 percent to 4.125 percent	2,255,000
<b>TOTAL GENERAL OBLIGATION SCHOOL WARRANTS</b>	<b><u>19,600,000</u></b>

**Notes Payable**

Note Payable to a local bank dated due in monthly installments of \$ , including interest at an annual rate of % through . No collateral is pledged for this note payable.	590,500
<b>Total long-term debt</b>	<b><u><u>\$ 44,265,500</u></u></b>

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements  
September 30, 2011**

**Note 9 – Long-term Liabilities – continued**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due in More Than One Year
<b>Governmental Activities</b>						
General Obligation Warrants, Series 2005-A	\$ 4,540,000	\$ 0	\$ (280,000)	\$ 4,260,000	\$ 290,000	\$ 3,970,000
General Obligation Warrants, Series 2004-A	18,040,000	0	(695,000)	17,345,000	715,000	16,630,000
General Obligation Warrants, Series 2002	5,560,000	0	(4,560,000)	1,000,000	0	1,000,000
General Obligation School Warrants, Series 2009-A	2,395,000	0	(140,000)	2,255,000	140,000	2,115,000
General Obligation Warrants, Series 2009-B	3,750,000	0	(810,000)	2,940,000	795,000	2,145,000
General Obligation Warrants, RZEDB Series 2010-A	4,145,000	0	0	4,145,000	0	4,145,000
General Obligation Warrants, RZEDB Series 2010-B	0	6,500,000	0	6,500,000	0	6,500,000
General Obligation Warrants, Series 2011	0	5,230,000	0	5,230,000	115,000	5,115,000
Note Payable	0	928,500	(338,000)	590,500	145,843	444,657
Less deferred amounts						
For issuance discounts	(73,242)	(10,837)	5,987	(78,092)	0	(78,092)
Plus deferred amounts						
For issuance premiums	395,649	0	(31,338)	364,311	0	364,311
Total General Obligation Warrants	38,752,407	12,647,663	(6,848,351)	44,551,719	2,200,843	42,350,876
Deferred Loss on Early Retirement of De	(268,901)	(377,497)	47,565	(598,833)	0	(598,833)
Due to State of Alabama HUD Sec 108	255,000	0	0	255,000	0	255,000
Landfill closure liability	751,104	1,475,502	0	2,226,606	0	2,226,606
Net OPEB Obligation	130,554	37,445	0	167,999	0	167,999
Compensated absences	338,954	0	(106,425)	232,529	227,464	5,065
Governmental activities long-term liabilities	<u>\$ 39,959,118</u>	<u>\$ 13,783,113</u>	<u>\$ (6,907,211)</u>	<u>\$ 46,835,020</u>	<u>\$ 2,428,307</u>	<u>\$ 44,406,713</u>

**Debt Covenants and Continuing Disclosure**

The City is required under various Continuing Disclosure Agreements (“CDAs”) made at the time of its various debt issues. Among the requirements in these CDAs is the requirement to provide to the required repository a copy of the City’s annual report within 180 days of year end. The City has not complied with this requirement.

## CITY OF SCOTTSBORO, ALABAMA

### Notes to Financial Statements September 30, 2011

---

#### Note 9 – Long-term Liabilities – continued

During the year, the City issued its General Obligation Warrants, Series 2011, the proceeds of which were used to advance refund a portion (\$4,560,000) of the General Obligation Warrants, Series 2002 and to fund various improvements and equipment (approximately \$300,000). As a result of the refunding, the City decreased its debt service requirements on the new debt as compared to the refunded debt by \$2,322, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$8,233.

Also during the year, the City issued its General Obligation Warrants, Recovery Zone Economic Development Bonds (RZEDB), Series 2010B, the proceeds of which will be used to construct an access road along a portion of U.S. Highway 72. 45% of the interest payments for this debt issue may be paid by the federal government as long as certain requirements are met by the City.

Also during the year, the City issued a Note Payable for \$1,250,000 to a local bank, the proceeds of which were used construct the gas monitoring and collection system at the City's landfill. \$928,500 was borrowed under this note and principal payments of \$338,000 were made during the year. The note is payable in monthly installments of \$20,833, including interest at a variable rate of interest of LIBOR plus 1.518 percentage points (minimum interest rate of 2.45%), beginning January, 2012, with a final payment due December, 2015.

#### Guarantees of Loans

The City is responsible for appointing a voting majority of the board of the Industrial Development Board of the City of Scottsboro. The City is also guarantor on two loans in the name of the Industrial Development Board; a note payable to First Southern State Bank and a mortgage note payable to North Jackson Bank. The balance of each of these two loans at September 30, 2011, was \$755,007 and \$3,814,913, respectively.

#### Landfill Closure and Post-Closure Care Cost

State and federal laws and regulations require the City to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty-five years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as an operating expense on government-wide financial statements in each period based on landfill capacity used as of fiscal year-end. The \$2,226,607 reported as landfill closure and post-closure care liability at September 30, 2011, represents the cumulative amount reported to date, based on closed portions, the use of 100 percent of the estimated capacity of Cell 1 and 44 percent of the estimated capacity of Cell 2. The City will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacity of the site is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2011. The City closed Cell 1 in the year 2007 and expects to close Cell 2 in approximately 2019. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City met the Environmental Protection Agency's ("EPA") regulations regarding financial assurance provisions through the Local Government Financial Test as of September 30, 2011.

