

City of Madison, Alabama

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Fiscal Year Ended
September 30, 2007**

Prepared by:

Finance Department

**City of Madison, Alabama
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2007**

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SECTION I - INTRODUCTORY



**FINANCE DEPARTMENT
CITY OF MADISON, ALABAMA**

June 27, 2008

Honorable Mayor Arthur S. Kirkindall
Members of the City Council and
Citizens of the City of Madison, Alabama

The Comprehensive Annual Financial Report (CAFR) of the City of Madison, Alabama (the City) for the fiscal year ended September 30, 2007, is hereby submitted.

Responsibility for both accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Management of the City of Madison. Management believes that the enclosed data is accurate in all material respects and is reported in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Report

The CAFR is presented in three sections:

1. **Introductory Section** - includes this letter of transmittal, organizational chart, a list of the City's elected officials and a list of department heads.
2. **Financial Section** - includes the Management's Discussion and Analysis (MD&A), basic financial statements for the primary government and its separately presented component units, notes, supplementary schedules and other financial schedules. The financial statements contained herein are in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The independent auditor's report on the financial statements and schedules is presented as the first component of the financial section in this report.

The City prepared the Comprehensive Annual Financial Report (CAFR) using the financial reporting requirements as prescribed by Governmental Accounting Standards Board's (GASB) Statement No. 34. The MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. The MD&A should be read in conjunction with this letter of transmittal and can be found immediately following the independent Auditor's Report.

- 3. Statistical Section** - includes financial and demographic information, generally presented on a multi-year basis. The statistical section has not been audited.

In accordance with the guidelines of GASB Statement 34, the City reports and depreciates all capital assets, including infrastructure. Prior to fiscal year 2003, the City neither reported nor depreciated infrastructure assets. During fiscal year 2007, the City included in its capitalization all infrastructure assets prior to fiscal year 2003. These assets consist of road, bridges, curbs and gutters, streets and sidewalks and drainage systems. The amount of \$67,574,522 is the net value of these assets.

GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension", becomes effective for the City for the fiscal year ending September 30, 2009. The City is aware of the requirements of this statement and is preparing for implementation by the required date.

GASB Statement 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", established criteria that governments will use to ascertain whether certain transaction should be regarded as sales or a collateralized borrowing. The requirements of this statement become effective for the fiscal year 2008 period. At the present time, the City does not have any transactions of this nature.

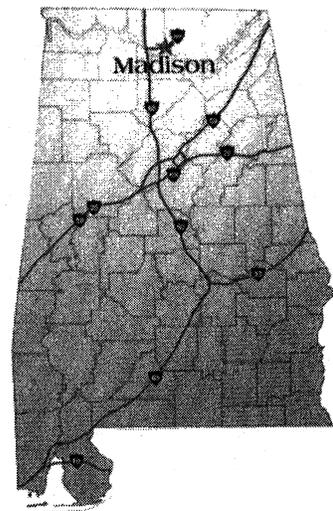
GASB Statement 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", provides guidance on how to calculate and report the costs and obligation associated with pollution clean-up efforts. The requirements of this statement become effective for the fiscal year 2009 period. The City is aware of this new pronouncement and will evaluate its implications.

Profile of the City

The City was incorporated in 1869, and is located in the western part of Madison County in the state of Alabama. The City has a land area of 25 square miles and serves a population of approximately 40,060 as reported by the Growth Management Division of the City.

The City of Madison is empowered to levy taxes on real and personal property located within its boundaries. The City also has the power to extend its corporate limits by annexation, which is done periodically when deemed appropriately by the governing council.

The City operates under the Mayor-Council form of Government and is governed by a City Council consisting of seven (7) members. Members of the Council serve on a part-time basis. The Mayor and City Council members are elected to four-year terms. The Mayor is elected at large and the seven (7) council members are elected from within their respective districts.



The City Council is responsible for adopting ordinances, resolutions, budgets, appointing committees and hiring the City Clerk-Treasurer, Police Chief and Fire Chief. The Mayor is responsible for hiring and managing the heads of city departments, affairs of the City and a staff of approximately 320 employees including eleven (11) department heads. The City's departments include:

| | |
|------------------------|-----------------|
| General Administration | City Council |
| Police | Finance |
| Public Works | Human Resources |
| City Clerk | Mayor's Office |
| Recreation | Revenue |
| Fire | Engineering |
| Planning and Building | Senior Center |
| Court | Legal |

The City provides a full range of municipal services which include police and fire protection, municipal court, land use planning, building permits and inspection activities, construction and maintenance of streets, sidewalks and other public facilities. The City also provides services and maintenance for the public library, sanitation trash collection, three cemeteries, parks and recreational facilities.

Madison City Board of Education provides elementary and secondary educational services within the City. Madison City Board of Education is a component unit of the City and the financial activities of Madison City Board of Education are reported separately within the City's financial statements.

Major Initiatives

Progress Report. The City was successful in meeting many of its goals and objectives throughout fiscal year 2007. There were no cuts in programs or services to the citizens. Individual and departmental successes have improved City services and enhanced growth in our community.

During the year, construction of intersection improvements for the Hughes Road and Old Madison Pike project was completed for a total cost of \$272,409.

During the year, construction of a traffic signal at Mill Road and County Line Road was completed for a total cost of \$130,838.

During the year, construction of intersection improvements for Wall Triana and Gillespie Road was completed for a total cost of \$68,935.

During the year, the City expended \$3,384,126 for projects under construction as of September 30, 2007.

During the Year, the City completed \$411,358 of projects which construction was started in a prior fiscal year.

The City made one-time purchases for capital equipment in the amount of \$911,159.

During the year, the City constructed radio activated traffic signals at certain intersection for a total cost of \$178,236.

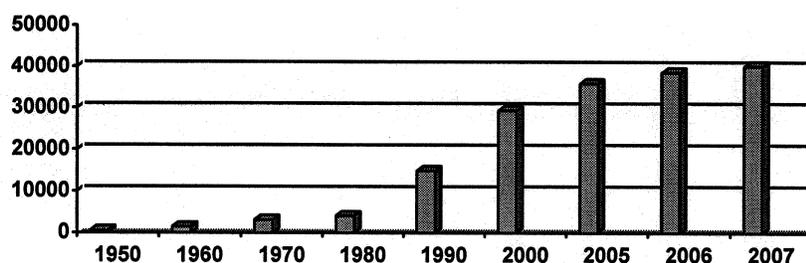
These successes were accomplished with no increase in general taxation.

Factors Affecting Financial Condition

Local Economy and Outlook. The residential and commercial areas continue to grow within the City. The Madison Industrial Development Board actively recruits and promotes the local economy. Management continues to work with both the City of Madison Chamber of Commerce and the Huntsville/Madison County Chamber of Commerce to promote steady growth for Madison. Retail recruitment efforts will continue. New jobs in the commercial and manufacturing markets have contributed to the City's stability and have added to the growing industrial base of the region.

The City's population grew 4.05 percent from 2006 to 2007. The population is estimated at 40,060 at September 30, 2007. Madison is ranked 10th among Alabama cities.

City of Madison Population



Although mortgage rates are on the rise, new home sales in Madison continue to grow. The City issued 573 permits for new single homes. High-tech industries located within the corporate limits and within close proximity provide residents with some of the highest salaries in the Southeast. The average household income for 2007 was \$105,000.

A vast majority of the City's residents are employed in managerial and professional jobs. The unemployment rate was 3.40 percent in 2006. The largest employers in the City are Intergraph Corporation, Madison City School System, Wal-Mart Super Center, Kroger Company and Lowe's Home Improvement Warehouse.

The City will continue to promote the development and redevelopment of Madison Boulevard and Highway 72. These corridors are gateways to the City and they are expected to grow with more retail businesses, office buildings, light industrial companies and restaurants. These areas are prime growth areas of the City.

Long-term Financing Planning

At September 30, 2007, the City had \$12,468,147 reserved for capital improvement projects. The City Capital Improvements Program consists of three (3) categories which are building and facilities, parks and recreation, and infrastructure. The building and facilities project is for renovations to the municipal complex and expansion of the police department. The parks and recreation projects are for improvements to greenway trail and soccer fields at Dublin Park. The infrastructure improvements include sidewalks, streets and intersections, and drainage. Funding for these projects was provided with bond proceeds, gas tax revenue and the City's share of the municipal government capital improvement fund.

Other projects have been identified for consideration for the capital improvements program but the funding sources have not been finalized. Once the funding sources are finalized, the projects become a part of the City's funded Capital Improvements Program.

Cash Management Policies and Practices

The fiscal policy of the City provides for the highest investment returns with the maximum security. Investments are in securities or other obligations authorized for municipal investment by Alabama Code 11-81-19 through 21. The policy provides for retaining sufficient cash on hand to meet the daily cash flow demands. The investment policy is very conservative and details specific collateral and safekeeping requirements. Investment earnings for the year for all governmental funds were \$1,168,713.

Risk Management

The City has included risk management in the Human Resources and the City Clerk Treasurer Departments. These departments administer all insurance programs of the City. The City is a member of Alabama Municipal Insurance Corporation. The City is provided protection in the areas of comprehensive general liability, auto liability, law enforcement, and officials' liability coverage. Premiums are paid based on coverage.

The City is an active participant in the Municipal Workers' Compensation Fund, Inc., (MWCF). MWCF provides medical and indemnity payments to workers injured while performing their duties for the City. Premiums are paid based on the City of Madison's past claims history.

Although insurance is used for risk financing, some loss exposures are retained by the City and paid for out of the operating budget.

Financial Information

Management of the City is responsible for establishing and maintaining an internal control structure design to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The internal controls structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budget

Management of the City used the annual budget as a policy document, financial plan, operational guide and a communication tool. The annual budget contains both the estimated revenues to be received during the year and the proposed expenses to be incurred to achieve stated objectives.

State law requires that the City Council appropriates the sums necessary for the operations of city departments and for the interest on the City's bonded and other indebtedness, not exceeding in the aggregate within ten percent (10%) of the City's estimated revenue.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds for which a budget was adopted. The City's budgets are prepared on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control is the departmental level.

State law makes the Mayor the Chief Executive Officer in charge of municipal administration. The Mayor ensures that the budget is prepared for presentation to the City Council in ample time for consideration and adoption before October 1.

The budget preparation is coordinated through the Mayor's Office and the Finance Department. Each department receives a budget preparation package that includes budget schedule, budgetary guidelines, forms, instructions and year-to-date budget reports.

Heads of departments are responsible for preparing and submitting their appropriations requests according to the budget schedule.

The Revenue Department prepares revenue estimates based on historical data and other available information. The objectives of the City are to estimate revenues as accurately as possible to allow use of all available resources and to maintain the required level of reserves.

The Mayor submits a proposed budget to the City Council Finance Committee for review and recommendations. The Committee holds meetings with the Finance Department, Mayor and Department Heads, as required, to review the proposed budget.

The City Council Finance Committee makes recommended changes to the proposed budget. The Finance Department consolidates all changes in the budget report. The proposed budget document is submitted to the City Council for review and discussion at public work sessions. After all scheduled work sessions have been conducted, the proposed budget is presented to the City Council at a regular council meeting for a public hearing and consideration for adoption.

The budget requires continuous monitoring and occasional revisions that reflect changing operational developments. A revision that causes a net change in the overall budget requires approval of the City Council. A revision that redistributes appropriated funding within a department to different line items does not require the approval of the City Council.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget was adopted. For the general fund, this comparison is presented on page 24 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, the comparisons are presented in the governmental fund subsection of this report, which starts on page 25.

Refer to Note 3 of the basic financial statements for further discussion of the City's budgetary information.

Other Information

The City is required by state law to obtain an annual audit by an independent firm of certified public accountants. The accounting firm of MDA Professional Group, P.C., selected by the Mayor, performed the City's annual audit for the fiscal year ended September 30, 2007.

Awards

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Madison for its comprehensive annual financial report for the fiscal year ended September 30, 2002. This was the third year the City received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only.

Acknowledgments

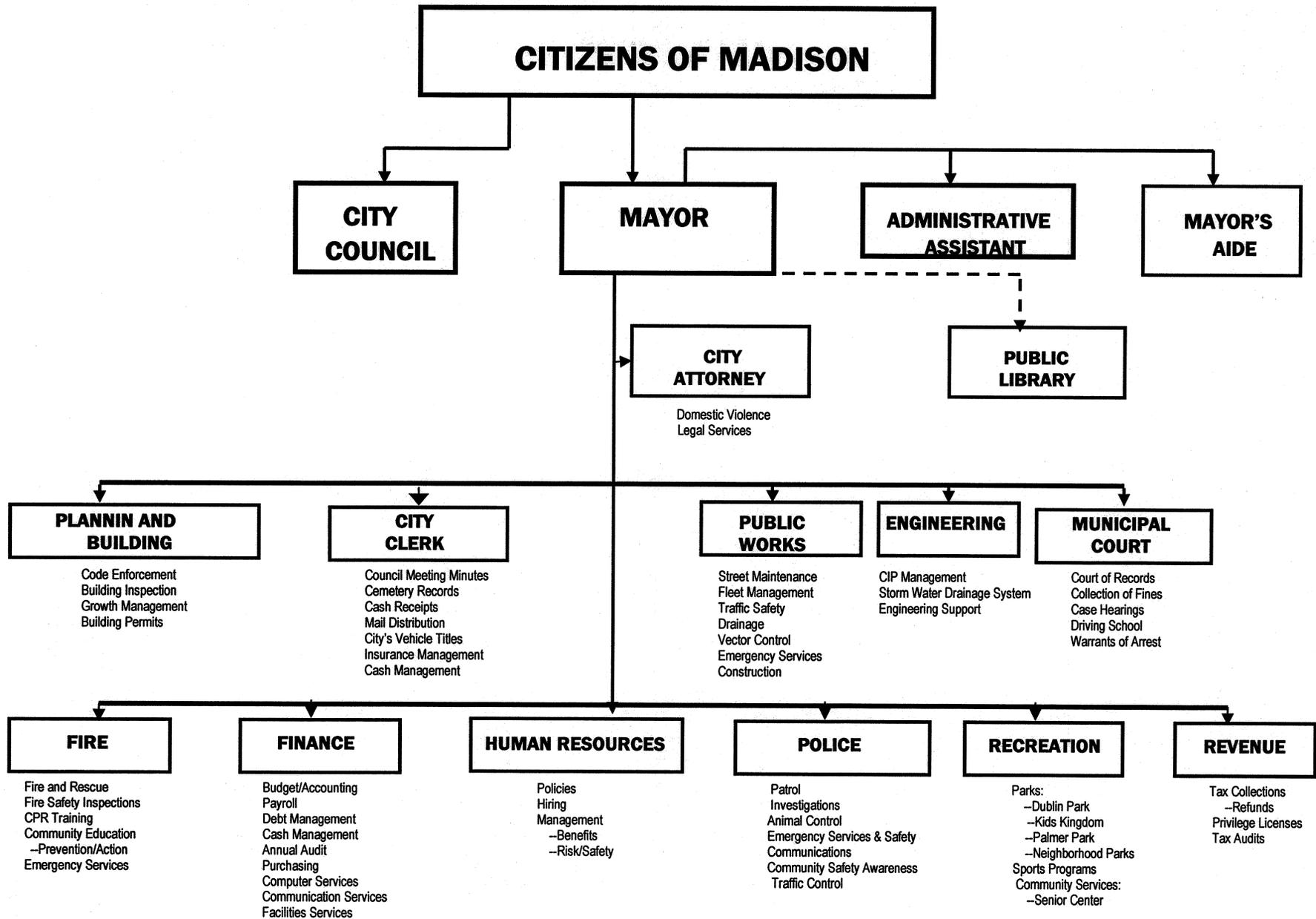
This report was prepared by the dedicated efforts of the City's finance department staff. Each member of the finance department has my sincere appreciation for the contributions made in the preparation of this report. I would like to express my gratitude to the Mayor and City Council for their interest and support in managing the financial affairs of the City in a responsible and progressive manner.

Acknowledgment is given to the representatives of MDA Professional Group, P.C., for their invaluable assistance in producing this financial report.

Respectfully submitted,


Lillie M. Causey
Director of Finance

CITY OF MADISON, ALABAMA ORGANIZATIONAL CHART



CITY OF MADISON, ALABAMA
List of Elected Officials, Appointed Officials, and Department Heads
September 30, 2007

Elected Officials

Mayor Arthur S. Kirkindall

Council Member - District One Cynthia N. McCollum

Council Member - District Two Steve Haraway
..... President of Council

Council Member - District Three Jerry Jennings

Council Member - District Four Tim Cowles
..... President Pro Tem

Council Member - District Five Tommy Overcash

Council Member - District Six Larry Vannoy

Council Member - District Seven Bob Wagner

Appointed Officials

Mayor's Aide Jessica Bradley

Department Heads

Police Chief Daniel Busken

Public Works Director Skip Adkins

City Clerk-Treasurer Melanie Williard

Recreation Director Mike Cassell

Fire Chief Ralph Cobb

Planning and Building Director Bob Atallo

Court Clerk Rick Honea

Finance Director Lillie Causey

Human Resources Director Terri Towry

Director of Engineering Gary Chynoweth

Revenue Department Director Cameron Grounds

City Attorney Anne-Marie Lacy

SECTION II - FINANCIAL

INDEPENDENT AUDITORS' REPORT

MDA PROFESSIONAL GROUP, P.C.

Certified Public Accountants and Business Consultants

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HUNTSVILLE, ALABAMA 35801
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ACCOUNTANTS

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THROUGH AGN INTERNATIONAL, LTD.

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Madison
Madison, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Madison, Alabama as of and for the year ended September 30, 2007, 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 Madison, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Water and Wastewater Board of the City of Madison and the Madison Board of Education discretely presented component units, which represent 100 percent, respectively of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the 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 Madison, Alabama as of September 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



As described in Note 6, the City has retroactively reported major general infrastructure assets, as allowed by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended and interpreted.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2008 on our consideration of the City of Madison's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Madison, Alabama's basic financial statements. The Combining Fund Statements and Other Supplementary Information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the City of Madison, Alabama. The Combining Fund Statements and Other Supplementary Information, and the Schedule of Expenditures or Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Honorable Mayor and City Council
City of Madison
Page three

The Statistical Data section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

MDA Professional Group, P.C.

Huntsville, Alabama
June 27, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended September 30, 2007

Management of the City of Madison (the City) offers readers of the City's financial statements this Management's Discussion and Analysis (MD&A) which provides a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007. Information in the MD&A is based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, the Basic Financial Statements and the accompanying Notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City's assets totaled \$172,318,376 at September 30, 2007. This amount represents \$139,743,777 in capital assets, \$6,264,442 in unrestricted cash, \$26,310,157 in temporarily restricted cash and other assets. Total assets increased by \$100,081,465 in 2007.
- The City's liabilities totaled \$116,989,295 at September 30, 2007 consisting of \$112,856,344 in long-term debt and \$4,132,951 in accounts payable and other liabilities. Total liabilities increased \$1,936,529 over the prior year.
- Total assets of the City are more than total liabilities by \$55,329,081 at the close of the fiscal year.
- In the governmental activities, the City generated \$6,757,180 in charges for services and \$6,805,976 in grants and contributions. Expenses for the governmental activities were \$33,740,814 of which \$13,563,156 was funded by charges for services and contributions and the remaining \$20,177,658 funded by general revenues. The City received \$41,583,057 in general revenues for fiscal year 2007, which consisted of \$6,365,870 in property taxes, \$12,243,150 in sales tax, \$953,992 in motor fuel taxes and \$22,020,045 in other revenues.
- Unreserved fund balance in the General Fund (the primary operating fund) was \$5,667,055 at September 30, 2007, which represents 46.97 percent or \$1,811,090 increase over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's Basic Financial Statements. The Basic Financial Statements and Supplementary Information are

Management's Discussion and Analysis - continued

presented using the integrated approach as prescribed by GASB Statement No. 34. The City's Basic Financial Statements are comprised of three components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements and Required Supplementary Information

The Basic Financial Statements present financial information about the City as a whole and information about the City's activities. This report also contains other financial and statistical schedules in addition to the Basic Financial Statements.

1. Government-wide Financial Statements

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

The Statement of Net Assets presents information on all of the City's assets and liabilities (including long-term debt), with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the City's financial health is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. The focus of the Statement of Activities is to present the major program costs with the major matching resources. If the program costs are not recovered by grants and direct charges, the costs are paid from general taxes and other general revenues. This Statement summarizes and simplifies the user's analysis to make a determination to which programs are self-supporting and/or subsidized by general revenues.

The government-wide financial statements distinguish functions/programs of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions/programs that are intended to recover all or a significant portion of their costs through user fees or charges (business type activities).

The governmental activities of the City are as follows:

- General Government - includes centralized services such as general administration, city clerk, court clerk, city council, finance, human resources, mayor's office, revenue, information technology, and legal services.
- Public Safety - includes police, fire, planning, engineering and building services.

Management's Discussion and Analysis - continued

- Highways and Streets - includes the City's public works administration and support to trash collections, street maintenance and operations, street and local improvements and construction.
- Parks and Recreation - includes the operations and maintenance of city parks, sport programs, services for senior citizens and other recreational events.

The City of Madison has no functions that are classified as business-type activities.

As described in the notes to the financial statements, other entities' activities are included in the government-wide financial statements because of the relationship of these legally separate entities to the City. Financial information of the Water and Wastewater Board and the Madison City Board of Education are collectively referred to in the financial statements as Discretely Presented Component Units. This discussion and analysis focuses on the primary government. Refer to Note A regarding the availability of separately issued component unit financial statements.

The government-wide financial statements can be found on pages 19 and 20 of this report.

2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The City has the following type of fund:

Governmental Funds. The Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds statements emphasize available financial resources rather than net income as the government-wide financial statements.

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

Management's Discussion and Analysis - continued

The City maintains twenty-one (21) individual governmental funds. The governmental fund statements present four (4) major funds separately: General Fund, Water Distribution and Storage Fund, School Bonds Fund and 2006 Capital Improvement Fund. The other seventeen (17) non-major funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements, which can be found beginning on page 65 of this report.

The City of Madison adopted an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 21 through 26 of this report.

3. Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements (the basic financial statements). Information such as significant accounting policies and detail of certain assets and liabilities are included in the notes which should be read in conjunction with the basic financial statements. The notes to the financial statements can be found on pages 28 through 62 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 63 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section discusses and analyzes significant changes from the prior year in the government-wide financials.

Analysis of Net Assets

The City's net assets reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, infrastructure and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis - continued

The City's assets are more than total liabilities by \$55,329,081 at September 30, 2007. The following is a condensed statement of net assets and analysis of the change in the City's financial position from the prior year.

CITY OF MADISON'S NET ASSETS

| | Governmental Activities | | |
|---|--------------------------------|-------------------------------|---------------------|
| | Septembers 30, 2007 | September 30, 2006 | Change |
| Current and other assets | \$32,574,599 | \$ 20,336,479 | \$12,238,120 |
| Capital assets | 139,743,777 | 51,900,432 | 87,843,345 |
| Total assets | 172,318,376 | 72,236,911 | 100,081,435 |
| Long term liability outstanding | 112,856,344 | 102,719,811 | 10,136,533 |
| Other liabilities | 4,132,951 | 3,167,940 | 965,011 |
| Total liabilities | 116,989,295 | 105,887,751 | 11,101,544 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 127,888,947 | 39,911,335 | 87,977,612 |
| Restricted | 15,559,292 | 9,054,091 | 6,505,201 |
| Unrestricted (deficit) | (88,119,158) | (82,616,266) | 5,502,892 |
| Total net assets (deficit) | \$55,329,081 | \$(33,650,840) | \$99,985,705 |

Management's Discussion and Analysis - continued

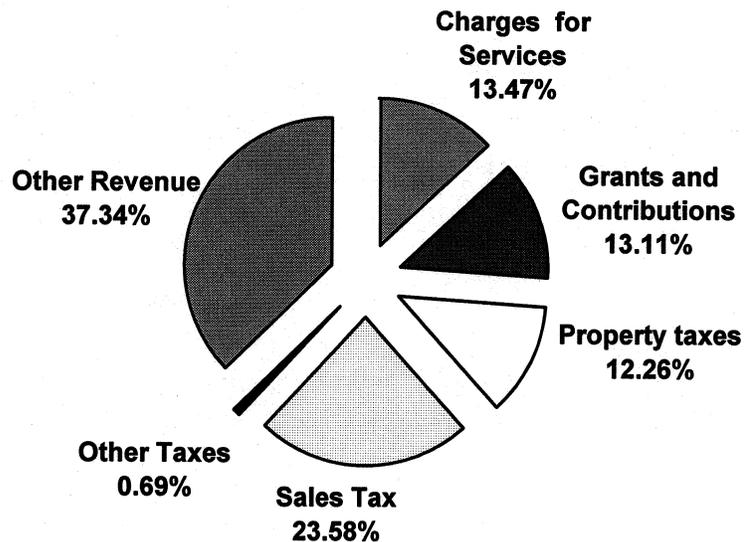
CITY OF MADISON'S CHANGES IN NET ASSETS

| | Governmental Activities | | |
|---|--------------------------------|-------------------------------|---------------------|
| | Septembers 30, 2007 | September 30, 2006 | Change |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 6,757,180 | \$ 5,832,030 | \$ 925,150 |
| Operating grant and contribution | 798,730 | 719,661 | 79,069 |
| Capital grants and contribution | 6,007,246 | 10,809,511 | (4,802,265) |
| General revenue: | | | |
| Property taxes and payment in lieu of taxes | | | |
| Other taxes | 6,365,870 | 5,840,049 | 525,821 |
| Other taxes | 15,833,460 | 15,062,015 | 771,445 |
| Other | 19,383,727 | 5,050,132 | 14,333,595 |
| Total revenues | 55,146,213 | 43,313,398 | 11,832,815 |
| Expenses: | | | |
| General Administration | 2,243,804 | 1,637,763 | 606,041 |
| Police | 5,076,097 | 4,492,227 | 583,870 |
| Public Works | 6,512,629 | 3,683,936 | 2,828,693 |
| City Clerk | 600,855 | 593,326 | 7,529 |
| Recreation | 2,139,803 | 1,807,848 | 331,955 |
| Fire | 4,346,954 | 3,794,817 | 552,137 |
| Planning and Building | 950,345 | 1,108,540 | (158,195) |
| Court | 977,773 | 820,348 | 157,425 |
| City Council | 164,042 | 166,233 | (2,191) |
| Finance | 933,230 | 676,174 | 257,056 |
| Human Resources | 2,943,704 | 2,607,912 | 335,792 |
| Mayor's Office | 294,973 | 222,821 | 72,152 |
| Revenue | 271,231 | 194,477 | 76,754 |
| Engineering | 370,309 | | 370,309 |
| Senior Center | 247,233 | 240,054 | 7,179 |
| Legal | 342,431 | 270,325 | 72,106 |
| Interest on Long-term debt | 5,325,401 | 5,052,733 | 272,668 |
| Total expenses | 33,740,814 | 27,368,534 | 6,372,280 |
| Increase in net assets | 21,405,399 | 15,944,864 | 5,560,535 |
| Prior period adjustment | 67,574,522 | 0 | 67,574,522 |
| Net assets (deficit) beginning of year | (33,650,840) | (49,595,704) | 15,944,864 |
| Net assets (deficit) end of year | \$55,329,081 | \$(33,650,840) | \$21,678,241 |

Governmental Activities

Governmental activities increased the City's net assets by \$21,405,399 with total revenues of \$55,146,213 and total expenses of \$33,740,814. Revenues consisted primarily of \$6,757,180 for charges for services, \$6,805,946 for grants and contributions, \$6,365,870 for property taxes, \$12,243,150 for sales taxes, \$3,590,310 for other taxes, and \$19,383,727 for other revenue.

Revenues by Source - Governmental Activities

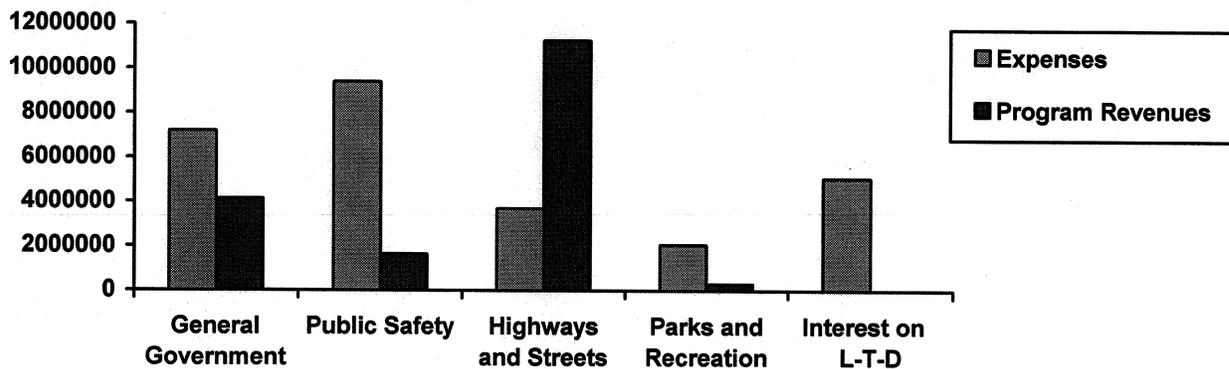


Charges or services increased by \$925,150 over the prior year with growth in privilege licenses, building permits and trade permits. Property taxes increased by \$525,821 from the prior year. Other taxes increased by \$245,624 from the prior year.

As discussed earlier, the City's governmental activities are categorized in the following programs: general government, public safety, highways and streets and parks and recreation. All governmental programs utilize general revenue to support their functions. The programs are serviced by various departments and the expenses for the services are allocated to each department.

Management's Discussion and Analysis - continued

Expenses and Program Revenues - Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

The combined fund balances of the City's governmental funds were \$22,855,702 at September 30, 2007, an increase of \$11,155,072 from the prior fiscal year. Of the total combined fund balances, \$5,677,455 constitutes unreserved fund balance, which is generally available for spending at the City's discretion, although it is subject to certain limitations inherent in the funds where the balances are retained. The remainder of the total fund balance, or \$17,178,247 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders, pay debt service, or has generally been committed for other purposes.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2007, unreserved fund balance of the general fund totaled \$5,667,055. The total fund balance was \$6,974,798. Unreserved fund balance represents 23.73 percent of the total general fund expenditures.

Management's Discussion and Analysis - continued

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are summarized as follows:

- \$1,691,956 increase for total revenues
- \$1,728,676 increase for total expenditures

Of the \$1,728,676 increase in expenditures, \$854,597 for reallocation of expenditures for the public works department. During the year, revenues exceeded budget by \$250,608 and expenditures were under budget by \$2,821,026.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets for governmental activities as of September 30, 2007, totaled \$139,743,777 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress.

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

- Acquired land in the amount of \$125,400.
- Purchased a building for temporary housing for the fire station #2 personnel; a total cost of \$54,893.
- A variety of improvements to streets and highways were completed for a total cost of \$343,870.
- Construction of various improvements to streets and highways began for a total cost of \$3,384,162.

Management's Discussion and Analysis - continued

CITY OF MADISON'S CAPITAL ASSETS
(net of depreciation)

| | Governmental Activities | | |
|-----------------------------------|--------------------------------|-------------------------------|---------------------|
| | September 30, 2007 | September 30, 2006 | Change |
| Land | \$ 21,479,874 | \$ 8,867,115 | \$12,612,759 |
| Buildings | 8,086,016 | 8,249,086 | (163,070) |
| Building improvements | 870,591 | 904,222 | (33,631) |
| Improvements other than buildings | 1,098,583 | 964,538 | 134,045 |
| Vehicles and equipment | 7,832,007 | 7,687,422 | 144,585 |
| Infrastructure | 96,062,855 | 23,905,835 | 72,157,020 |
| Construction in progress | 4,313,851 | 1,322,214 | 2,991,637 |
| | <u>\$139,743,777</u> | <u>\$51,900,432</u> | <u>\$87,843,345</u> |

Additional information on the City's capital assets can be found in Note 4 on pages 43 through 46 of this report.

Long-Term Debt. As of September 30, 2007, the City has \$113,934,987 of long-term debt outstanding. Of this amount, \$112,420,000 is general obligation warrants backed by the full faith and credit of the City and \$1,514,987 comprised of capital lease obligations collateralized by certain vehicles and equipment.