CITY OF SCOTTSBORO, ALABAMA

Notes to Financial Statements  
September 30, 2011

Note 9 – Long-term Liabilities – continued

The following schedule shows debt service to maturity for general obligation warrants, special obligation bonds and note payable outstanding at September 30, 2011:

Governmental Activities	Total	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	2032-2036	2037-2041
<b>GOW, Series 2002</b>											
Principal	\$ 1,000,000	\$ -	\$ 80,000	\$ 85,000	\$ 90,000	\$ 95,000	\$ 530,000	\$ 120,000	\$ -	\$ -	\$ -
Interest	0								0	0	0
<b>Total</b>	<b>1,000,000</b>	<b>0</b>	<b>80,000</b>	<b>85,000</b>	<b>90,000</b>	<b>95,000</b>	<b>530,000</b>	<b>120,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Sch Warrants Series 2004A</b>											
Principal	17,345,000	715,000	735,000	760,000	790,000	830,000	4,770,000	5,970,000	2,775,000	0	0
Interest	7,830,835	747,366	723,686	697,752	669,628	639,042	2,651,300	1,504,327	197,734	0	0
<b>Total</b>	<b>25,175,835</b>	<b>1,462,366</b>	<b>1,458,686</b>	<b>1,457,752</b>	<b>1,459,628</b>	<b>1,469,042</b>	<b>7,421,300</b>	<b>7,474,327</b>	<b>2,972,734</b>	<b>0</b>	<b>0</b>
<b>GOW, Series 2005</b>											
Principal	4,260,000	290,000	295,000	310,000	320,000	335,000	1,855,000	855,000	0	0	0
Interest	1,179,401	164,658	154,943	144,765	133,760	121,920	405,595	53,760	0	0	0
<b>Total</b>	<b>5,439,401</b>	<b>454,658</b>	<b>449,943</b>	<b>454,765</b>	<b>453,760</b>	<b>456,920</b>	<b>2,260,595</b>	<b>908,760</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Sch Warrants Series 2009A</b>											
Principal	2,255,000	140,000	145,000	150,000	155,000	160,000	885,000	620,000	0	0	0
Interest	632,617	79,868	75,668	71,318	66,818	62,168	226,020	50,757	0	0	0
<b>Total</b>	<b>2,887,617</b>	<b>219,868</b>	<b>220,668</b>	<b>221,318</b>	<b>221,818</b>	<b>222,168</b>	<b>1,111,020</b>	<b>670,757</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GOW, Series 2009B</b>											
Principal	2,940,000	795,000	305,000	280,000	290,000	300,000	970,000	0	0	0	0
Interest**	421,655	98,305	74,425	65,275	56,875	48,175	78,600	0	0	0	0
<b>Total</b>	<b>3,361,655</b>	<b>893,305</b>	<b>379,425</b>	<b>345,275</b>	<b>346,875</b>	<b>348,175</b>	<b>1,048,600</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GOW, RZEDB Series 2010A</b>											
Principal	4,145,000	0	0	0	0	0	0	730,000	1,040,000	1,235,000	1,140,000
Interest**	5,483,994	253,736	253,736	253,736	253,736	253,736	1,268,680	1,209,830	946,940	604,988	184,876
<b>Total</b>	<b>9,628,994</b>	<b>253,736</b>	<b>253,736</b>	<b>253,736</b>	<b>253,736</b>	<b>253,736</b>	<b>1,268,680</b>	<b>1,939,830</b>	<b>1,986,940</b>	<b>1,839,988</b>	<b>1,324,876</b>
<b>GOW, RZEDB Series 2010B</b>											
Principal	6,500,000	0	0	0	0	0	0	1,130,000	1,630,000	1,935,000	1,805,000
Interest**	8,747,955	394,070	394,070	394,070	394,070	394,070	1,970,350	1,904,763	1,529,372	1,008,000	365,120
<b>Total</b>	<b>15,247,955</b>	<b>394,070</b>	<b>394,070</b>	<b>394,070</b>	<b>394,070</b>	<b>394,070</b>	<b>1,970,350</b>	<b>3,034,763</b>	<b>3,159,372</b>	<b>2,943,000</b>	<b>2,170,120</b>
<b>GOW, Series 2011</b>											
Principal	5,230,000	115,000	465,000	470,000	480,000	490,000	2,635,000	575,000	0	0	0
Interest	899,524	108,785	126,950	117,650	108,250	98,650	320,551	18,688	0	0	0
<b>Total</b>	<b>6,129,524</b>	<b>223,785</b>	<b>591,950</b>	<b>587,650</b>	<b>588,250</b>	<b>588,650</b>	<b>2,955,551</b>	<b>593,688</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Bank Note Payable</b>											
Principal	590,500	145,833	250,000	194,667	0	0	0	0	0	0	0
Interest	22,910	12,681	7,840	2,389	0	0	0	0	0	0	0
<b>Total</b>	<b>613,410</b>	<b>158,514</b>	<b>257,840</b>	<b>197,056</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>HUD Section 108 Loan</b>											
Principal	255,000	255,000	0	0	0	0	0	0	0	0	0
Interest	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>255,000</b>	<b>255,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Governmental Activities</b>											
Principal	44,520,500	2,455,833	2,275,000	2,249,667	2,125,000	2,210,000	11,645,000	10,000,000	5,445,000	3,170,000	2,945,000
Interest	25,218,891	1,859,469	1,811,318	1,746,955	1,683,137	1,617,761	6,921,096	4,742,125	2,674,046	1,612,988	549,996
<b>Total</b>	<b>69,739,391</b>	<b>\$ 4,315,302</b>	<b>4,086,318</b>	<b>3,996,622</b>	<b>3,808,137</b>	<b>3,827,761</b>	<b>18,566,096</b>	<b>14,742,125</b>	<b>8,119,046</b>	<b>4,782,988</b>	<b>3,494,996</b>

\*Interest is calculated on an assumed average annual interest rate of 3.75%.

\*\* The City may receive a reimbursement of 45% of each interest payment from the Federal government if all requirements are met.