Changes in debt outstanding are as follows:

| | Governmental Activities | | |
|-----------------------------|--------------------------------|-------------------------------|-------------------|
| | September 30, 2007 | September 30, 2006 | Change |
| Capital lease obligations | \$ 1,514,987 | \$ 1,821,975 | (\$306,988) |
| General obligation warrants | 112,420,000 | 102,045,000 | 10,375,000 |
| Less deferred amount for: | | | |
| Issuance discounts | (1,078,643) | (1,147,164) | 68,521 |
| | <u>\$112,856,344</u> | <u>\$102,719,811</u> | <u>10,136,533</u> |

Management's Discussion and Analysis - continued

Long-Term Debt - continued

Other than debt paid from proprietary fund revenue sources (e.g. sewer debt and revenue bonds), State of Alabama law limits the amount of general obligation debt cities can issue for purposes other than schools and drainage systems to twenty percent of the assessed value of real and personal property. Of the \$112,420,000 outstanding debt, the amount of \$56,430,000 is outstanding general obligation school warrants, which is not charged against the allowable debt limit. As of September 30, 2007, the City's allowable debt limit was \$97,060,768. The City was well in compliance with its debt limit at \$55,990,000.

Debt Limitation and Ratings

The City's general obligation bond rating by Moody's Investor Services, Inc. is A1 and Standards and Poor's is AA-.

Additional information on the City's long-term debt can be found in Note 4 on pages 49 through 52 of this report.

Additional Information

The Mayor and City Council considered many factors when developing the 2008 annual operating budget including the state of the surrounding local economies. In this manner, the City conservatively approved a General Fund budget anticipating a slow to moderate growth which consists of \$24,841,552 for revenues, \$3,680,821 for other financing sources and \$2,013,231 of beginning resources. Expenses were approved for \$30,245,857 and \$289,747 for other financing uses.

The fund balance of the General Fund projected to decrease \$2,013,231. Although the fund balance of the General Fund was projected to decrease, the projected fund balance is more than 10 percent of the estimated revenues which is required by the City's fiscal policy.

Request for Information

This financial report is designed as a general overview of the City's finances and to demonstrate accountability for the money it receives from taxpayers, customers, and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 100 Hughes Road, City of Madison, Alabama, 35758. The City's telephone number is (256) 772-5600. Updated financial information may be obtained on the City's website at www.madisonal.gov.

BASIC FINANCIAL STATEMENTS

CITY OF MADISON, ALABAMA
STATEMENT OF NET ASSETS
September 30, 2007

| | Primary Government | Component Units | |
|--|----------------------------|---|---------------------------------------|
| | Governmental Activities | The Water and Wastewater Board | Madison City Board of Education |
| ASSETS | | | |
| Cash and cash equivalents | \$ 6,264,442 | \$ 3,228,649 | \$ 18,758,893 |
| Investments | - | - | - |
| Receivables, net | | | |
| Tax and tax equivalents | 7,376,618 | - | - |
| Other | 468,799 | 2,142,618 | 3,297,487 |
| Inventory | - | 453,254 | 114,309 |
| Prepaid expenditures | 168,712 | - | - |
| Other | 566 | 25,971 | - |
| Restricted assets: | | | |
| Temporarily restricted: | | | |
| Cash and cash equivalents | 15,727,849 | - | - |
| Grants receivable | 229,524 | - | - |
| Other receivable | 200,516 | - | - |
| Total current assets | <u>30,437,026</u> | <u>5,850,492</u> | <u>22,170,689</u> |
| Noncurrent assets: | | | |
| Restricted assets: | | | |
| Cash and cash equivalents | 590,447 | 20,887,377 | - |
| Other assets | - | 1,606,721 | - |
| Bond issue cost, net | 1,547,126 | - | - |
| Capital assets not being depreciated | 25,793,725 | 5,537,827 | 7,487,434 |
| Capital assets net of accumulated depreciation | 113,950,052 | 112,299,441 | 70,671,610 |
| Total noncurrent assets | <u>141,881,350</u> | <u>140,331,366</u> | <u>78,159,044</u> |
| Total assets | <u>172,318,376</u> | <u>146,181,858</u> | <u>100,329,733</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and other current liabilities | 2,507,518 | 1,836,087 | 5,451,060 |
| Interest payable | 1,615,549 | 686,450 | - |
| Deferred revenue | 9,884 | - | 137,311 |
| Total current liabilities | <u>4,132,951</u> | <u>2,522,537</u> | <u>5,588,371</u> |
| Noncurrent liabilities: | | | |
| Due within one year | 2,865,232 | 1,829,609 | 487,691 |
| Due in more than one year | 109,991,112 | 67,431,595 | 9,385,617 |
| Total long-term liabilities | <u>112,856,344</u> | <u>69,261,204</u> | <u>9,873,308</u> |
| Total liabilities | <u>116,989,295</u> | <u>71,783,741</u> | <u>15,461,679</u> |
| NET ASSETS (DEFICIT) | | | |
| Invested in capital assets, net of related debt | 127,888,947 | 48,576,064 | 68,285,737 |
| Restricted for: | | | |
| Highways and streets | 508,262 | - | - |
| Debt service | 557,719 | 3,208,860 | - |
| Capital Improvements | 765,249 | 17,261,608 | 294,524 |
| Water Distribution and Storage Project | 986,409 | - | - |
| Other purposes | 12,741,653 | - | - |
| Unrestricted | <u>(88,119,158)</u> | <u>5,351,585</u> | <u>16,299,804</u> |
| Total net assets | <u>\$ 55,329,081</u> | <u>\$ 74,398,117</u> | <u>\$ 84,880,065</u> |

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

CITY OF MADISON, ALABAMA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2007

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|----------------------|-------------------------|--|--|--|---|---------------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Governmental Activities | Component Units | |
| | | | | | | The Water and Wastewater Board | Madison City Board of Education |
| Functions/Programs | | | | | | | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General Administration | \$ 2,243,804 | \$ 4,309,020 | \$ 79,104 | \$ - | \$ 2,144,320 | \$ - | \$ - |
| Police Protection | 5,076,097 | 1,301,002 | 383,359 | 10,000 | (3,381,736) | - | - |
| Public Works | 6,512,629 | 885,562 | - | 5,997,246 | 370,179 | - | - |
| City Clerk | 600,855 | - | - | - | (600,855) | - | - |
| Recreation | 2,139,803 | 196,753 | 1,545 | - | (1,941,505) | - | - |
| Fire | 4,346,954 | 1,750 | 334,722 | - | (4,010,482) | - | - |
| Planning and Building | 950,345 | 63,093 | - | - | (887,252) | - | - |
| Court | 977,773 | - | - | - | (977,773) | - | - |
| City Council | 164,042 | - | - | - | (164,042) | - | - |
| Finance | 933,230 | - | - | - | (933,230) | - | - |
| Human Resources | 2,943,704 | - | - | - | (2,943,704) | - | - |
| Mayor's Office | 294,973 | - | - | - | (294,973) | - | - |
| Revenue | 271,231 | - | - | - | (271,231) | - | - |
| Engineering | 370,309 | - | - | - | (370,309) | - | - |
| Senior Center | 247,233 | - | - | - | (247,233) | - | - |
| Legal | 342,431 | - | - | - | (342,431) | - | - |
| Interest on long-term debt | 5,325,401 | - | - | - | (5,325,401) | - | - |
| Total governmental activities | \$ 33,740,814 | \$ 6,757,180 | \$ 798,730 | \$ 6,007,246 | (20,177,658) | - | - |
| Component units: | | | | | | | |
| The Water and Wastewater Board | \$ 10,962,442 | \$ 11,733,112 | \$ - | \$ 2,676,440 | - | \$ 3,447,110 | - |
| Madison City Board of Education | 73,376,461 | 6,272,760 | 43,460,379 | 1,793,430 | - | - | (21,849,892) |
| Total component units | \$ 84,338,903 | \$ 18,005,872 | \$ 43,460,379 | \$ 4,469,870 | - | 3,447,110 | (21,849,892) |
| General revenues: | | | | | | | |
| Property taxes and payments in lieu of taxes | | | | | 6,365,870 | - | 11,983,533 |
| Sales and use taxes | | | | | 12,243,150 | - | 6,774,262 |
| Franchise taxes | | | | | 272,468 | - | - |
| Motor fuel taxes | | | | | 953,992 | - | - |
| Alcoholic beverage taxes | | | | | 828,045 | - | - |
| Rental Taxes | | | | | 408,314 | - | - |
| Lodging Taxes | | | | | 909,090 | - | - |
| Other Taxes | | | | | 218,401 | - | 115,418 |
| Unrestricted investment earnings | | | | | 1,168,713 | 894,022 | 1,250,195 |
| Miscellaneous | | | | | 18,314,482 | - | 4,394,285 |
| Gain (loss) on Sale of capital assets | | | | | (99,468) | - | - |
| Total general revenues | | | | | 41,583,057 | 894,022 | 24,517,693 |
| Change in net assets | | | | | 21,405,399 | 4,341,132 | 2,667,801 |
| Net assets - beginning of year, restated | | | | | 33,923,682 | 70,056,985 | 82,212,264 |
| Net assets - end of year | | | | | \$ 55,329,081 | \$ 74,398,117 | \$ 84,880,065 |

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

**CITY OF MADISON, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2007**

| | General | Water Distribution and Storage Project Fund | School Bonds Fund | 2006 Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--|-------------------------|--|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 6,264,442 | \$ 1,234,494 | \$ - | \$ 12,506,003 | \$ 1,967,352 | \$ 21,972,291 |
| Cash with fiscal agent | - | - | 75,470 | - | 514,977 | 590,447 |
| Receivables, net | | | | | | |
| Tax and tax equivalents | 4,334,448 | 2,801,395 | - | - | 240,775 | 7,376,618 |
| Grants | - | - | - | - | 6,287 | 6,287 |
| Other | 326,740 | - | - | - | 142,059 | 468,799 |
| Prepaid items | 168,483 | - | - | - | 229 | 168,712 |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 20,000 | - | - | - | - | 20,000 |
| Grants receivable | 223,237 | - | - | - | - | 223,237 |
| Due from other funds | 534,012 | - | - | - | 340,986 | 874,998 |
| Total Assets | \$ 11,871,362 | \$ 4,035,889 | \$ 75,470 | \$ 12,506,003 | \$ 3,212,665 | \$ 31,701,389 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 414,988 | \$ - | \$ - | \$ 93,704 | \$ 516,798 | \$ 1,025,490 |
| Accrued compensation and benefits | 591,993 | - | - | - | - | 591,993 |
| Due to other funds | 340,986 | 499,480 | - | - | 34,532 | 874,998 |
| Retainage payable | - | - | - | - | 17,069 | 17,069 |
| Deferred revenue | 3,305,884 | 2,550,000 | - | - | 237,540 | 6,093,424 |
| Other liabilities | 242,713 | - | - | - | - | 242,713 |
| Total Liabilities | 4,896,564 | 3,049,480 | - | 93,704 | 805,939 | 8,845,687 |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Encumbrances | 896,023 | - | - | 363,121 | 164,725 | 1,423,869 |
| Prepaid expenditures | 168,483 | - | - | - | 229 | 168,712 |
| Restricted assets | 243,237 | 986,409 | - | 12,049,178 | 1,671,130 | 14,949,954 |
| Debt Service | - | - | 75,470 | - | 514,977 | 590,447 |
| Capital projects | - | - | - | - | 45,265 | 45,265 |
| Unreserved, reported in: | | | | | | |
| General fund | 5,667,055 | - | - | - | - | 5,667,055 |
| Special revenue funds | - | - | - | - | 10,400 | 10,400 |
| Total fund balances | 6,974,798 | 986,409 | 75,470 | 12,412,299 | 2,406,726 | 22,855,702 |
| Total Liabilities and Fund Balances | \$ 11,871,362 | \$ 4,035,889 | \$ 75,470 | \$ 12,506,003 | \$ 3,212,665 | |

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. | 139,743,777 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 6,284,622 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(113,555,020)</u> |
| Net assets of governmental activities | <u>\$ 55,329,081</u> |

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

CITY OF MADISON, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

| | General | Water Distribution and Storage Project Fund | School Bonds Fund | 2006 Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--|-------------------------|--|--------------------------------|--------------------------------|
| REVENUES | | | | | | |
| Taxes: | | | | | | |
| Property and payment in lieu of taxes | \$ 3,166,024 | \$ 2,426,818 | \$ - | \$ - | \$ 220,308 | \$ 5,813,150 |
| Sales and use | 9,754,248 | 2,529,745 | - | - | - | 12,283,993 |
| Franchise | 272,468 | - | - | - | - | 272,468 |
| Alcoholic beverage | 828,045 | - | - | - | - | 828,045 |
| Rental | 408,314 | - | - | - | - | 408,314 |
| Lodging | 909,090 | - | - | - | - | 909,090 |
| Other | 218,401 | - | - | - | - | 218,401 |
| Licenses and permits | 4,157,453 | - | - | - | - | 4,157,453 |
| Intergovernmental | 673,408 | - | - | - | 1,274,025 | 1,947,433 |
| Charges for services | 1,263,847 | - | - | - | 48,300 | 1,312,147 |
| Fines | 950,901 | - | - | - | 336,679 | 1,287,580 |
| Investment earnings | 284,599 | 113,366 | 2,696 | 507,806 | 260,246 | 1,168,713 |
| Contributions and donations | 5,806 | - | - | - | 42,800 | 48,606 |
| Other revenues | 941,893 | - | 4,584,128 | - | 30,755 | 5,556,776 |
| Total revenues | 23,834,497 | 5,069,929 | 4,586,824 | 507,806 | 2,213,113 | 36,212,169 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General Administration | 727,717 | 4,912 | 56 | 13 | 518,104 | 1,250,802 |
| Police | 4,794,651 | - | - | - | 94,236 | 4,888,887 |
| Public Works | 2,749,869 | - | - | - | 1,200,635 | 3,950,504 |
| City Clerk | 596,897 | - | - | - | - | 596,897 |
| Recreation | 1,928,529 | - | - | - | - | 1,928,529 |
| Fire | 4,126,402 | - | - | - | 846 | 4,127,248 |
| Planning and Building | 935,285 | - | - | - | - | 935,285 |
| Court | 973,634 | - | - | - | - | 973,634 |
| City Council | 161,141 | - | - | - | - | 161,141 |
| Finance | 914,484 | - | - | - | - | 914,484 |
| Human Resources | 2,941,506 | - | - | - | - | 2,941,506 |
| Mayor's Office | 293,795 | - | - | - | - | 293,795 |
| Revenue | 269,254 | - | - | - | - | 269,254 |
| Engineering | 365,580 | - | - | - | - | 365,580 |
| Senior Center | 238,550 | - | - | - | - | 238,550 |
| Legal | 342,057 | - | - | - | - | 342,057 |
| Debt service: | | | | | | |
| Principal | 492,292 | - | 1,870,000 | - | 712,500 | 3,074,792 |
| Interest | 80,118 | - | 2,720,708 | - | 2,122,969 | 4,923,795 |
| Bond issue costs | - | - | - | - | 559,525 | 559,525 |
| Capital outlay | 945,394 | - | - | 93,704 | 4,060,033 | 5,099,131 |
| Total expenditures | 23,877,155 | 4,912 | 4,590,764 | 93,717 | 9,268,848 | 37,835,396 |
| Excess (deficiency) of revenues over (under) expenditures | (42,658) | 5,065,017 | (3,940) | 414,089 | (7,055,735) | (1,623,227) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers from other funds | 1,939,769 | - | - | 11,998,210 | 3,760,449 | 17,698,428 |
| Transfers to other funds | (270,231) | (4,562,099) | - | - | (12,866,098) | (17,698,428) |
| Sales of Capital Assets | 35,059 | - | - | - | - | 35,059 |
| Capital Leases | 185,305 | - | - | - | - | 185,305 |
| Refunding bonds issued | - | - | - | - | 37,980,000 | 37,980,000 |
| Payment to refund 1998-C | - | - | - | - | (16,580,618) | (16,580,618) |
| Payment to refund 2001 | - | - | - | - | (9,127,128) | (9,127,128) |
| Premium on debt issued | - | - | - | - | 285,481 | 285,481 |
| Other | 200 | - | - | - | - | 200 |
| Total other financing sources (uses) | 1,890,102 | (4,562,099) | - | 11,998,210 | 3,452,086 | 12,778,299 |
| Net change in fund balances | 1,847,444 | 502,918 | (3,940) | 12,412,299 | (3,603,649) | 11,155,072 |
| Fund balances - beginning of year | 5,127,354 | 483,491 | 79,410 | - | 6,010,375 | 11,700,630 |
| Fund balances - end of year | \$ 6,974,798 | \$ 986,409 | \$ 75,470 | \$ 12,412,299 | \$ 2,406,726 | \$ 22,855,702 |