## **CITY OF SCOTTSBORO, ALABAMA**

### **Notes to Financial Statements September 30, 2011**

---

#### **Note 9 – Long-term Liabilities – continued**

##### Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses and injuries to employees; and natural disasters. The City's risk management activities consist primarily of risk transfer through the purchase of commercial insurance for all major programs. There were no significant reductions in insurance coverage or for uninsured risks for the current year or prior three years.

For legal claims and lawsuits, the State of Alabama prescribes maximum limits of liability for local government units. These limits are presently \$100,000 for bodily injury or death for one person in any single occurrence and \$300,000 for two or more persons in a single occurrence. The limit for property damage is \$100,000 per single occurrence.

The City participates in the Municipal Workers Compensation Fund to provide risk coverage for injuries to employees. The fund is considered a public entity risk pool operating common risk management and insurance programs for member local governments. The Alabama League of Municipalities administers the risk pool. As part of this risk pool, the Board is obligated to pay all contributions and assessments as prescribed by the pool and to cooperate with the pool's attorneys. The pool agrees to represent the Board in the event of a claim and to pay reasonable claims. Premium rates are adjusted retrospectively and are accrued based on the ultimate cost of the experience to date of a group of entities.

The liabilities for employee medical and workers' compensation claims are reported when it is probable that a loss has occurred. The liabilities for other legal claims (e.g. settlements of lawsuits against the City) are not reported as a fund liability until they become due and payable because they are paid from the general fund. The government-wide statement of net assets includes all liabilities for claims and judgments, if any, as part of long-term liabilities.

#### **Note 10 – Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received but not yet earned. At September 30, 2010, deferred revenue reported in the governmental funds included \$908,538 deferred in the general fund for property taxes receivable (unavailable) and \$1,895,813 deferred in the debt service fund for property taxes receivable (unavailable).

#### **Note 11 – Commitments and Contingencies**

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

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

# CITY OF SCOTTSBORO, ALABAMA

## Notes to Financial Statements September 30, 2011

---

### Note 12 – Pension Funds

#### Plan Description:

The City participates in a defined benefit pension plan administered by the Employees' Retirement System of Alabama. The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The ERSA is an agent multiple-employer pension plan. The benefit provisions and all other requirements are established by state statute.

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

#### Funding Policy:

For the fiscal year 2011, the member contribution rate for state correctional officers, certified full-time firefighters, and certified full-time law enforcement officers remains at 6% of the employee's compensation. Regular member contributions remain at 5% of employee compensation. The City is required to contribute at an actuarially determined rate, which for fiscal year 2011 was 13.47% of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by the ERSA Board of Control.

#### Annual Pension Cost:

For 2010, the City's annual pension cost of \$1,014,020 for the System was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2010, actuarial valuation using the entry age actuarial cost method. The City funds this through monthly contributions based upon payroll.

#### Actuarial Valuation Information:

Valuation date	9/30/2010
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.00%
Projected salary increases *	4.61% - 7.75%
* Includes inflation at	4.50%
Cost-of-living adjustments	None

#### Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u> <u>(APC)</u>	<u>APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2008	\$ 909,928	100%	-
9/30/2009	997,379	100%	-
9/30/2010	1,014,020	100%	-

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements**

**September 30, 2011**

**Note 13 – Other Post-Employment Benefits**

*Plan Description.* The City of Scottsboro provides its qualifying retirees healthcare insurance coverage under a single-employer defined benefit healthcare plan (“the Plan”) administered by the Blue Cross/Blue Shield of Alabama. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses, but retired participants are responsible for paying the full cost of the coverage. Retirees are eligible for coverage at normal retirement – At age 60 with 10 years of service, or upon early retirement – at any age with 25 years of service. Spouses of retiring members are also eligible for health benefits under the plan, however they are responsible for the full cost of coverage. The Plan does not issue stand-alone financial statements.

*Funding Policy.* The contribution requirements of plan members and the City are established by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011, the City contributed \$108,225 to the plan, all of which was for current premiums. Plan members receiving benefits contributed \$108,225, or approximately 100% percent of the total premiums, through their required contribution of \$392 per month for retiree-only and \$653 for spouse medical and prescription drug coverage and \$16 per month for retiree-only and \$38 for spouse dental coverage.

*Annual OPEB Cost and Net OPEB Obligation.* The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of U.S. generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation to the Plan:

**Determination of Annual Required Contribution**

Normal cost at fiscal year end	\$ 58,111
Amortization of UAAL	89,887
Annual required contribution	<u>\$147,998</u>

**Determination of Net OPEB Obligation**

Annual required contribution	\$147,998
Contributions made	<u>(108,225)</u>
Increase in net OPEB obligation	37,445
Net OPEB obligation—beginning of year	<u>130,554</u>
Net OPEB obligation—end of year	<u><u>\$167,999</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows (dollar amounts in thousands):

<b><u>Fiscal Year Ended</u></b>	<b><u>Annual OPEB Cost</u></b>	<b><u>Percentage of Annual OPEB Cost Contributed</u></b>	<b><u>Net OPEB Obligation</u></b>
9/30/2009	\$141,535	53.88%	\$65,277
9/30/2010	\$141,535	53.88%	\$130,554
9/30/2011	\$141,535	74.29%	\$167,999



## CITY OF SCOTTSBORO, ALABAMA

### Notes to Financial Statements

September 30, 2011

---

#### Note 13 – Other Post Employment Benefits (continued)

*Funded Status and Funding Progress.* As of October 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$1,554,323, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,554,323.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2010, actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent discount rate for valuing liabilities, which assumes the City will not fund the actuarial accrued liability and which represents a reasonable estimate of the investment rate of return of short-term pooled funds, and an inflation rate for medical and pharmacy costs and retiree premiums of 6.90 percent initially, reduced by decrements to an ultimate rate of 4.70 percent after eighty-one years. The UAAL is being amortized over a period of thirty years assuming thirty level annual payments.