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

**CITY OF MADISON, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended September 30, 2007**

Amounts reported for governmental activities in the statement of activities (page 20) are different because:

| | |
|---|----------------------|
| Net change in fund balances - total governmental funds (page 22) | \$ 11,155,072 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 1,750,205 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. | (134,527) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 530,384 |
| The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 9,394,204 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | <u>(1,289,939)</u> |
| Change in net assets of governmental activities (page 20) | <u>\$ 21,405,399</u> |

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

CITY OF MADISON, ALABAMA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the year ended September 30, 2007

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Property tax and payments in lieu of taxes | \$ 2,999,473 | \$ 3,149,473 | \$ 3,166,024 | \$ 16,551 |
| Sales and use | 9,425,000 | 9,635,000 | 9,754,248 | 119,248 |
| Franchise | 261,000 | 261,000 | 272,468 | 11,468 |
| Alcoholic beverage | 775,466 | 790,466 | 828,045 | 37,579 |
| Rental | 360,000 | 371,000 | 408,314 | 37,314 |
| Lodging | 880,000 | 885,000 | 909,090 | 24,090 |
| Other | 217,840 | 217,840 | 218,401 | 561 |
| Licenses and permits | 3,787,230 | 3,908,630 | 4,157,453 | 248,823 |
| Intergovernmental | 994,692 | 1,288,220 | 673,408 | (614,812) |
| Charges for services | 476,318 | 1,200,005 | 1,263,847 | 63,842 |
| Fines | 691,000 | 800,000 | 950,901 | 150,901 |
| Investment earnings | 115,000 | 137,500 | 284,599 | 147,099 |
| Contribution and donations | 5,783 | 10,313 | 5,806 | (4,507) |
| Other revenues | 903,131 | 929,442 | 941,893 | 12,451 |
| Total revenues | 21,891,933 | 23,583,889 | 23,834,497 | 250,608 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Administration | 755,437 | 786,437 | 727,717 | 58,720 |
| Police | 5,068,599 | 5,912,642 | 4,794,651 | 1,117,991 |
| Public Works | 2,106,097 | 2,961,860 | 2,749,869 | 211,991 |
| City Clerk | 651,093 | 652,034 | 596,897 | 55,137 |
| Recreation | 2,121,131 | 2,233,980 | 1,928,529 | 305,451 |
| Fire | 4,179,809 | 4,287,689 | 4,126,402 | 161,287 |
| Planning and Building | 1,038,265 | 1,046,749 | 935,285 | 111,464 |
| Court | 802,055 | 965,524 | 973,634 | (8,110) |
| City Council | 185,872 | 169,222 | 161,141 | 8,081 |
| Finance | 941,752 | 949,373 | 914,484 | 34,889 |
| Human Resources | 3,330,767 | 3,427,972 | 2,941,506 | 486,466 |
| Mayor's Office | 387,021 | 354,575 | 293,795 | 60,780 |
| Revenue | 249,468 | 286,858 | 269,254 | 17,604 |
| Engineering | 376,991 | 387,784 | 365,580 | 22,204 |
| Senior Center | 254,545 | 257,045 | 238,550 | 18,495 |
| Legal | 329,499 | 331,907 | 342,057 | (10,150) |
| Debt service: | | | | |
| Principal | 423,933 | 523,098 | 492,292 | 30,806 |
| Interest | 67,460 | 85,536 | 80,118 | 5,418 |
| Capital outlay | 1,699,711 | 1,077,874 | 945,394 | 132,480 |
| Total expenditures | 24,969,505 | 26,698,159 | 23,877,155 | 2,821,004 |
| Excess (deficiency) of revenues over (under) expenditures | (3,077,572) | (3,114,270) | (42,658) | 3,071,612 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from other funds | 1,931,333 | 1,931,333 | 1,939,769 | 8,436 |
| Transfers to other funds | (264,747) | (264,747) | (270,231) | (5,484) |
| Capital Leases | 105,000 | 252,195 | 185,305 | (66,890) |
| Sale of Capital Assets | 5,000 | 5,000 | 35,059 | 30,059 |
| Other | - | - | 200 | 200 |
| Total other financing sources (uses) | 1,776,586 | 1,923,781 | 1,890,102 | (33,679) |
| Net change in fund balance | (1,300,986) | (1,190,489) | 1,847,444 | 3,037,933 |
| Fund balance - beginning of year | 5,127,354 | 5,127,354 | 5,127,354 | - |
| Fund balance - end of year | \$ 3,826,368 | \$ 3,936,865 | \$ 6,974,798 | \$ 3,037,933 |

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

CITY OF MADISON, ALABAMA
WATER DISTRIBUTION AND STORAGE PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2007

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|--------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Intergovernmental: | | | | |
| Property tax and payment in lieu | \$ 2,385,000 | \$ 2,421,000 | \$ 2,426,818 | \$ 5,818 |
| Sales and use taxes | 2,450,000 | 2,510,000 | 2,529,745 | 19,745 |
| Investment earnings | 51,000 | 51,000 | 113,366 | 62,366 |
| Total revenues | 4,886,000 | 4,982,000 | 5,069,929 | 87,929 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Administration | 6,000 | 6,000 | 4,912 | 1,088 |
| Total expenditures | 6,000 | 6,000 | 4,912 | 1,088 |
| Excess (deficiency) of revenues over under expenditures | 4,880,000 | 4,976,000 | 5,065,017 | 89,017 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers to other funds | (4,901,918) | (4,722,922) | (4,562,099) | 160,823 |
| Total other financing sources (uses) | (4,901,918) | (4,722,922) | (4,562,099) | 160,823 |
| Net change in fund balances | (21,918) | 253,078 | 502,918 | 249,840 |
| Fund balance - beginning of year | 483,491 | 483,491 | 483,491 | - |
| Fund balance - end of year | \$ 461,573 | \$ 736,569 | \$ 986,409 | \$ 249,840 |

**CITY OF MADISON, ALABAMA
SCHOOL BOND FUNDS**
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2007

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Investment earnings | \$ 2,081 | \$ 2,081 | \$ 2,696 | \$ 615 |
| Other Revenue | 4,590,712 | 4,590,712 | 4,584,128 | (6,584) |
| Total revenues | 4,592,793 | 4,592,793 | 4,586,824 | (5,969) |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Administration | - | - | 56 | (56) |
| Debt service: | | | | |
| Principal | 1,870,000 | 1,870,000 | 1,870,000 | - |
| Interest | 2,720,712 | 2,720,712 | 2,720,708 | 4 |
| Total expenditures | 4,590,712 | 4,590,712 | 4,590,764 | (52) |
| Excess (deficiency) of revenues over under expenditures | 2,081 | 2,081 | (3,940) | (6,021) |
| Fund balance - beginning of year | 79,410 | 79,410 | 79,410 | - |
| Fund balance - end of year | <u>\$ 81,491</u> | <u>\$ 81,491</u> | <u>\$ 75,470</u> | <u>\$ (6,021)</u> |

NOTES TO FINANCIAL STATEMENTS

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Madison, Alabama (the City) was incorporated under the laws of the State of Alabama in 1869 and operates under an elected Mayor-Council form of government.

The City complies with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Madison (the primary government) and its component units, entities for which the City is considered to be financially accountable. Each component unit of the City is discretely presented in a separate column in the basic financial statements to emphasize the fact that it is legally separate from the City. Each discretely presented component unit has a September 30 year-end.

DISCRETELY PRESENTED COMPONENT UNITS

Water and Wastewater Board

The Water and Wastewater Board (the "Board") of the City of Madison is a public corporation organized under Alabama Code Sections 11-50-310 through 324, inclusive. The Board provides water and wastewater services to the residents and businesses in the City. The Board consists of five members who manage all property and business of this corporation. The members of the Board are appointed by the City Council of the City of Madison. The City issued general obligation warrants which were used for water and wastewater purposes. The financial statements of the Board are reported in a separate column to emphasize that they are legally separate from the City. The Board is reported as a proprietary fund type.

Madison City Board of Education

The Board of Education consists of five members appointed by the City Council. The Board of Education is vested with all powers necessary and proper, as authorized by the state law or regulation of the Alabama State Board of Education, for the administration and management of free public schools in the City. The City issued general obligation warrants which were used for school purposes. The financial statements of Madison City Board of Education are reported in a separate column to emphasize that they are legally separate from the City. Madison City Board of Education is reported as a governmental fund type.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued -

Madison City Board of Education - Continued -

Complete financial statements of the Water and Wastewater Board and Madison Board of Education discretely presented component units may be obtained at the administrative office of the entity.

Water and Wastewater Board
Palmer Road
Madison, Alabama 35758

Madison Board Education
211 Celtic Drive
Madison, Alabama 35758

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued -

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

Property taxes, sales and use taxes, alcoholic beverage taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other taxes and receipts are considered to be measurable and available only when cash is received by the government.

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

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

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *water distribution and storage project fund* accounts for the ½ cent sales tax and the 5 ½ mill property tax.

The *school bonds fund* accounts for the 1998-A, 1998-B, 1999, 2000, 2001, and 2002 school warrants.

The *capital improvement fund* accounts for a variety of public works and capital improvement projects in the City consisting of public safety, recreation, streets, drainage and other improvements. Financing was provided by the sale of general obligation warrants.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued -

The City reports the following fund types:

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Debt service funds are used to account for the accumulation of resources and payment of general obligation bond principal and interest from government resources.

Capital projects funds are used to account for financial resources segregated from acquisition of major capital facilities.

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

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

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

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

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

State statutes authorize the City to invest in obligations of the U.S. Treasury, State of Alabama, Alabama counties, or the general obligations of Alabama municipalities.

Investments for the City, as well as for its component units, are stated at fair market value.

2. Receivables and Payables

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

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

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

3. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased except commodities donated by the federal government, which are expensed when consumed.

4. Restricted Assets

Certain proceeds of general obligation warrants, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet and statement of net assets because their use is limited by applicable warrant indentures. In addition, cash accounts and other assets restricted for specific purposes are classified as restricted assets on the balance sheet and statement of net assets.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued -

5. Capital Assets

Capital assets of the City, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, or if inadequate records were available to determine the actual cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused annual and sick leave benefits. There is no liability for unpaid accumulated sick leave. No sick leave is paid upon separation from the City's services. Employees can carry a maximum of 200 hours of unused annual leave forward into the next leave year. Any accumulated annual leave that exceeds this amount at the end of the leave year will be forfeited. Upon separation from City service, an employee will be paid for all accrued annual leave. Annual leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. All unused annual leave is accrued when earned by the employee in the government-wide financial statements and is considered a current liability.

The compensated absences policy of the Water and Wastewater Board is the same as stated for the City.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued -

6. *Compensated Absences - Continued*

The compensated absences policy for Madison Board of Education states that professional and support personnel are provided 2-5 days of personal leave per year with pay depending on years of service. The State provides funding, at the substitute rate, for up to 2 days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to 2 days of unused personal leave. Professional and support personnel may convert unused, un-reimbursed personal leave to sick leave at the end of the scholastic year. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is reported in the financial statements.

Employees with 10 years or less in service with Madison City Schools are allowed 10 working days. Employees with 11 years or greater in service with Madison City Schools are allowed 15 working days. Unused vacation leave can be carried over to succeeding years to a maximum of 2 years of accrued leave as of June 30 of each year.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate unlimited days of sick leave. Employees may use their accrued sick leave as membership service in determining the total year of creditable service in the Teachers' Retirement System, with no additional cost to Madison Board of Education. The State provides partial funding for substitutes employed while employees are on sick leave. Most of the salaries paid to employees utilizing sick leave are paid from state and federal funds. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded in the financial statements.

7. *Long-Term Obligations*

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

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

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued -

8. Fund Equity

Government-wide statements - Equity is classified as net assets, and displayed in three components:

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

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

9. Use of Estimates in the Preparation of Financial Statements

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

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

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

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

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

| | |
|--|----------------------|
| Bonds payable | \$112,420,000 |
| Less: Deferred charge for issuance costs (to be amortized as interest expense) | (1,547,126) |
| Less: Issuance discount (to be amortized as interest expense) | (1,078,643) |
| Accrued interest payable | 1,615,549 |
| Capital lease payable | 1,514,987 |
| Compensated absences | <u>630,253</u> |
| Net adjustment to reduce <i>fund balance</i> <i>total governmental funds</i> to arrive at <i>net assets</i> <i>governmental activities</i> | <u>\$113,555,020</u> |

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net change in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The details of this difference are as follows:

| | |
|---|---------------------|
| Capital outlay | \$ 5,099,131 |
| Depreciation expense | <u>(3,348,926)</u> |
| Net adjustment to increase <i>net change in fund balances -</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i> | <u>\$ 1,750,205</u> |

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

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

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities - Continued -

Another element of that reconciliation states "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is a decrease to net assets." The decrease of this \$134,527 difference is as follows:

In the statement of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

\$ (134,527)

Another element of that reconciliation states "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

The details of this difference are as follows:

| | |
|---|---------------------|
| Debt issued or incurred: | |
| Capital leases financing | \$ 185,305 |
| General Obligation bonds | 37,980,000 |
| Premium | 285,481 |
| Payments to escrow agent for refunding | (25,422,265) |
| Bond issuance expense | (559,525) |
| Principal repayments | |
| General obligation debt | (2,582,500) |
| Payments on capital leases | <u>(492,292)</u> |
| Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ 9,394,204</u> |

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

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

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities - Continued -

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$1,289,938 difference are as follows:

| | |
|---|---------------------------------|
| Compensated absences | \$ (31,240) |
| Accrued interest | (401,606) |
| Amortization of issuance costs | (76,899) |
| Amortization of bond discounts | (62,052) |
| Salary Expense | 566 |
| Refunded debt issuance cost and discount | <u>(718,708)</u> |
| Net adjustment to <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u><u>\$(1,289,939)</u></u> |

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Federal Forfeiture Fund, the Police Block Grant Fund and the Fire CPR Fund of the special revenue funds, and the capital projects funds. The capital projects funds are budgeted over the life of the respective project and not on an annual basis. All annual appropriations lapse at fiscal year end.

The budget preparation is coordinated through the Mayor's Office and the Finance Department. Each head of the City departments is responsible for preparing and submitting their appropriation requests according to the budget schedule. The Mayor submits the proposed budget to the City Council Finance Committee. The City Council Finance Committee holds meetings to review and make recommended changes to the proposed budget. After the City Council Finance Committee completes a final review of the proposed budget, the proposed budget document is submitted to the City Council for work sessions. After all scheduled work sessions have been conducted, the proposed budget is presented to the City Council at a regular scheduled council meeting for a public hearing and consideration for adoption before October 1.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

A. Budgetary Information - Continued -

The City adopts a line item budget. There are two types of budget amendments. The first type causes a net change in the overall budget. This type of amendment may result from an increase or decrease to revenues and/or expenditures. Budget amendments of this nature are legislature and require the approval of the City Council.

The second type of budget amendment does not cause any net change in the overall budget. The effect is that it redistributes appropriated funding within a department to different line items without causing an increase or decrease in the budget. The exceptions are amendments, within a department, in excess of \$1,000, funding increase or decrease to the personnel compensation, and funding increase or decrease to the capital outlay line item. These types of amendments require approval of the City Council Finance Committee.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments have not been fulfilled in the current year and will be re-appropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

The City maintains a level of control at the department level. The following departments had expenditures exceeding appropriations:

| <u>Fund</u> | <u>Department</u> | <u>Amount</u> |
|-------------|-------------------|---------------|
| General | Court | \$ 8,840 |
| | Legal | \$ 10,339 |

C. Deficit Fund Balance

There were no funds with a deficit fund balance as of September 30, 2007.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year-end, the City's carrying amount of deposits and bank balance were covered by federal depository insurance or by collateral held as part of the State of Alabama's SAFE Program. The program insures all accounts specified as public funds for the majority of banks located within the State of Alabama.

At September 30, 2007, the City had the following investments held by a trustee:

| <u>Investment</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Days)</u> |
|---|-------------------|---|
| Money Market Mutual Funds comprised of U.S. Treasury Bills | <u>\$590,447</u> | 36 - 41 |

Interest rate risk - In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

Credit risk - State statutes limit the City's investments to U.S. Treasury obligations, State of Alabama and Alabama County obligations, and general obligations of Alabama municipalities. At September 30, 2007, the City's investments consisted of Goldman Sachs Treasury Instrument Funds and Dreyfus Treasury Prime Cash Management Funds. Both funds are comprised of U.S. Treasury Bills. The Goldman Sachs Treasury Instrument Fund is Aaa rated by Standard & Poor's Ratings Group. The Dreyfus Treasury Prime Cash Management Fund is not rated.

Custodial credit risk - This is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy limits its investments to no more than 50% may be invested with a single financial institution with the exception of cash, certificates of deposit, U.S. Treasury securities, and authorized pools. At September 30, 2007 the City's investments consisted solely of U.S. Treasury Bills held by one financial institution.

At year-end the Water and Wastewater Board's, a discretely presented component unit, carrying amount of deposits and bank balance were maintained by an institution whose accounts are insured up to \$100,000 by an Agency of the Federal Government and the excess collateralized by securities pledged by the financial institution. Act No. 2002-748 passed by the Alabama Legislature makes it mandatory for all deposits of public funds to be secured by collateral pledged to the Security for Alabama Funds Enhancement (SAFE) collateral pool established by the State Treasurer's Office. The Water and Wastewater is enrolled in this program.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

At September 30, 2007, unrestricted deposits on hand at banks and in certificates of deposit of the Madison City Board of Education, a discretely presented component unit, were fully collateralized by banks qualifying under the Security for Alabama Funds Enhancement Act (SAFE) as qualified public depositories.

B. Deferred Revenue and Receivables

Deferred Revenue

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

| | <u>Unavailable</u> | <u>Unearned</u> |
|---|-------------------------|---------------------|
| Property taxes receivable (general fund) | \$ 3,296,000 | \$ - |
| Property taxes receivable (special revenue fund) | 2,787,540 | - |
| General Fund - Property Rental | <u>-</u> | <u>9,884</u> |
| Total deferred/unearned revenue for governmental funds | <u>\$ 6,083,540</u> | <u>\$ 9,884</u> |

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

B. Deferred Revenue and Receivables - Continued

Receivables

Receivables as of year end for the City's individual major funds and nonmajor funds are as follows:

| | <u>General</u> | <u>Water Distribution and Storage Project Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------|---------------------|--|---|---|
| Receivables: | | | | |
| Taxes | \$ 4,334,448 | \$2,801,395 | \$ 240,775 | \$ 7,376,618 |
| Grants | - | - | 6,287 | 6,287 |
| Other | 326,740 | - | 142,059 | 468,799 |
| Grant-restricted | <u>223,237</u> | <u>-</u> | <u>-</u> | <u>223,237</u> |
| Total receivables | <u>\$ 4,884,425</u> | <u>\$2,801,395</u> | <u>\$ 389,121</u> | <u>\$ 8,071,941</u> |

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

C. Capital Assets

Capital asset activity for the year ended September 30, 2007, was as follows:

Primary Government

| | <u>Balance October 1, 2006</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance September 30, 2007</u> |
|---|--|----------------------|---------------------|---|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 8,867,115 | \$ 12,612,759 | \$ - | \$ 21,479,874 |
| Construction in progress | <u>1,322,214</u> | <u>3,402,995</u> | <u>(411,358)</u> | <u>4,313,851</u> |
| Total capital assets, not being depreciated | 10,189,329 | 16,015,754 | (411,358) | 25,793,725 |
| Capital assets, being depreciated: | | | | |
| Buildings | 10,874,320 | 54,893 | (650) | 10,928,563 |
| Improvements to buildings | 1,012,749 | 17,288 | - | 1,030,037 |
| Improvements other than buildings | 1,401,303 | 193,525 | - | 1,594,828 |
| Machinery and equipment | 11,634,072 | 921,159 | (413,975) | 12,141,256 |
| Infrastructure | <u>24,764,131</u> | <u>97,077,425</u> | <u>-</u> | <u>121,841,556</u> |
| Total capital assets, being depreciated | 49,686,575 | 98,264,290 | (414,625) | 147,536,240 |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,625,233) | (217,682) | 367 | (2,842,548) |
| Improvements to buildings | (108,527) | (50,919) | - | (159,446) |
| Improvements other than buildings | (436,765) | (59,480) | - | (496,245) |
| Machinery and equipment | (3,946,650) | (642,330) | 279,733 | (4,309,247) |
| Infrastructure | <u>(858,297)</u> | <u>(24,920,405)</u> | <u>-</u> | <u>(25,778,702)</u> |
| Total accumulated depreciation | <u>(7,975,472)</u> | <u>(25,890,816)</u> | <u>280,100</u> | <u>(33,586,188)</u> |
| Total capital assets, being depreciated, net | <u>41,711,103</u> | <u>72,373,474</u> | <u>(134,525)</u> | <u>113,950,052</u> |
| Governmental activities, capital assets, net | <u>\$ 51,900,432</u> | <u>\$ 88,389,228</u> | <u>\$ (545,883)</u> | <u>\$ 139,743,777</u> |

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

C. Capital Assets - Continued -

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

| | |
|--|---------------------|
| General Administration | \$ 135,341 |
| Police | 179,966 |
| Public Works | 2,554,317 |
| City Clerk | 3,957 |
| Recreation | 203,464 |
| Fire | 211,896 |
| Planning and Building | 15,060 |
| Court Clerk | 4,139 |
| City Council | 2,901 |
| Finance | 18,746 |
| Human Resources | 2,198 |
| Mayor's Office | 1,178 |
| Revenue | 1,977 |
| Engineering | 4,729 |
| Senior Center | 8,683 |
| Legal | <u>374</u> |
| Current period depreciation expense | 3,348,926 |
| Prior Period Adjustment: | |
| Infrastructure | <u>22,541,890</u> |
| Total depreciation expense - governmental activities | <u>\$25,890,816</u> |

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

C. Capital Assets - Continued -

Discretely presented components units

The following is a summary of changes in the Water and Wastewater Board, a discretely presented component unit, capital assets during the fiscal year:

| | <u>Balance October 1, 2006</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance September 30, 2007</u> |
|---|--|-------------------------|-------------------------|---|
| Water system | \$ 48,285,670 | \$18,610,521 | \$ - | \$ 66,896,191 |
| Sewer system | 71,098,204 | 3,619,449 | - | 74,717,653 |
| General plant | 5,553,224 | 645,703 | 393,385 | 5,805,542 |
| Construction in progress | <u>20,306,666</u> | <u>8,106,834</u> | <u>22,875,673</u> | <u>5,537,827</u> |
| Total capital assets, being depreciated | 145,243,764 | 30,982,507 | 23,269,058 | 152,957,213 |
| Less accumulated depreciation for: | | | | |
| Water system | 12,384,388 | 1,472,493 | - | 13,856,881 |
| Sewer system | 15,093,586 | 1,834,935 | - | 16,928,521 |
| General plant | <u>4,331,602</u> | <u>342,898</u> | <u>339,957</u> | <u>4,334,543</u> |
| Total accumulated depreciation | <u>31,809,576</u> | <u>3,650,326</u> | <u>339,957</u> | <u>35,119,945</u> |
| Water and Wastewater Board's capital assets, net | <u>\$ 113,434,188</u> | <u>\$27,332,181</u> | <u>\$22,929,101</u> | <u>\$117,837,268</u> |

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

C. Capital Assets - Continued -

Discretely presented components units - Continued -

The following is a summary of the Madison City Board of Education's, a discretely presented component unit, capital assets during the fiscal year:

| | <u>Balance October 1, 2006</u> | <u>Additions</u> | <u>Retirements and Reclassifications</u> | <u>Balance September 30, 2007</u> |
|--|--|----------------------------|--|---|
| Governmental Activities: | | | | |
| Land | \$ 5,925,116 | \$ 1,485,218 | \$ - | \$ 7,410,334 |
| Land improvements | 7,479,219 | 310,942 | - | 7,790,161 |
| Buildings | 75,736,797 | 5,805,227 | (58,898) | 81,483,126 |
| Equipment | 2,503,374 | 84,198 | (74,812) | 2,512,760 |
| Construction in progress | 5,082,195 | 77,100 | (5,082,195) | 77,100 |
| Vehicles | <u>4,233,382</u> | <u>915,384</u> | <u>-</u> | <u>5,148,766</u> |
| Total at historic cost | 100,960,083 | 8,678,069 | (5,215,905) | 104,422,247 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 2,823,481 | 342,701 | - | 3,166,182 |
| Buildings | 16,989,462 | 1,500,475 | (38,078) | 18,451,859 |
| Equipment | 1,352,944 | 188,932 | (71,913) | 1,469,963 |
| Vehicles | <u>2,866,373</u> | <u>308,826</u> | <u>-</u> | <u>3,175,199</u> |
| Total accumulated depreciation | <u>24,032,260</u> | <u>2,340,934</u> | <u>(109,991)</u> | <u>26,263,203</u> |
| Governmental Activities Capital Assets, Net | <u>\$76,927,823</u> | <u>\$ 6,337,135</u> | <u>\$(5,105,914)</u> | <u>\$78,159,044</u> |

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2007, is as follows:

Due to/from other funds (Primary Government):

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--|--|--------------------------|
| General Fund | Water Distribution and Storage Project Fund | \$ 499,480 |
| | Forward Purchase Bond Fund | 559 |
| | Domestic Violence Fund | 6,287 |
| | TVA Tax Distribution Fund | 27,686 |
| Gasoline Taxes and Inspection Fees Fund | General | 145 |
| Domestic Violence Fund | General | 2,385 |
| Correctional Fund | General | 290,536 |
| 2001 Capital Improvement Fund | Water Distribution and Storage Project Fund | 89 |
| Cemetery Fund | General | <u>47,831</u> |
| | Total | <u>\$ 874,998</u> |

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

D. Interfund receivables, payables, and transfers - Continued -

Interfund transfers:

| <u>Transfer From</u> | <u>Transfer To</u> | |
|--|-------------------------------|---------------------|
| General Fund | Nonmajor governmental funds | \$ 270,231 |
| Nonmajor governmental funds | General Fund | 199,971 |
| Nonmajor governmental funds | Nonmajor governmental funds | 667,917 |
| Water Distribution and Storage Project Fund | General Fund | 1,739,798 |
| Water Distribution and Storage Project Fund | Nonmajor governmental funds | 2,822,301 |
| Nonmajor governmental funds | 2006 Capital improvement fund | <u>11,998,210</u> |
| | Total | <u>\$17,698,428</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt services from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, including capital projects, in accordance with budgetary operations.

E. Leases

The government entered into a lease agreement as lessee for financing the acquisition of a city-wide communication system, police vehicles, computers, fire trucks and other equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, are recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

| Asset: | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| Machinery and equipment | \$2,738,355 |
| Less: Accumulated depreciation | <u>1,615,745</u> |
| Total | <u>\$1,122,610</u> |

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

E. Leases - Continued -

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007, are as follows:

| <u>Year Ending September 30</u> | <u>Governmental Activities</u> |
|---|--------------------------------|
| 2008 | \$ 554,802 |
| 2009 | 462,701 |
| 2010 | 239,576 |
| 2011 | 191,862 |
| 2012 | 111,913 |
| 2013 | <u>111,913</u> |
| Total minimum lease payments | 1,672,767 |
| Less: amount representing interest | <u>(157,780)</u> |
| Present value of minimum lease payments | <u>\$1,514,987</u> |

F. Long-term debt

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

General obligation warrants are direct obligations and pledge the full faith and credit of the government. These warrants generally are issued as 25 or 30-year serial warrants, except for refunding issues.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

F. Long-term debt - Continued -

General obligation warrants currently outstanding as of September 30, 2007, are as follows:

| | <u>Range of Interest Rates</u> | <u>Amount</u> |
|---|--------------------------------|--------------------------|
| <u>General Obligation Warrants</u> | | |
| Series 2005 | 4.70%-5.75% | 18,010,000 |
| Series 2006-A | 3.50%-4.54% | 37,980,000 |
| <u>General Obligation School Warrants</u> | | |
| Series 1998-A | 4.95%-5.20% | 5,820,000 |
| Series 1998-B | 4.10%-5.00% | 10,160,000 |
| Series 1999 | 3.70%-5.00% | 11,050,000 |
| Series 2000 | 4.80%-5.70% | 2,655,000 |
| Series 2001-A | 2.15%-5.125% | 7,180,000 |
| Series 2002 | 1.65%-5.125% | <u>19,565,000</u> |
| | | <u>\$112,420,000</u> |

Annual debt service requirements to maturity for general obligation warrants and general obligation school warrants are as follows:

| <u>Year Ending September 30</u> | <u>Governmental Activities</u> | |
|-------------------------------------|--------------------------------|-------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 2,370,000 | \$ 5,288,903 |
| 2009 | 2,465,000 | 5,185,348 |
| 2010 | 2,940,000 | 5,063,529 |
| 2011 | 3,060,000 | 4,939,318 |
| 2012 | 3,190,000 | 4,806,421 |
| 2013-2017 | 18,905,000 | 21,622,347 |
| 2018-2022 | 24,305,000 | 16,345,265 |
| 2023-2027 | 21,505,000 | 10,341,084 |
| 2028-2032 | 18,460,000 | 5,758,443 |
| 2033-2037 | <u>15,220,000</u> | <u>1,870,591</u> |
| | <u>\$112,420,000</u> | <u>\$81,221,248</u> |

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

F. Long-term debt - Continued -

Revenue bonds

The Water and Wastewater Board, a discretely presented component unit, issues bonds where the Board pledges income derived from the acquired or constructed assets to pay debt service.

Revenue bonds outstanding at September 30, 2007, are as follows:

| <u>Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> |
|-------------------------------------|---------------------|---------------------|
| 2008 | \$ 1,829,609 | \$ 2,003,535 |
| 2009 | 1,893,927 | 2,747,655 |
| 2010 | 2,003,423 | 2,677,985 |
| 2011 | 2,050,103 | 2,604,880 |
| 2012 | 2,030,000 | 2,532,283 |
| 2013-2017 | 11,135,000 | 11,505,982 |
| 2018-2022 | 12,960,000 | 9,309,470 |
| 2023-2027 | 12,915,000 | 6,777,778 |
| 2028-2032 | 19,015,000 | 3,214,920 |
| 2033-2037 | <u>4,345,000</u> | <u>103,194</u> |
| | <u>\$70,177,062</u> | <u>\$43,477,682</u> |

Changes in long-term liabilities

During the year ended September 30, 2007, the following changes occurred in the City's long-term liabilities:

| | <u>Balance October 1, 2006</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance September 30, 2007</u> |
|--|--|---------------------|----------------------|---|
| Capital lease obligations | \$ 1,821,975 | \$ 185,305 | \$ 492,293 | \$ 1,514,987 |
| General obligation warrants payable | 102,045,000 | 37,980,000 | 27,605,000 | 112,420,000 |
| Less deferred amounts for: | | | | |
| Issuance discounts | <u>(1,147,164)</u> | <u>(285,481)</u> | <u>354,002</u> | <u>(1,078,643)</u> |
| Long-term liabilities | <u>\$ 102,719,811</u> | <u>\$37,879,824</u> | <u>\$ 27,743,291</u> | <u>\$ 112,856,344</u> |

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

F. Long-term debt - Continued -

During the year ended September 30, 2006, the following changes in the liabilities reported for the Water and Wastewater Board, a discretely presented component unit:

| | <u>Balance October 1, 2006</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance September 30, 2007</u> |
|-----------------------|--|------------------|--------------------|---|
| Revenue bonds | <u>\$54,957,868</u> | <u>\$ -</u> | <u>\$2,228,096</u> | <u>\$52,729,772</u> |
| Long-term liabilities | <u>\$54,957,868</u> | <u>\$ -</u> | <u>\$2,228,096</u> | <u>\$52,729,772</u> |

G. Restricted assets

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

| <u>Activity</u> | <u>Restricted By</u> | |
|--------------------------------|-----------------------------|---------------------|
| Highways and streets | Law | \$ 508,262 |
| Debt service | General Obligation Warrants | 590,447 |
| Senior Center | Law | 4,547 |
| Library | Law | 26,351 |
| Capital Improvements | Law | 12,814,427 |
| Federal Forfeiture | Law | 48,488 |
| Domestic Violence | Grantor | 2,385 |
| Grants | Grantor | 223,237 |
| Water Distribution | Law | 986,409 |
| Neighborhood Park | Law | 20,000 |
| Nonmajor special revenue funds | Law | <u>334,739</u> |
| Total restricted assets | | <u>\$15,559,292</u> |

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

The balance sheet - governmental funds shows reserved fund balances for the following:

The reserve for restricted assets in the general fund (\$243,237 at September 30, 2007) is designated to be available for special purposes.