#### Note 14 – Subsequent Events

Management reviewed subsequent events through September 20, 2012, the date these financial statements were available to be issued. Subsequent to year end, the City issued its General Obligation Warrants – Series 2012 in the amount of \$10,575,000. The proceeds of this issue will be used to 1) refund, on a current basis, the City's remaining \$1,000,000 outstanding General Obligation Warrants, Series 2002; 2) refund, on a current basis, certain of the City's General Obligation School Warrants, Series 2004-A aggregating \$5,880,000 in principal amount; 3) finance the costs of providing and acquiring various capital improvements to the public schools within the City, including a new field house at Scottsboro High School; and 4) pay the costs of the issuance. Contemporaneously with the issuance of the warrants, the City and the Scottsboro City Board of Education entered into a funding agreement whereby the school board agreed to remit to the City the net proceeds of a one-cent sales or use tax levied for public school purposes by the Jackson County Commission. The City intends to use the proceeds from this funding agreement to offset a portion of its debt service obligations, including the 2012 warrants. Principal redemptions of these warrants will begin in the year 2013 and will continue through 2033, in amounts ranging between \$280,000 in 2013 and \$1,400,000 in 2032. The warrants bear interest at fixed annual rates of interest ranging between 2.00% and 5.00%. Payments of interest will be payable each January 1 and July 1, beginning January 1, 2013.

**CITY OF SCOTTSBORO, ALABAMA**

**Notes to Financial Statements  
September 30, 2011**

---

**Note 14 – Subsequent Events (continued)**

Also after year end, the City signed a contract with the Federal Emergency Management Agency for a grant to partially fund the removal of homes damaged in a flood during 2011. The total cost of the project is expected to be \$724,488, with the federal grant portion being \$543,366 and the City’s share being \$181,122.

Additionally, subsequent to year end, the City entered into a grant agreement with the Federal Aviation Administration to assist in funding the acquisition of land for airport improvements. The amount of the grant is 90% of the allowable costs of the project, not to exceed \$461,140. The State of Alabama will provide a grant of 5% of the total cost of the project and the City will be responsible for the remaining 5% of the cost of the project.

Another grant agreement entered into by the City subsequent to year end was with the Alabama Department of Conservation and Natural Resources for boat ramp improvements at City Park. The cost of this project is estimated to be approximately \$167,000.

Finally, the City purchased an aerial ladder fire truck subsequent to year end at a cost of approximately \$1 million. The City borrowed funds to pay for the truck, the annual repayment of which will be approximately \$135,000 until paid in full.

**Note 15 – Prior Period Adjustment**

During the year, a new accounting pronouncement, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (“GASB 54”), became effective for the City. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. As a result of adopting this new pronouncement, several individual governmental funds previously reported as Special Revenue funds and included in the “Other Governmental Funds” column of prior years’ financial statement were reclassified in the current year’s financial statements as part of the General Fund. Also, two funds that had previously been reported as part of the general fund were reclassified as Special Revenue funds in the current year’s financial statements. Additionally, during the current year, it was determined that an error was made in interfund balances and transfers. To reflect this change in accounting principle and to correct these errors, the beginning fund balance of the respective funds were restated as follows:

	General Fund	Capital Projects Fund	Other Governmental Funds
Fund balance at October 1, 2010 – as originally reported	\$ 3,878,581	\$ 4,046,227	\$ 350,089
Prior period adjustment – reclassification of funds in accordance with GASB 54	138,695	-0-	(138,695)
Prior period adjustment – correction of errors in interfund balances and transfers	(40,040)	145	-0-
Fund balance at October 1, 2010 – as restated	<u>\$ 3,977,236</u>	<u>\$ 4,046,372</u>	<u>\$ 211,394</u>

The correction of errors described above also resulted in a restatement of beginning net assets in the statement of activities, decreasing the net assets as previous reported by the \$39,896.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Scottsboro, Alabama**  
**Schedule of Revenues and Expenditures-**  
**Budget and Actual - General Fund**  
**For the Year Ended September 30, 2011**

	Original Budget	Final Amended Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
<b>Revenues</b>				
<b>Taxes</b>				
Sales Tax	\$ 7,800,000	\$ 7,800,000	\$ 7,876,281	\$ 76,281
TVA In Lieu Of Tax	1,368,000	1,368,000	1,516,007	148,007
School Tax Revenue	1,275,000	1,275,000	1,309,554	34,554
Ad Valorem Tax	1,035,000	1,035,000	1,047,593	12,593
Electric Power Board In Lieu of Tax	462,000	462,000	485,793	23,793
Alcoholic Beverage Tax	340,000	340,000	348,657	8,657
Gasoline Tax	290,000	290,000	295,323	5,323
Lodging Tax	120,000	120,000	240,855	120,855
Other Taxes	566,000	566,000	569,749	3,749
	<u>\$ 13,256,000</u>	<u>\$ 13,256,000</u>	<u>\$ 13,689,812</u>	<u>\$ 433,812</u>
<b>Licenses &amp; permits</b>				
Business Privilege License	\$ 777,000	\$ 777,000	\$ 831,573	\$ 54,573
Building Permits	66,000	66,000	64,583	(1,417)
Other Licenses and Permits	8,300	8,300	8,368	68
	<u>\$ 851,300</u>	<u>\$ 851,300</u>	<u>\$ 904,524</u>	<u>\$ 53,224</u>
<b>Intergovernmental</b>				
Fire Tax Revenue	\$ -	\$ -	\$ 430,000	\$ 430,000
Other Intergovernmental	30,600	30,600	47,344	16,744
	<u>\$ 30,600</u>	<u>\$ 30,600</u>	<u>\$ 477,344</u>	<u>\$ 446,744</u>
<b>Charges for services</b>				
Garbage Collection Fees	\$ 2,790,000	\$ 2,790,000	\$ 2,791,702	\$ 1,702
Recreation	268,800	268,800	312,145	43,345
Airport Fuel Sales	113,500	113,500	124,577	11,077
Other Charges for Services	56,210	56,210	68,730	12,520
	<u>\$ 3,228,510</u>	<u>\$ 3,228,510</u>	<u>\$ 3,297,154</u>	<u>\$ 68,644</u>
<b>Fees &amp; fines</b>				
Fees & fines	\$ 328,800	\$ 328,800	\$ 291,361	\$ (37,439)
Grant Revenues	-	-	786,276	786,276
Unclassified	831,458	831,458	879,394	47,936
Investment earnings	100,000	100,000	105,070	5,070
	<u>\$ 18,626,668</u>	<u>\$ 18,626,668</u>	<u>\$ 20,430,935</u>	<u>\$ 1,804,267</u>