The reserve for encumbrances (\$896,023) is reserved for the payment of encumbered goods and services.

NOTE 5. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from the past three fiscal years have not exceeded commercial insurance coverage.

The Madison Board of Education is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Madison Board of Education has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The SIF is self-insured up to \$2 million per occurrence. The SIF purchases commercial insurance for claims that in the aggregate exceed \$2 million. Errors and omissions insurance is purchased from the Alabama School Boards Insurance Trust (ASBIT, a public entity risk pool. The ASBIT collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Madison Board of Education purchases commercial insurance for fidelity bonds and automobile coverage. Settled claims in the past three years have not exceeded the commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board. The plan was established to provide a uniform plan of health insurance for current and retired employees of state education institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 5. OTHER INFORMATION

A. Risk Management - Continued -

based on the amounts necessary to fund coverage. The Board contributes the specified amount monthly to the PEEHIF for each employee.

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

B. Related Party Transaction

On September 23, 1991, the City and the Water and Wastewater Board, a discretely presented component unit, entered into a franchise agreement for the operation of certain utility systems from the City. This franchise agreement was granted for the purpose of confirming and clarifying the holder of ownership interest in and to water and sewer improvements and fire hydrants previously dedicated to the City, which were transferred to the Board by the City. The Water and Wastewater Board pays the City, no later than September 1 of each year, a sum of money equal to three percent of its gross revenues from sales of utility services for the preceding fiscal year (exclusive of impact, administrative and tap fees) whether such sales occur within or outside the corporate limits of the City. The City received \$230,279 from the Water and Wastewater Board.

The North Alabama Gas District is governed by a Board of Directors composed of five members, two of whom are members of the City Council. The City received distributions based on the District's annual income. The City has no significant influence over the management, budget or policies of the District. During the fiscal year ended September 30, 2007, the City received \$227,787 from the North Alabama Gas District.

C. Related Organizations

The City's elected officials are responsible for appointing members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City's elected officials appoint the board members of the Architectural Review Board, Beautification Board, Community Education Committee, Industrial Development Board, and Recreation Advisory Board.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 5. OTHER INFORMATION - Continued

D. Subsequent Events

On October 22, 2007, the City of Madison contracted for construction of a traffic signal at County Line Road and Crownridge in the amount of \$135,400.

On October 22, 2007, the City of Madison contracted for construction of a traffic signal at Eastview Drive and Slaughter Road in the amount of \$55,000.

On October 22, 2007, the City of Madison contracted for construction of a traffic signal at Zierdt Road and Mountain Brook in the amount of \$53,500.

On November 5, 2007, the City of Madison approved an agreement with North Alabama Highway Safety Office for overtime grant for the Police Department in the amount of \$4,000.

On November 22, 2007, the City of Madison committed match funds in the amount of \$10,513 for continuation of the Domestic Violence Grant.

On January 14, 2008, the City of Madison contracted to purchase a swimming pool safety cover in the amount of \$10,350.

On January 14, 2008, the City of Madison contracted to purchase a digital video system and computers for the police department in the amount of \$426,981.

On February 25, 2008, the City of Madison contracted to purchase one (1) utility vehicle for the fire department in the amount of \$17,535.

On February 25, 2008, the City of Madison contracted to purchase one (1) mower for recreation department in the amount of \$9,937 and one (1) tractor in the amount of \$14,889.

On March 10, 2008, the City of Madison accepted a grant from FEMA in the amount of \$1,547,957 (\$632,550 federal share and \$915,407 local share) for six (6) employees for the fire department.

On April 14, 2008, the City of Madison accepted a grant from FEMA in the amount of \$79,919 (\$71,928 federal share and \$7,991 local share) for the purchase of a fire safety trailer.

On April 14, 2008, the City of Madison contracted to purchase fire and rescue equipment in the amount of \$13,500.

On May 1, 2008, the City of Madison issued General Obligation School Warrants, Series 2008, in the amount of \$12,235,000 for construction of a new elementary school.

On May 12, 2008, the City of Madison contracted for construction of paving improvements for Sullivan Street and Wall Triana in the amount of \$262,829.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 5. OTHER INFORMATION - Continued

D. Subsequent Events - continued

On May 12, 2008, the City of Madison contracted for construction of paving improvements for Balch Road in the amount of \$344,926.

On May 12, 2008, the City of Madison approved the financing for the purchase of fire truck in the amount of \$675,846.

On May 27, 2008, the City of Madison contracted for the purchase of two (2) knuckleboom systems in the amount \$236,634.

On June 9, 2008, the City of Madison contracted for the construction of a traffic signal at County Line Road and Crownridge in the amount of \$121,860.

E. Commitments and Contingencies

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion the resolution of these matters will not have a material adverse effect on the financial condition of the City.

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

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan

Primary Government:

Plan Description

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

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

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns, and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150.

Funding Policy

The System members are required to contribute five percent (5%) of their annual covered salary. Effective January 1, 2001, the member contribution rate for correctional officers, certified full-time firefighters and certified full-time law enforcement officers.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Funding Policy - continued -

increased to 6% of employees' compensation. The City is required to contribute at an actuarially determined rate. The current rate is 7.76% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the Retirement Systems of Alabama.

Annual Pension Cost

For fiscal year September 30, 2007, the City's annual pension cost of \$1,604,932 was equal to the City's required annual contributions. The required contribution was determined as part of the September 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increases of 4.61% to 7.75% per year. There are no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.50%. The actuarial valuation of System assets was determined using 5-year smoothed market values. The System's un-funded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2006 was 20 years.

Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------------------|--------------------------------------|--|-----------------------------------|
| 9/30/04 | \$683,889 | 100% | \$ - |
| 9/30/05 | \$784,835 | 100% | \$ - |
| 9/30/06 | \$843,107 | 100% | \$ - |

Pension Plan - Discretely Presented Component Unit

Water and Wastewater Board

Plan Description

The Water and Wastewater Board contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Plan Description - continued -

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

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police and on an elective basis to all cities, counties, towns, and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150.

Funding Policy

The System members are required to contribute five percent (5%) of their annual covered salary. The Water and Wastewater Board is required to contribute at an actuarially determined rate. The current rate is 6.48% of annual covered payroll. The contribution requirements of plan members and the Water and Wastewater Board are established and may be amended by the Retirement Systems of Alabama.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Annual Pension Cost

For fiscal year September 30, 2007, the Water and Wastewater Board's annual pension cost of \$143,074 was equal to the Water and Wastewater Board's required annual contributions. The required contribution was determined as part of the September 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increases of 4.61% to 7.75% per year. There are no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.50%. The actuarial valuation of System assets was determined using 5-year smoothed market values. The System's un-funded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2005 was 12 years.

The following is the Board's schedule of funding progress for the three most recently available actuarial valuations:

| Actuarial Valuation Date | Value of Assets(\$) (a) | Actuarial Accrued Liability (AAL) Entry Age (\$) (b) | Unfunded AAL (UAAL) (\$) (b-a) | Funded Ratio (a/b) | Covered Payroll (\$) (c) | UAAL as % of Covered Payroll ((b-a)/c) |
|--------------------------------|-------------------------------|--|--|--------------------------|-----------------------------------|--|
| 9/30/2005 | \$3,194,583 | \$3,817,812 | \$623,228 | 83.7% | \$2,009,355 | 31.0% |
| 9/30/2004 | 2,791,773 | 3,202,197 | 410,424 | 87.2% | 1,849,110 | 22.2% |
| 9/30/2003 | 2,523,567 | 3,088,306 | 564,739 | 81.7% | 1,864,646 | 30.3% |

Madison City Board of Education

The Madison City Board of Education contributed to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system of the various state-supported education agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Madison City Board of Education - Continued -

Substantially all employees of the Madison City Board of Education are members of the Teachers' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of Madison City Board of Education. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 30 years of service. Retirement benefits are calculated by two methods with the retirees receiving payment under the method that yields the highest monthly benefit.

The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by the state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefits provisions are established by the Code of Alabama 1975, 16-25-1 through 16-25-113, as amended, and 36-27B-1 through 36-27B-6, as amended.

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

Funding Policy

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

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2007**

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Madison City Board of Education - Continued -

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

| Fiscal Year Ended September 30 | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--------------------------------------|--------------------|--------------------|--------------------|
| Total percentages of covered payroll | 97.42% | 97.46% | 96.60% |
| <u>Contributions:</u> | | | |
| Percentage contribution by the Board | 9.36% | 8.17% | 8.17% |
| Percentage contribution by employees | 5.00% | 5.00% | 5.00% |
| Amount contributed by the Board | \$3,273,463 | \$2,508,771 | \$1,934,388 |
| Amount contributed by employees | <u>1,748,646</u> | <u>1,535,358</u> | <u>1,375,813</u> |
| Total contributions | <u>\$5,022,109</u> | <u>\$4,044,129</u> | <u>\$3,310,201</u> |

NOTE 6. PRIOR PERIOD ADJUSTMENT

Net assets, as of the beginning of the year, in the Statement of Activities have been restated in the amount of \$67,574,522, to reflect the retroactive implementation of GASB 34 as it relates to infrastructure assets within the City.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF MADISON, ALABAMA
SCHEDULE OF FUNDING PROGRESS - EMPLOYEES' RETIREMENT
SYSTEMS OF ALABAMA
September 30, 2007**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b)* | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 9/30/01** | \$11,268,887 | \$12,442,734 | \$1,173,847 | 90.6% | \$ 7,727,425 | 15.2% |
| 9/30/02*** | \$12,263,619 | \$14,649,335 | \$2,385,716 | 83.7% | \$ 8,578,763 | 27.8% |
| 9/30/03**** | \$13,411,765 | \$16,711,791 | \$3,300,026 | 80.3% | \$ 9,469,986 | 34.8% |
| 9/30/04***** | \$15,065,617 | \$18,645,556 | \$3,579,939 | 80.8% | \$10,763,008 | 33.3% |
| 9/30/05 | \$17,063,082 | \$21,641,106 | \$4,578,024 | 78.8% | \$11,030,637 | 41.5% |
| 9/30/06***** | \$19,217,250 | \$25,715,396 | \$6,498,146 | 74.7% | \$11,844,287 | 54.9% |

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

** Reflects changes in actuarial assumptions (as of September 30, 2001). Also, reflects effect of DROP if unit elected to enroll.

*** Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.

**** Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.

***** Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.

***** Reflects changes in actuarial assumptions.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

**CITY OF MADISON, ALABAMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

| | <u>Special Revenue Funds</u> | <u>Debt Service Funds</u> | <u>Capital Projects Funds</u> | <u>Total Nonmajor Governmental Funds</u> |
|--|----------------------------------|-------------------------------|-----------------------------------|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,629,269 | \$ - | \$ 338,083 | \$ 1,967,352 |
| Cash with fiscal agent | - | 514,977 | - | 514,977 |
| Receivables, net | | | | |
| Taxes and tax equivalent | 240,775 | - | - | 240,775 |
| Grants | 6,287 | - | - | 6,287 |
| Other | 142,059 | - | - | 142,059 |
| Prepaid expenditures | 229 | - | - | 229 |
| Due from other funds | 340,897 | - | 89 | 340,986 |
| | <u>340,897</u> | <u>-</u> | <u>89</u> | <u>340,986</u> |
| Total assets | <u><u>\$ 2,359,516</u></u> | <u><u>\$ 514,977</u></u> | <u><u>\$ 338,172</u></u> | <u><u>\$ 3,212,665</u></u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 242,414 | \$ - | \$ 274,384 | \$ 516,798 |
| Retainage | - | - | 17,069 | 17,069 |
| Due to other funds | 33,973 | - | 559 | 34,532 |
| Deferred Revenue | 237,540 | - | - | 237,540 |
| | <u>237,540</u> | <u>-</u> | <u>-</u> | <u>237,540</u> |
| Total liabilities | 513,927 | - | 292,012 | 805,939 |
| FUND BALANCES | | | | |
| Reserved for: | | | | |
| Encumbrances | 163,830 | - | 895 | 164,725 |
| Prepaid expenditures | 229 | - | - | 229 |
| Restricted assets | 1,671,130 | - | - | 1,671,130 |
| Debt Service | - | 514,977 | - | 514,977 |
| Capital projects | - | - | 45,265 | 45,265 |
| Unreserved | 10,400 | - | - | 10,400 |
| | <u>10,400</u> | <u>-</u> | <u>-</u> | <u>10,400</u> |
| Total fund balances | <u>1,845,589</u> | <u>514,977</u> | <u>46,160</u> | <u>2,406,726</u> |
| Total liabilities and fund balances | <u><u>\$ 2,359,516</u></u> | <u><u>\$ 514,977</u></u> | <u><u>\$ 338,172</u></u> | <u><u>\$ 3,212,665</u></u> |

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

CITY OF MADISON, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

| | <u>Special Revenue Funds</u> | <u>Debt Service Funds</u> | <u>Capital Projects Funds</u> | <u>Total Nonmajor Governmental Funds</u> |
|--|----------------------------------|-------------------------------|-----------------------------------|--|
| REVENUES | | | | |
| Taxes: | | | | |
| Property and payment in lieu of taxes | \$ 220,308 | \$ - | \$ - | \$ 220,308 |
| Intergovernmental | 1,274,025 | - | - | 1,274,025 |
| Fines | 336,679 | - | - | 336,679 |
| Charges for services | 48,300 | - | - | 48,300 |
| Investment earnings | 84,838 | 24,677 | 150,731 | 260,246 |
| Contributions and donations | - | - | 42,800 | 42,800 |
| Other revenue | - | - | 30,755 | 30,755 |
| Total Revenues | 1,964,150 | 24,677 | 224,286 | 2,213,113 |
| EXPENDITURES | | | | |
| General administration | 514,548 | 291 | 3,265 | 518,104 |
| Police protection | 93,822 | - | 414 | 94,236 |
| Public works | 1,105,871 | - | 94,764 | 1,200,635 |
| Fire | 846 | - | - | 846 |
| Debt Service: | | | | |
| Principal retirement | - | 712,500 | - | 712,500 |
| Interest | - | 2,122,969 | - | 2,122,969 |
| Bond issuance costs | - | 559,525 | - | 559,525 |
| Capital outlay | 239,722 | - | 3,820,311 | 4,060,033 |
| Total Expenditures | 1,954,809 | 3,395,285 | 3,918,754 | 9,268,848 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 9,341 | (3,370,608) | (3,694,468) | (7,055,735) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from other funds | 270,231 | 2,822,301 | 667,917 | 3,760,449 |
| Transfers to other funds | (199,971) | (11,998,210) | (667,917) | (12,866,098) |
| Refunding bonds issued | - | 37,980,000 | - | 37,980,000 |
| Payment to refund 1998-C | - | (16,580,618) | - | (16,580,618) |
| Payment to refund 2001 | - | (9,127,128) | - | (9,127,128) |
| Premium on debt issued | - | 285,481 | - | 285,481 |
| Total other financing sources (uses) | 70,260 | 3,381,826 | - | 3,452,086 |
| Net change in fund balances | 79,601 | 11,218 | (3,694,468) | (3,603,649) |
| Fund balances - beginning of year | 1,765,988 | 503,759 | 3,740,628 | 6,010,375 |
| Fund balances - end of year | \$ 1,845,589 | \$ 514,977 | \$ 46,160 | \$ 2,406,726 |

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

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Gasoline Taxes and Inspection Fee Fund - This fund is used to account for the City's share of the State 7-cent, 5-cent, 4-cent, petroleum inspection fees and the City's 2-cent gasoline taxes. State law requires these gasoline taxes to be used for the operation and maintenance of streets and highways. The state limits the use of the 4-cent gasoline tax to resurfacing, restoring and rehabilitating roads and bridges.

TVA Tax Distribution Fund - This fund is used to account for contributions to the school system.

Senior Center Donation Fund - This fund is used to account for the operation of the City's senior center. Funds provided to the City for the senior center may be used only for that purpose.

Library Fund - This fund is used to account for the operation of the City Public Library.