(Continued)

The accompanying Notes to RSI-Budget to Actual Comparison are an integral part of this schedule.

**City of Scottsboro, Alabama**  
**Schedule of Revenues and Expenditures-**  
**Budget and Actual - General Fund**  
**For the Year Ended September 30, 2011**

	Original Budget	Final Amended Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Expenditures				
Current				
General government				
General	\$ 1,279,359	\$ 1,279,359	\$ 1,288,394	\$ (9,035)
Airport	179,011	179,011	227,262	(48,251)
Cemetary	216,248	216,248	234,205	(17,957)
City Council	82,937	82,937	74,929	8,008
Human Resources	147,976	147,976	145,369	2,607
Planning and Inspections	370,784	370,784	413,803	(43,019)
Appropriations	331,800	331,800	382,136	(50,336)
	<u>\$ 2,608,115</u>	<u>\$ 2,608,115</u>	<u>\$ 2,766,098</u>	<u>\$ (157,983)</u>
Public safety				
Fire	\$ 2,425,921	\$ 2,425,921	\$ 2,453,375	\$ (27,454)
Police	3,022,251	3,027,251	3,104,632	(77,381)
Police Dispatchers	637,739	637,739	639,678	(1,939)
School Patrol	24,486	24,486	21,286	3,200
Municipal Court	149,305	149,305	150,587	(1,282)
Animal Control	130,454	130,454	117,026	13,428
Volunteer Fire	-	-	136	(136)
City Jail	280,778	280,778	317,122	(36,344)
	<u>\$ 6,670,934</u>	<u>\$ 6,675,934</u>	<u>\$ 6,803,842</u>	<u>\$ (127,908)</u>
Street	<u>\$ 2,971,315</u>	<u>\$ 2,971,315</u>	<u>\$ 3,282,068</u>	<u>\$ (310,753)</u>
Sanitation & landfill				
Sanitation	\$ 1,184,922	\$ 1,184,922	\$ 1,378,948	\$ (194,026)
Landfill	648,002	648,002	640,002	8,000
	<u>\$ 1,832,924</u>	<u>\$ 1,832,924</u>	<u>\$ 2,018,950</u>	<u>\$ (186,026)</u>
Recreation				
Recreation	\$ 1,005,398	\$ 1,005,398	\$ 1,061,080	\$ (55,682)
Council on Aging	57,673	57,673	57,126	547
Goosepond Civic Center	82,213	82,213	96,141	(13,928)
Senior Center	63,513	63,513	60,097	3,416
	<u>\$ 1,208,797</u>	<u>\$ 1,208,797</u>	<u>\$ 1,274,444</u>	<u>\$ (65,647)</u>
Education	\$ 450,000	\$ 450,000	\$ 425,000	\$ 25,000
Debt Service	-	-	338,000	(338,000)
Capital outlay	116,250	181,250	1,975,525	(1,794,275)
	<u>\$ 15,858,335</u>	<u>\$ 15,928,335</u>	<u>\$ 18,883,927</u>	<u>\$ (2,955,592)</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures				
	<u>\$ 2,768,333</u>	<u>\$ 2,698,333</u>	<u>\$ 1,547,008</u>	<u>\$ (1,151,325)</u>

(continued)

The accompanying Notes to RSI-Budget to Actual Comparison are an integral part of this schedule.

**City of Scottsboro, Alabama**  
**Schedule of Revenues and Expenditures-**  
**Budget and Actual - General Fund**  
**For the Year Ended September 30, 2011**

	Original Budget	Final Amended Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Other sources/uses				
Proceeds from Sales of Capital Assets	\$ 5,000	\$ 5,000	\$ 251,577	\$ 246,577
Issuance of long-term debt	-	-	5,230,000	5,230,000
Payment of Debt Issuance Costs	-	-	(96,559)	(96,559)
Transfer to Refd Bond Escrow Agent	-	-	(4,829,970)	(4,829,970)
Oper transfers (to) from other funds	(2,713,435)	(2,713,435)	(2,344,751)	368,684
Total Other sources/uses	<u>\$ (2,708,435)</u>	<u>\$ (2,708,435)</u>	<u>\$ (1,789,703)</u>	<u>\$ 918,732</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ 59,898</u>	<u>\$ (10,102)</u>	<u>\$ (242,695)</u>	<u>\$ (232,593)</u>

The accompanying Notes to RSI-Budget to Actual Comparison are an integral part of this schedule.