Correctional Fund - This fund is used to account for correction fines restricted by the State to be used for the operation and maintenance of municipal jail services and court related purposes.

Municipal Government Capital Improvement Fund - This fund is used to account for expenditures of revenues received from the state solely for capital improvements.

Federal Forfeiture Fund - This fund is used to account for sharing funds received from the U.S. Department of Justice and the U.S. Department of the Treasury. There is no approved budget for this fund.

Cemetery Fund - This fund is used to account for expenditures of revenues received from cemetery services.

Domestic Violence Fund - This fund is used to account for revenues and expenditures for the Violence Against Women grant.

Police Block Grant Fund - This fund is used to account for funds received from the state solely for police protection. There is no approved budget for this fund.

Fire CPR Fund - This fund is used to account for expenditures of revenues received from CPR services. There is no approved budget for this fund.

CITY OF MADISON, ALABAMA
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

| | Gasoline Taxes and Inspection Fees Fund | TVA Tax Distribution Fund | Senior Center Donation Fund | Library Fund | Correctional Fund | Municipal Government Capital Improvement Fund | Federal Forfeiture Fund | Cemetery Fund | Domestic Violence Fund | Police Block Grant Fund | Fire CPR Fund | Total Nonmajor Governmental Funds |
|--|---|---------------------------------|--------------------------------------|-------------------|----------------------|---|-------------------------------|------------------|------------------------------|----------------------------------|---------------------|--|
| ASSETS | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 768,309 | \$ 73,502 | \$ 4,547 | \$ 23,561 | \$ - | \$ 709,401 | \$ 48,488 | \$ - | \$ - | \$ 1 | \$ 1,460 | \$ 1,629,269 |
| Receivables, net | | | | | | | | | | | | |
| Tax and tax equivalents | | - | - | 240,775 | - | - | - | - | - | - | - | 240,775 |
| Grants | - | - | - | - | - | - | - | - | 6,287 | - | - | 6,287 |
| Other | 126,058 | 16,001 | - | - | - | - | - | - | - | - | - | 142,059 |
| Prepaid items | - | - | - | 229 | - | - | - | - | - | - | - | 229 |
| Due from other funds | 145 | - | - | - | 290,536 | - | - | 47,831 | 2,385 | - | - | 340,897 |
| Total assets | \$ 894,512 | \$ 89,503 | \$ 4,547 | \$ 264,565 | \$ 290,536 | \$ 709,401 | \$ 48,488 | \$ 47,831 | \$ 8,672 | \$ 1 | \$ 1,460 | \$ 2,359,516 |
| LIABILITIES | | | | | | | | | | | | |
| Accounts payable | \$ 190,552 | \$ 51,417 | \$ - | \$ 445 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 242,414 |
| Due to Other Funds | - | 27,686 | - | - | - | - | - | - | 6,287 | - | - | 33,973 |
| Deferred Revenue | - | - | - | 237,540 | - | - | - | - | - | - | - | 237,540 |
| Total liabilities | 190,552 | 79,103 | - | 237,985 | - | - | - | - | 6,287 | - | - | 513,927 |
| FUND BALANCES | | | | | | | | | | | | |
| Reserved for: | | | | | | | | | | | | |
| Encumbrances | 158,741 | - | - | - | - | - | - | 5,089 | - | - | - | 163,830 |
| Prepaid Expenses | - | - | - | 229 | - | - | - | - | - | - | - | 229 |
| Restricted assets | 545,219 | - | 4,547 | 26,351 | 290,536 | 709,401 | 48,488 | 42,742 | 2,385 | 1 | 1,460 | 1,671,130 |
| Unreserved | - | 10,400 | - | - | - | - | - | - | - | - | - | 10,400 |
| Total fund balances | 703,960 | 10,400 | 4,547 | 26,580 | 290,536 | 709,401 | 48,488 | 47,831 | 2,385 | 1 | 1,460 | 1,845,589 |
| Total liabilities and fund balances | \$ 894,512 | \$ 89,503 | \$ 4,547 | \$ 264,565 | \$ 290,536 | \$ 709,401 | \$ 48,488 | \$ 47,831 | \$ 8,672 | \$ 1 | \$ 1,460 | \$ 2,359,516 |

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

**CITY OF MADISON, ALABAMA
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Gasoline Taxes and Inspection Fees Fund | TVA Tax Distribution Fund | Senior Center Donation Fund | Library Fund | Correctional Fund | Municipal Government Capital Improvement Fund | Federal Forfeiture Fund | Cemetery Fund | Domestic Violence Fund | Police Block Grant Fund | Fire CPR Fund | Total Nonmajor Governmental Funds |
|--|---|---------------------------------|--------------------------------------|------------------|----------------------|---|-------------------------------|------------------|------------------------------|----------------------------------|---------------------|--|
| REVENUES | | | | | | | | | | | | |
| Intergovernmental: | | | | | | | | | | | | |
| Gasoline Taxes | \$ 953,992 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 953,992 |
| TVA Tax Proceeds | - | 79,104 | - | - | - | - | - | - | - | - | - | 79,104 |
| Property Tax | - | - | - | 220,308 | - | - | - | - | - | - | - | 220,308 |
| Other | - | - | - | - | - | 200,516 | 9,105 | - | - | - | - | 209,621 |
| Grant | - | - | - | - | - | - | - | - | 31,308 | - | - | 31,308 |
| Charges for Services | - | - | - | - | - | - | - | 46,550 | - | - | 1,750 | 48,300 |
| Fines | - | - | - | - | 336,679 | - | - | - | - | - | - | 336,679 |
| Investment Earnings | 44,462 | 2,888 | 192 | 6,667 | - | 27,835 | 2,791 | - | - | - | 3 | 84,838 |
| Total revenues | 998,454 | 81,992 | 192 | 226,975 | 336,679 | 228,351 | 11,896 | 46,550 | 31,308 | - | 1,753 | 1,964,150 |
| EXPENDITURES | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | |
| General Administration | - | 51,417 | - | 463,131 | - | - | - | - | - | - | - | 514,548 |
| Police department | - | - | - | - | - | - | 16,330 | - | 77,492 | - | - | 93,822 |
| Public Works | 1,078,912 | - | - | - | - | - | - | 26,959 | - | - | - | 1,105,871 |
| Fire | - | - | - | - | - | - | - | - | - | - | 846 | 846 |
| Capital outlay | 184,536 | - | - | - | - | - | - | 55,186 | - | - | - | 239,722 |
| Total expenditures | 1,263,448 | 51,417 | - | 463,131 | - | - | 16,330 | 82,145 | 77,492 | - | 846 | 1,954,809 |
| Excess (deficiency) of revenues over (under) expenditures | (264,994) | 30,575 | 192 | (236,156) | 336,679 | 228,351 | (4,434) | (35,595) | (46,184) | - | 907 | 9,341 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | | | |
| Transfers from other funds | - | - | - | 224,047 | - | - | - | - | 46,184 | - | - | 270,231 |
| Transfers to other funds | - | (27,686) | - | - | (172,285) | - | - | - | - | - | - | (199,971) |
| Total other financing sources (uses) | - | (27,686) | - | 224,047 | (172,285) | - | - | - | 46,184 | - | - | 70,260 |
| Net changes in fund balances | (264,994) | 2,889 | 192 | (12,109) | 164,394 | 228,351 | (4,434) | (35,595) | - | - | 907 | 79,601 |
| Fund balances - beginning of year | 968,954 | 7,511 | 4,355 | 38,689 | 126,142 | 481,050 | 52,922 | 83,426 | 2,385 | 1 | 553 | 1,765,988 |
| Fund balances - end of year | \$ 703,960 | \$ 10,400 | \$ 4,547 | \$ 26,580 | \$ 290,536 | \$ 709,401 | \$ 48,488 | \$ 47,831 | \$ 2,385 | \$ 1 | \$ 1,460 | \$ 1,845,589 |

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

**CITY OF MADISON, ALABAMA
GASOLINE TAXES AND INSPECTION FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|---|---------------------------|--|
| REVENUES | | | |
| Intergovernmental: | | | |
| State Gasoline Taxes | \$ 594,200 | \$ 591,441 | \$ (2,759) |
| 2-Cent Gasoline Taxes | 330,000 | 362,551 | 32,551 |
| Investment Earnings | 29,800 | 44,462 | 14,662 |
| Total revenues | 954,000 | 998,454 | 44,454 |
| EXPENDITURES | | | |
| Current: | | | |
| Public Works | 1,229,633 | 1,078,912 | 150,721 |
| Capital Outlay | 257,140 | 184,536 | 72,604 |
| Total expenditures | 1,486,773 | 1,263,448 | 223,325 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (532,773) | (264,994) | 267,779 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers to other funds | (75,000) | - | 75,000 |
| Total other financing sources (uses) | (75,000) | - | 75,000 |
| Net change in fund balance | (607,773) | (264,994) | 342,779 |
| Fund balance - beginning of year | 968,954 | 968,954 | - |
| Fund balance - end of year | \$ 361,181 | \$ 703,960 | \$ 342,779 |

**CITY OF MADISON, ALABAMA
TVA TAX DISTRIBUTION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|---|---|---------------------------|--|
| REVENUES | | | |
| Intergovernmental: | | | |
| TVA Tax Proceeds | \$ 55,000 | \$ 79,104 | \$ 24,104 |
| Investment Earnings | 1,903 | 2,888 | 985 |
| | Total revenues | 81,992 | 25,089 |
| EXPENDITURES | | | |
| Current: | | | |
| General Administration | 35,750 | 51,417 | (15,667) |
| | Total expenditures | 51,417 | (15,667) |
| EXCESS OF REVENUES OVER EXPENDITURES | 21,153 | 30,575 | 9,422 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers to other funds | (19,250) | (27,686) | (8,436) |
| | Total other financing sources (uses) | (27,686) | (8,436) |
| Net change in fund balance | 1,903 | 2,889 | 986 |
| Fund balance - beginning of year | 7,511 | 7,511 | - |
| Fund balance - end of year | \$ 9,414 | \$ 10,400 | \$ 986 |

**CITY OF MADISON, ALABAMA
 SENIOR CENTER DONATION FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|---|---------------------------|--|
| REVENUES | | | |
| Donations | \$ 250 | \$ - | \$ (250) |
| Investment Earnings | 173 | 192 | 19 |
| Total revenues | 423 | 192 | (231) |
| EXPENDITURES | | | |
| General Administration | - | - | - |
| Total expenditures | - | - | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 423 | 192 | (231) |
| Fund balance - beginning of year | 4,355 | 4,355 | - |
| Fund balance - end of year | <u>\$ 4,778</u> | <u>\$ 4,547</u> | <u>\$ (231)</u> |

**CITY OF MADISON, ALABAMA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|---|---------------------------|--|
| REVENUES | | | |
| Intergovernmental: | | | |
| Property Tax | \$ 222,000 | \$ 220,308 | \$ (1,692) |
| Investment Earnings | 5,400 | 6,667 | 1,267 |
| | | | |
| Total revenues | 227,400 | 226,975 | (425) |
| EXPENDITURES | | | |
| Current: | | | |
| General Administration | 467,669 | 463,131 | 4,538 |
| | | | |
| Total expenditures | 467,669 | 463,131 | 4,538 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (240,269) | (236,156) | 4,113 |
| OTHER FINANCING SOURCES | | | |
| Transfers from other funds | 224,047 | 224,047 | - |
| | | | |
| Total other financing sources | 224,047 | 224,047 | - |
| Net change in fund balance | (16,222) | (12,109) | 4,113 |
| Fund balance - beginning of year | 38,689 | 38,689 | - |
| | | | |
| Fund balance - end of year | \$ 22,467 | \$ 26,580 | \$ 4,113 |

**CITY OF MADISON, ALABAMA
CORRECTIONAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|---|---|---------------------------|--|
| REVENUES | | | |
| Fines | \$ 193,084 | \$ 336,679 | \$ 143,595 |
| Total revenues | 193,084 | 336,679 | 143,595 |
| EXPENDITURES | | | |
| Current: | | | |
| General Administration | - | - | - |
| Total expenditures | - | - | - |
| EXCESS OF REVENUES OVER EXPENDITURES | 193,084 | 336,679 | 143,595 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers to other funds | (172,285) | (172,285) | - |
| Total other financing sources (uses) | (172,285) | (172,285) | - |
| Net change in fund balance | 20,799 | 164,394 | 143,595 |
| Fund balance - beginning of year | 126,142 | 126,142 | - |
| Fund balance - end of year | <u>\$ 146,941</u> | <u>\$ 290,536</u> | <u>\$ 143,595</u> |

**CITY OF MADISON, ALABAMA
MUNICIPAL GOVERNMENT CAPITAL IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|---|---|---------------------------|--|
| REVENUES | | | |
| Other | \$ 179,223 | \$ 200,516 | \$ 21,293 |
| Investment Earnings | 14,300 | 27,835 | 13,535 |
| Total revenues | 193,523 | 228,351 | 34,828 |
| EXPENDITURES | | | |
| Total expenditures | - | - | - |
| EXCESS OF REVENUES OVER EXPENDITURES | 193,523 | 228,351 | 34,828 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers to other funds | (300,000) | - | 300,000 |
| Total other financing sources (uses) | (300,000) | - | 300,000 |
| Net change in fund balance | (106,477) | 228,351 | 334,828 |
| Fund balance - beginning of year | 481,050 | 481,050 | - |
| Fund balance - end of year | \$ 374,573 | \$ 709,401 | \$ 334,828 |

**CITY OF MADISON, ALABAMA
CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|---|---------------------------|--|
| REVENUES | | | |
| Charges for Services | \$ 28,350 | \$ 46,550 | \$ 18,200 |
| Total revenues | 28,350 | 46,550 | 18,200 |
| EXPENDITURES | | | |
| Current: | | | |
| Public Works | 27,620 | 26,959 | 661 |
| Capital Outlay | 50,000 | 55,186 | (5,186) |
| Total expenditures | 77,620 | 82,145 | (4,525) |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (49,270) | (35,595) | 13,675 |
| Fund balance - beginning of year | 83,426 | 83,426 | - |
| Fund balance - end of year | <u>\$ 34,156</u> | <u>\$ 47,831</u> | <u>\$ 13,675</u> |

**CITY OF MADISON, ALABAMA
DOMESTIC VIOLENCE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|---|---------------------------|--|
| REVENUES | | | |
| Intergovernmental: | | | |
| Grant | \$ 32,400 | \$ 31,308 | \$ (1,092) |
| Total revenues | 32,400 | 31,308 | (1,092) |
| EXPENDITURES | | | |
| Current: | | | |
| Police Department | 74,913 | 77,492 | (2,579) |
| Total expenditures | 74,913 | 77,492 | (2,579) |
| (DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES | (42,513) | (46,184) | (3,671) |
| OTHER FINANCING SOURCES | | | |
| Transfers from other funds | 40,700 | 46,184 | 5,484 |
| Total other financing sources | 40,700 | 46,184 | 5,484 |
| Net change in fund balance | (1,813) | - | 1,813 |
| Fund balance - beginning of year | 2,385 | 2,385 | - |
| Fund balance - end of year | \$ 572 | \$ 2,385 | \$ 1,813 |

NONMAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

The **debt service fund** is used to account for the accumulation of resources and payment of general obligation bond principal and interest from government resources.

1998-C Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation warrants dated September 1, 1998. The ½ cent sales tax and the 5½-mill property tax will provide 100% of the debt service requirements for the outstanding general obligation warrants.

2001 Bond Fund - This fund is used to account for the accumulation of resources for the payment of general obligation warrants dated June 1, 2001. The 5 ½ Mill Property Tax and the ½ Cent Sales Tax will provide 100% of the debt service requirements for the outstanding general obligation warrants.

2005 Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated April 1, 2005. The ½ cent sales tax and the 5½-mill property tax will provide 100% of the debt service requirements for the outstanding general obligation warrants.

2006-A Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated December 1, 2006. The ½ cent sales tax and the 5½-mill property tax will provide 100% of the debt service requirements for the outstanding general obligation warrants.