**Notes to RSI-Budget to Actual Comparison  
City of Scottsboro, Alabama  
For the Year Ended September 30, 2011**

**Note 1 - Explanation of difference between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures for the General Fund:**

**Revenues**

Actual amounts (budgetary basis) "total revenues" from the budgetary comparison schedule	\$ 20,430,935
Reclassifications:	
The City budgets amounts for the budgetary general fund that are reported in nonmajor funds for GAAP reporting	(94,062)
The City does not budget for certain revenues that are not recorded in the budgetary general fund (they are recorded in another fund for internal purposes but are reported in the general fund for GAAP reporting)	97,440
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds - general fund	<u>\$ 20,434,313</u>

**Expenditures**

Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule	\$ 18,883,927
Adjustments:	
The city budgets for compensated absences on the cash basis, rather than on the modified accrual basis	<u>255,009</u>
Total expenditures for the general fund on a GAAP basis of accounting	\$ 19,138,936
Reclassifications:	
The City does not budget for certain expenditures that are not recorded in the budgetary general fund (they are recorded in another fund for internal purposes but are reported in the general fund for GAAP reporting)	<u>55,935</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds - general fund	<u>\$ 19,194,871</u>

**Other Sources/Uses**

Actual amounts (budgetary basis) "other sources and uses" from the budgetary comparison schedule	\$ (1,789,703)
Adjustments:	
Total net other sources/uses reported on the statement of revenues, expenditures and changes in fund balances - governmental funds - general fund	<u>\$ (1,789,703)</u>

**Note 2 - Budget Variances and Excess of Expenditures over Appropriations**

The City did not budget for the bond issuance proceeds, grant revenues or fire tax revenue. Each of these revenue sources were obtained for specific uses, including the purchases of equipment and improvements. The City also did not budget for the expenditure of the funds received from these revenue sources, most of which is reported as capital outlay, or the debt service expenditures, which relates to a capital project of the City. All such expenditures were approved by the City Council. The City's general fund expenditures exceeded budget appropriations by \$1,151,325 for the year ended September 30, 2011. These expenditures were not included in the final amended budget but were approved by the City Council.

**City of Scottsboro, Alabama**  
**Schedule of Pension Plan Funding Progress**  
**For the Year Ended September 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b) <sup>1</sup>	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2004 <sup>2</sup>	\$ 15,943,127	\$ 20,519,756	\$ 4,576,629	77.7%	\$ 5,581,072	76.2%
9/30/2005	\$ 16,729,717	\$ 22,626,552	\$ 5,896,835	73.9%	\$ 5,822,753	95.0%
9/30/2006 <sup>3</sup>	\$ 17,311,427	\$ 24,650,568	\$ 7,339,141	70.2%	\$ 6,491,127	113.1%
9/30/2007	\$ 18,368,679	\$ 26,569,029	\$ 8,200,350	69.1%	\$ 6,790,842	120.8%
9/30/2008	\$ 18,961,599	\$ 27,659,336	\$ 8,697,737	68.6%	\$ 7,284,040	119.4%
9/30/2009	\$ 18,620,041	\$ 29,287,331	\$ 10,667,290	63.6%	\$ 7,654,448	139.4%
9/30/2010	\$ 18,340,596	\$ 30,416,681	\$ 12,076,085	60.3%	\$ 7,713,161	156.6%

- <sup>1</sup> Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
- <sup>2</sup> Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.
- <sup>3</sup> Reflects changes in actuarial assumptions.



**City of Scottsboro, Alabama**  
**Schedule of Employee Healthcare Plan Funding Progress**  
**For the Year Ended September 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Discount Rate	Actuarial Accrued Liability (AAL)-		Unfunded AAL (UAAL)(2) (b-a)	Funded Ratio (a/b)
			(1)	(b)		
10/1/2006	N/A	N/A	N/A	N/A	N/A	N/A
10/1/2007	N/A	N/A	N/A	N/A	N/A	N/A
10/1/2008	\$-0-	4.00%	\$ 1,374,299	\$ 1,374,299	\$ 1,374,299	0%
10/1/2009	\$-0-	4.00%	\$ 1,374,299	\$ 1,439,576	\$ 1,439,576	0%
10/1/2010	\$-0-	4.00%	\$ 1,554,323	\$ 1,554,323	\$ 1,554,323	0%

- (1) Actuarial Accrued Liability determined under the projected unit credit cost method
- (2) Actuarial Accrued Liability less Actuarial Value of Assets

## **OTHER SUPPLEMENTARY INFORMATION**

CITY OF SCOTTSBORO, ALABAMA  
NON MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS SCHEDULE  
SEPTEMBER 30, 2011

	STATE GAS TAX SEVEN CENT	STATE GAS TAX FOUR CENT	STATE CAPITAL IMPROVEMENT	CORRECTIONS FUND	TOTAL
<b>ASSETS</b>					
Taxes Receivable	\$ 13,861	\$ 11,004	\$ -	\$ -	\$ 24,865
Restricted Cash	59,300	55,109	280,330	63,502	458,241
<b>TOTAL ASSETS</b>	<b>\$ 73,161</b>	<b>\$ 66,113</b>	<b>\$ 280,330</b>	<b>\$ 63,502</b>	<b>\$ 483,106</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<u>Liabilities</u>					
Due to General Fund	\$ 7,000	\$ 8,000	\$ 137,945	\$ 28,377	\$ 181,322
<b>Total Liabilities</b>	<b>\$ 7,000</b>	<b>\$ 8,000</b>	<b>\$ 137,945</b>	<b>\$ 28,377</b>	<b>\$ 181,322</b>
<u>Fund Balances</u>					
Unspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for:					
Road Repairs & Maintenance	66,161	58,113	-	-	124,274
Capital Improvements	-	-	142,385	-	142,385
Jail and Court Expenditures	-	-	-	35,125	35,125
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>Total Fund Balances</b>	<b>\$ 66,161</b>	<b>\$ 58,113</b>	<b>\$ 142,385</b>	<b>\$ 35,125</b>	<b>\$ 301,784</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 73,161</b>	<b>\$ 66,113</b>	<b>\$ 280,330</b>	<b>\$ 63,502</b>	<b>\$ 483,106</b>

CITY OF SCOTTSBORO, ALABAMA  
NON MAJOR GOVERNMENTAL FUNDS  
COMBINING SCHEDULES OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	STATE GAS TAX SEVEN CENT	STATE GAS TAX FOUR CENT	STATE CAPITAL IMPROVEMENT	CORRECTIONS FUND	TOTAL
<b>REVENUES</b>					
Intergovernmental	\$ 86,690	\$ 67,897	\$ 94,062	\$ -	\$ 248,649
Fees and Fines	-	-	-	105,368	105,368
Interest Income	980	939	6,361	1,057	9,337
<b>Total Revenue</b>	<b>\$ 87,670</b>	<b>\$ 68,836</b>	<b>\$ 100,423</b>	<b>\$ 106,425</b>	<b>\$ 363,354</b>
<b>EXPENDITURES - GENERAL GOVERNMENT</b>					
Public Safety	\$ -	\$ -	\$ -	\$ 114,570	\$ 114,570
Capital Outlay	-	-	-	3,395	3,395
<b>Total General Government</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 117,965</b>	<b>\$ 117,965</b>
Excess (Deficiency) of Revenue Over (Under) Expenditures	\$ 87,670	\$ 68,836	\$ 100,423	\$ (11,540)	\$ 245,389
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating Transfers Out	\$ (87,000)	\$ (68,000)	\$ -	\$ -	\$ (155,000)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (87,000)</b>	<b>\$ (68,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (155,000)</b>
Excess (Deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses	\$ 670	\$ 836	\$ 100,423	\$ (11,540)	\$ 90,389
Fund Balances - Beginning, as originally reported	65,491	57,277	66,862	46,665	236,295
Prior Period Adjustment	-	-	(24,900)	-	(24,900)
Fund Balances - Beginning, as restated	65,491	57,277	41,962	46,665	211,395
<b>Fund Balances - Ending</b>	<b>\$ 66,161</b>	<b>\$ 58,113</b>	<b>\$ 142,385</b>	<b>\$ 35,125</b>	<b>\$ 301,784</b>



**CERTIFIED PUBLIC ACCOUNTANTS**

611 EAST LAUREL STREET • P.O. BOX 757  
SCOTTSBORO, ALABAMA 35768  
(256) 259-1120 • FAX (256) 259-0858  
EMAIL dcroft007@aol.com

DON W. CROFT, C.P.A.  
MARY S. CROFT, C.P.A.  
C. GENE GOSSETT, JR., C.P.A.

MEMBERS: AICPA  
ALABAMA SOCIETY  
OF CPA'S

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

To the City Council  
City of Scottsboro, Alabama

We have audited the basic financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Scottsboro, Alabama (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City of Scottsboro, Alabama's basic financial statements and have issued our report thereon dated September 20, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the Scottsboro City Board of Education, which represent the amounts shown as the Component Unit – Scottsboro Board of Education, and the Public Parks and Recreation Board, which represent the amounts shown as the Component Unit - Public Parks and Recreation Board, as described in our report on the City of Scottsboro, Alabama's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Public Parks and Recreation Board and the Scottsboro Public Library, component units of the City, were not audited in accordance with Government Auditing Standards.

*Internal Control over Financial Reporting*

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

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

Our consideration of the 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 the City of Scottsboro'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 have reported to management of the City of Scottsboro in a separate letter dated September 20, 2012.

This report is intended for the information of management, the City Council, others within the entity, and the City's grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Haut, Croft and Associates, P.C.*

Scottsboro, Alabama  
September 20, 2012

**Gant & Croft  
Associates, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

611 EAST LAUREL STREET • P.O. BOX 757  
SCOTTSBORO, ALABAMA 35768  
(256) 259-1120 • FAX (256) 259-0858  
EMAIL dcroft007@aol.com

DON W. CROFT, C.P.A.  
MARY S. CROFT, C.P.A.  
C. GENE GOSSETT, JR., C.P.A.

MEMBERS: AICPA  
ALABAMA SOCIETY  
OF CPA'S

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

**Compliance**

We have audited the compliance of the City of Scottsboro, Alabama, with the types of compliance requirements described in the U.S Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. The City of Scottsboro, 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 the entity's management. Our responsibility is to express an opinion on the City of Scottsboro, 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 U.S. Office of Management and Budget Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards and Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Scottsboro, 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 on the City of Scottsboro, Alabama's compliance with those requirements.

In our opinion, the City of Scottsboro, Alabama, complied, in all material respects, with the 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-01.

**Internal Control over Compliance**

The management of the City of Scottsboro, Alabama, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Scottsboro, Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing

our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 the City of Scottsboro, 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 by the entity's internal control 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 the entity's internal control 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. However, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Scottsboro, 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 the City of Scottsboro, 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 City Council, others within the entity, 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.

*Gaut, Croft and Associates, P.C.*

Scottsboro, Alabama  
September 20, 2012



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

GRANTOR AGENCY	PROGRAM TITLE	CFDA NUMBER	CONTRACT NUMBER	EXPENDITURES
<b><u>U.S. Department Energy</u></b>				
Passed through Alabama Dept. of Economic and Community Affairs	ARRA-Landfill Gas Project State Energy Program	81.128	1ARRA-EECBG-39	\$ 500,000 *
<b>Total U.S. Department of Energy-Passed Through Alabama Dept. of Economic and Community Affairs</b>				<b>\$ 500,000</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>				
Passed through Alabama Dept. of Economic and Community Affairs	Community Development Block Grant	14.228	LR-ED-PF-10-008	\$ 35,850 *
Passed through Alabama Dept. of Economic and Community Affairs	Community Development Block Grant	14.228	LR-CM-PF-10-003	\$ 459,264 *
<b>Total U.S. Department of Housing and Urban Development-Passec Through Alabama Dept. of Economic and Community Affairs</b>				<b>\$ 495,114</b>
<b><u>U.S. Department of Transportation</u></b>				
<b><u>Federal Aviation Administration</u></b>				
Direct Award	Airport Improvement Program	20.106	3-01-0109-012-2009	\$ 14,609
Direct Award	Airport Improvement Program	20.106	3-01-0109-013-2009	\$ 113,012
Direct Award	Airport Improvement Program	20.106	3-01-0109-014-2010	\$ 66,479
Direct Award	Airport Improvement Program	20.106	3-01-0109-015-2011	\$ 42,491
<b>Total U.S. Department of Transportation-Direct Awards</b>				<b>\$ 236,591</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>				<b>\$ 1,231,705</b>

\* Major Program

See accompanying notes to the Schedule of Expenditures of Federal Awards

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

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of the City of Socttsboro, Alabama (the ("City") under programs of the federal governmenta for the year ended September 30, 2011.

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

<u>Federal Agency/Passed Through</u>	<u>Program Title</u>	<u>CFDA #</u>
Total U.S. Department of Housing and Urban Development-Passed Through Alabama Dept. of Economic and Community Affairs	Community Development Block Grant	14.228
Total U.S. Department of Energy-Passed Through Alabama Dept. of Economic and Community Affairs	ARRA-Landfill Gas Project State Energy Prc	81.128

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**SECTION I - SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	Yes <u>    </u>	No <u> X </u>
Significant deficiencies identified not considered to be material weaknesses?	Yes <u>    </u>	No <u> X </u>
Noncompliance material to financial statements noted?	Yes <u>    </u>	No <u> X </u>

**Federal Awards**

Type of auditor's report issued on compliance for major programs: Unqualified

Material weakness(es) identified?	Yes <u>    </u>	No <u> X </u>
Significant deficiencies identified not considered to be material weaknesses?	Yes <u> X </u>	No <u>    </u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <u> X </u>	No <u>    </u>

**Identification of major programs:**

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.228	U.S. Department of Housing and Urban Development passed through Alabama Dept. of Economic and Community Affairs (ADECA) Community Development Block Grant Program
81.128	U.S. Department of Energy pass through the Alabama Department of Economic and Community Affairs (ADECA) ARRA-Landfill Gas Project State Energy Program

Dollar threshold used to distinguish between Type A and Type B programs: \$  300,000

Auditee qualified as low-risk auditee? Yes      No  X

**SECTION II-FINANCIAL STATEMENT FINDINGS**

None

(Continued)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**CITY OF SCOTTSBORO, ALABAMA**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding Reference Number:** 2011-01  
**Federal Program:** CFDA 81.128 -ARRA-Landfill Gas Project State Energy Program  
**Compliance Requirements** Procurement and Suspension and Debarment  
**Type of Finding:** Noncompliance

**Criteria:** The additional instructions for contracts funded with American Recovery and Reinvestment Act (ARRA) funds from the State of Alabama Building Commission require that the project specifications and bid documents clearly incorporate the requirement to comply with the Buy American Act and the Davis-Bacon Act by including the "Supplemental Conditions for ARRA Funded Contracts" and the relating Attachments B and C which are mandatory federal contract clauses.

**Condition:** The bid documents for the primary contract for the program did not include the required Supplementary Conditions and Attachments B and C. However, the ARRA requirements related to the Buy American Act and the Davis-Bacon Act were followed and the City did comply with those requirements.

**Cause:** Management was unaware of the required attachments that were to be included in the bid documents relating to the ARRA program.

**Effect:** As a result, the organization did not comply with the requirements for procurement under OMB Circular A-133 and the American Recovery and Reinvestment Act.

**Recommendation:** Management should ensure that future procurements under federal programs meet all requirements in all contracts and Circular A-133.

**Response:** To ensure compliance while implementing the ARRA-Landfill Gas Project State Energy Program, we responded to the best of our ability to every request requested from ADECA's representative Kathy Hornsby who assisted in the guidance, along with the engineers, to help ensure the correct implementation of the program. Despite monitoring and multiple reviews, required attachments were unintentionally not included in project specifications and bid documents. In the future, we will perform a more thorough examination of grant documentation to increase our awareness and knowledge of requirements relating to federal programs.

**Finding Reference Number:** 2011-02  
**Federal Program:** CFDA 81.128 -ARRA-Landfill Gas Project State Energy Program  
**Compliance Requirements** Procurement and Suspension and Debarment  
**Type of Finding:** Significant Deficiency in Internal Control over compliance

**Criteria:** The City should have implemented properly designed internal controls over compliance such that noncompliance with a type of compliance requirement can be prevented or detected and corrected by its employees or contractors in a timely manner.

**Condition:** The instance of noncompliance described above as Finding Reference Number 2011-01 occurred and was not prevented or detected and corrected by the City's internal controls over compliance.

**Cause:** The City contracted with an engineering firm with experience and training in the grant program to administer the project. However, neither the engineering firm nor the City's employees was aware of the instance of noncompliance.

**Effect:** As a result, the instance of noncompliance described above occurred.

**Recommendation:** We recommend that the City implement controls over compliance to ensure administrative contractors are aware of and are following all requirements of the City's federal programs

**Response:** To ensure compliance while implementing the ARRA-Landfill Gas Project State Energy Program, we responded to the best of our ability to every request requested from ADECA's representative Kathy Hornsby who assisted in the guidance, along with the engineers, to help ensure the correct implementation of the program. Despite monitoring and multiple reviews, required attachments were unintentionally not included in project specifications and bid documents. In the future, we will perform a more thorough examination of grant documentation to increase our awareness and knowledge of requirements relating to federal programs.