**CITY OF MADISON, ALABAMA
DEBT SERVICE FUND
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

| | 1998-C Bond Fund | 2001 Bond Fund | 2005 Bond Fund | 2006-A Bond Fund | Total Nonmajor Governmental Funds |
|--|---------------------------------|-------------------------------|-------------------------------|---------------------------------|--|
| ASSETS | | | | | |
| Cash with fiscal agent | \$ 7 | \$ - | \$ 494,191 | \$ 20,779 | \$ 514,977 |
| Total assets | \$ 7 | \$ - | \$ 494,191 | \$ 20,779 | \$ 514,977 |
| LIABILITIES | | | | | |
| Total liabilities | \$ - | \$ - | \$ - | \$ - | \$ - |
| FUND BALANCES | | | | | |
| Reserved | 7 | - | 494,191 | 20,779 | 514,977 |
| Total fund balances | 7 | - | 494,191 | 20,779 | 514,977 |
| Total liabilities and fund balances | \$ 7 | \$ - | \$ 494,191 | \$ 20,779 | \$ 514,977 |

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

**CITY OF MADISON, ALABAMA
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | 1998-C Bond Fund | 2001 Bond Fund | 2005 Bond Fund | 2006-A Bond Fund | Total Nonmajor Governmental Funds |
|--|------------------------|----------------------|----------------------|------------------------|--|
| REVENUES | | | | | |
| Investment earnings | \$ 37 | \$ - | \$ 3,764 | \$ 20,876 | \$ 24,677 |
| Total revenues | 37 | - | 3,764 | 20,876 | 24,677 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General Administration | - | - | 194 | 97 | 291 |
| Debt service: | | | | | |
| Principal retirement | - | 322,500 | 390,000 | - | 712,500 |
| Interest | 201,620 | 112,245 | 954,645 | 854,459 | 2,122,969 |
| Bond issuance costs | - | - | - | 559,525 | 559,525 |
| Total expenditures | 201,620 | 434,745 | 1,344,839 | 1,414,081 | 3,395,285 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (201,583) | (434,745) | (1,341,075) | (1,393,205) | (3,370,608) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers from other funds | 199,274 | 434,745 | 1,333,823 | 854,459 | 2,822,301 |
| Refunding bonds issued | - | - | - | 37,980,000 | 37,980,000 |
| Payment to refund 1998-C | - | - | - | (16,580,618) | (16,580,618) |
| Payment to refund 2001 | - | - | - | (9,127,128) | (9,127,128) |
| Premium on debt issued | - | - | - | 285,481 | 285,481 |
| Transfers out to other funds-Bond proceeds 2006-A | - | - | - | (11,998,210) | (11,998,210) |
| Total other financing sources (uses) | 199,274 | 434,745 | 1,333,823 | 1,413,984 | 3,381,826 |
| Net changes in fund balances | (2,309) | - | (7,252) | 20,779 | 11,218 |
| Fund balances - beginning of year | 2,316 | - | 501,443 | - | 503,759 |
| Fund balances - end of year | <u>\$ 7</u> | <u>\$ -</u> | <u>\$ 494,191</u> | <u>\$ 20,779</u> | <u>\$ 514,977</u> |

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

**CITY OF MADISON, ALABAMA
1998-C BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | <u>Final Amended Budgeted Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|---|---------------------------|---|
| REVENUES | | | |
| Investment Earnings | \$ 377 | \$ 37 | \$ (340) |
| Total revenues | 377 | 37 | (340) |
| EXPENDITURES | | | |
| Debt Service: Interest | 199,274 | 201,620 | (2,346) |
| Total expenditures | 199,274 | 201,620 | (2,346) |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (198,897) | (201,583) | (2,686) |
| OTHER FINANCING SOURCES | | | |
| Transfers from other funds | 199,274 | 199,274 | - |
| Total other financing sources | 199,274 | 199,274 | - |
| Net change in fund balance | 377 | (2,309) | (2,686) |
| Fund balance - beginning of year | 2,316 | 2,316 | - |
| Fund balance - end of year | \$ 2,693 | \$ 7 | \$ (2,686) |

CITY OF MADISON, ALABAMA
2001 BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

| | <u>Final Amended Budgeted Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|---|---------------------------|---|
| REVENUES | | | |
| Investment Earnings | \$ - | \$ - | \$ - |
| Total revenues | - | - | - |
| EXPENDITURES | | | |
| Debt Service: | | | |
| Principal retirement | 322,500 | 322,500 | - |
| Interest | 112,245 | 112,245 | - |
| Total expenditures | 434,745 | 434,745 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (434,745) | (434,745) | - |
| OTHER FINANCING SOURCES | | | |
| Transfers from other funds | 434,745 | 434,745 | - |
| Total other financing sources | 434,745 | 434,745 | - |
| Net change in fund balance | - | - | - |
| Fund balance - beginning of year | - | - | - |
| Fund balance - end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**CITY OF MADISON, ALABAMA
2005 BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | <u>Final Amended Budgeted Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|---|---------------------------|---|
| REVENUES | | | |
| Investment Earnings | \$ 300 | \$ 3,764 | \$ 3,464 |
| Total revenues | 300 | 3,764 | 3,464 |
| EXPENDITURES | | | |
| Current: | | | |
| General Administration | - | 194 | (194) |
| Debt Service: | | | |
| Principal retirement | 390,000 | 390,000 | - |
| Interest | 954,645 | 954,645 | - |
| Total expenditures | 1,344,645 | 1,344,839 | (194) |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (1,344,345) | (1,341,075) | 3,270 |
| OTHER FINANCING SOURCES | | | |
| Transfers from other funds | 1,344,645 | 1,333,823 | (10,822) |
| Total other financing sources | 1,344,645 | 1,333,823 | (10,822) |
| Net change in fund balance | 300 | (7,252) | (7,552) |
| Fund balance - beginning of year | 501,443 | 501,443 | - |
| Fund balance - end of year | \$ 501,743 | \$ 494,191 | \$ (7,552) |

**CITY OF MADISON, ALABAMA
2006 BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

| | Final Amended Budgeted Amounts | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|---|---------------------------|---|
| REVENUES | | | |
| Investment Earnings | \$ 19,000 | \$ 20,876 | \$ 1,876 |
| Total revenues | 19,000 | 20,876 | 1,876 |
| EXPENDITURES | | | |
| Current: | | | |
| General Administration | 50 | 97 | (47) |
| Debt Service: | | | |
| Principal retirement | - | - | - |
| Interest | 854,460 | 854,459 | 1 |
| Bond issuance costs | 535,000 | 559,525 | (24,525) |
| Total expenditures | 1,389,510 | 1,414,081 | (24,571) |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (1,370,510) | (1,393,205) | (22,695) |
| OTHER FINANCING SOURCES AND (USES) | | | |
| Transfers from other funds | 854,460 | 854,459 | (1) |
| Refunding bonds issued | 37,980,000 | 37,980,000 | - |
| Payment to refund 1998-C | (16,150,000) | (16,580,618) | (430,618) |
| Payment to refund 2001 | (9,195,000) | (9,127,128) | 67,872 |
| Premium on debt issued | - | 285,481 | 285,481 |
| Transfer out to other funds - Bond Proceeds 2006-A | (12,100,000) | (11,998,210) | 101,790 |
| Total other financing sources and (uses) | 1,389,460 | 1,413,984 | 24,524 |
| Net change in fund balance | 18,950 | 20,779 | 1,829 |
| Fund balance - beginning of year | - | - | - |
| Fund balance - end of year | \$ 18,950 | \$ 20,779 | \$ 1,829 |

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS FUNDS

The **Capital Projects Fund** is used to account for financial resources segregated for the acquisition and construction of major capital facilities.

Forward Purchase Bond Account - This fund is used to account for the Forward Purchase contract fees for the series 1995 General Obligation Warrants.

2001 Capital Improvement Fund - This fund is used to account for a variety of public works projects and various capital improvements in the City consisting of public safety, recreation and other improvements. Financing was provided by the sale of general obligation warrants date June 1, 2001, \$10,890,000 (advance refunding of the general obligation warrants dated August 1, 1997).

**CITY OF MADISON, ALABAMA
CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

| | Forward Purchase Bond Fund | 2001 Capital Improvement Fund | Total Nonmajor Governmental Fund |
|--|---|--|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 327,421 | \$ 10,662 | \$ 338,083 |
| Due from other funds | - | 89 | 89 |
| Total assets | \$ 327,421 | \$ 10,751 | \$ 338,172 |
| LIABILITIES | | | |
| Accounts payable | \$ 273,754 | \$ 630 | \$ 274,384 |
| Retainage | 17,069 | - | 17,069 |
| Due to other funds | 559 | - | 559 |
| Total liabilities | 291,382 | 630 | 292,012 |
| FUND BALANCES | | | |
| Reserved for: | | | |
| Encumbrances | 895 | - | 895 |
| Capital projects | 35,144 | 10,121 | 45,265 |
| Total fund balances | 36,039 | 10,121 | 46,160 |
| Total liabilities and fund balances | \$ 327,421 | \$ 10,751 | \$ 338,172 |

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

**CITY OF MADISON, ALABAMA
CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

| | Forward Purchase Bond Account | 2001 Capital Improvement Fund | Total Nonmajor Governmental Fund |
|--|--|--|---|
| REVENUES | | | |
| Investment earnings | \$ 64,588 | \$ 86,143 | \$ 150,731 |
| Contribution and donations | - | 42,800 | 42,800 |
| Other revenues | - | 30,755 | 30,755 |
| Total revenues | 64,588 | 159,698 | 224,286 |
| EXPENDITURES | | | |
| Current: | | | |
| General administration | 752 | 2,513 | 3,265 |
| Police | - | 414 | 414 |
| Public works | 2,400 | 92,364 | 94,764 |
| Capital outlay | 711,500 | 3,108,811 | 3,820,311 |
| Total expenditures | 714,652 | 3,204,102 | 3,918,754 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (650,064) | (3,044,404) | (3,694,468) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers to other funds | (667,917) | - | (667,917) |
| Transfers from other funds | - | 667,917 | 667,917 |
| Total other financing sources (uses) | (667,917) | 667,917 | - |
| Net change in fund balances | (1,317,981) | (2,376,487) | (3,694,468) |
| FUND BALANCE AT BEGINNING OF YEAR | 1,354,020 | 2,386,608 | 3,740,628 |
| FUND BALANCE AT END OF YEAR | \$ 36,039 | \$ 10,121 | \$ 46,160 |

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

**CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

**CITY OF MADISON, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE
SEPTEMBER 30, 2007 and 2006**

| | 2007 | 2006 |
|--|--------------------|-------------------|
| Governmental funds capital assets: | | |
| Land | \$ 21,479,874 | \$ 8,867,115 |
| Buildings | 10,928,563 | 10,874,320 |
| Improvements to buildings | 1,030,037 | 1,012,749 |
| Improvements other than buildings | 1,594,828 | 1,401,303 |
| Machinery and equipment | 12,141,256 | 11,634,072 |
| Infrastructure | 121,841,556 | 24,764,131 |
| Construction in progress | 4,313,851 | 1,322,214 |
| Total governmental funds capital assets | \$ 173,329,965 | \$ 59,875,904 |
| Investments in governmental funds capital assets by source: | | |
| Current revenues | \$ 48,030,812 | \$ 58,614,578 |
| Federal and state grants | 1,261,326 | - |
| Donations | 124,037,827 | 1,261,326 |
| Total investments in governmental funds capital assets | \$ 173,329,965 | \$ 59,875,904 |

CITY OF MADISON, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
September 30, 2007

| Function and Activity | Land | Buildings | Improvements to Buildings | Improvements Other than Buildings | Machinery and Equipment | Infrastructure | Construction in Progress | Total |
|-------------------------------------|----------------------|----------------------|---------------------------------|---|-------------------------------|-----------------------|--------------------------------|-----------------------|
| General Government: | | | | | | | | |
| General Administration | \$ 1,259,270 | \$ 3,274,789 | \$ 815,680 | \$ 22,552 | \$ 515,762 | \$ 3,694 | \$ 468,601 | \$ 6,360,348 |
| City Clerk | - | - | - | - | 70,645 | - | - | 70,645 |
| Court Clerk | - | - | - | - | 63,488 | - | - | 63,488 |
| City Council | - | - | - | - | 65,835 | - | - | 65,835 |
| Finance | - | 2,175 | - | - | 167,781 | - | - | 169,956 |
| Human Resources | - | - | - | - | 38,268 | - | - | 38,268 |
| Mayor's Office | - | - | - | - | 19,643 | - | - | 19,643 |
| Revenue | - | - | - | - | 30,246 | - | - | 30,246 |
| Information Technology | - | - | - | - | 102,188 | - | - | 102,188 |
| Legal | - | - | - | - | 6,226 | - | - | 6,226 |
| Total General Government | 1,259,270 | 3,276,964 | 815,680 | 22,552 | 1,080,082 | 3,694 | 468,601 | 6,926,843 |
| Public Safety: | | | | | | | | |
| Police | - | 6,139 | 50,146 | - | 2,927,633 | - | - | 2,983,918 |
| Fire | 134,000 | 2,133,234 | 18,841 | 75,310 | 3,460,356 | - | 11,234 | 5,832,975 |
| Planning and Building | - | - | - | - | 241,863 | - | - | 241,863 |
| Total Public Safety | 134,000 | 2,139,373 | 68,987 | 75,310 | 6,629,852 | - | 11,234 | 9,058,756 |
| Highways and Streets: | | | | | | | | |
| Public Works | 18,409,727 | 240,753 | - | 72,239 | 3,356,829 | 121,834,862 | 3,594,555 | 147,508,965 |
| Engineering | - | - | - | - | 91,880 | - | - | 91,880 |
| Total Highways and Streets | 18,409,727 | 240,753 | - | 72,239 | 3,448,709 | 121,834,862 | 3,594,555 | 147,600,845 |
| Culture and Recreation | | | | | | | | |
| Parks and Recreation | 1,676,877 | 5,271,473 | 94,445 | 1,422,937 | 880,183 | 3,000 | 239,461 | 9,588,376 |
| Senior Center | - | - | 50,925 | 1,790 | 102,430 | - | - | 155,145 |
| Total Culture and Recreation | 1,676,877 | 5,271,473 | 145,370 | 1,424,727 | 982,613 | 3,000 | 239,461 | 9,743,521 |
| Total Governmental Funds | | | | | | | | |
| Capital Assets | \$ 21,479,874 | \$ 10,928,563 | \$ 1,030,037 | \$ 1,594,828 | \$ 12,141,256 | \$ 121,841,556 | \$ 4,313,851 | \$ 173,329,965 |

CITY OF MADISON, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

| Function and Activity | Governmental Funds Capital Assets Oct. 1, 2006 | Additions | Transfers In (Out) | Deductions | Governmental Funds Capital Assets Sept. 30, 2007 |
|--|---|-----------------------|-------------------------------|---------------------|---|
| General Government: | | | | | |
| General Administration | \$ 5,973,259 | \$ 458,403 | \$ - | \$ (71,314) | \$ 6,360,348 |
| City Clerk | 68,830 | 17,275 | (13,931) | (1,529) | 70,645 |
| Court Clerk | 45,853 | - | 17,635 | - | 63,488 |
| City Council | 48,709 | 17,126 | - | - | 65,835 |
| Finance | 146,536 | 5,366 | 18,391 | (337) | 169,956 |
| Human Resources | 36,688 | 3,021 | (320) | (1,121) | 38,268 |
| Mayor's Office | 18,640 | 4,130 | (1,445) | (1,682) | 19,643 |
| Revenue | 27,292 | - | 2,954 | - | 30,246 |
| Information Technology | 135,345 | - | (87) | (33,070) | 102,188 |
| Legal | 6,226 | - | - | - | 6,226 |
| Total General Government | 6,507,378 | 505,321 | 23,197 | (109,053) | 6,926,843 |
| Public Safety: | | | | | |
| Police | 2,839,166 | 268,426 | 3,202 | (126,876) | 2,983,918 |
| Fire | 5,454,537 | 386,938 | - | (8,500) | 5,832,975 |
| Planning and Building | 331,312 | 62,220 | (137,026) | (14,643) | 241,863 |
| Total Public Safety | 8,625,015 | 717,584 | (133,824) | (150,019) | 9,058,756 |
| Highways and Streets: | | | | | |
| Public Works | 35,413,815 | 112,205,353 | 32,995 | (143,198) | 147,508,965 |
| Engineering | - | 14,248 | 77,632 | - | 91,880 |
| Total Highways and Streets | 35,413,815 | 112,219,601 | 110,627 | (143,198) | 147,600,845 |
| Culture and Recreation: | | | | | |
| Parks and Recreation | 9,178,423 | 420,479 | - | (10,526) | 9,588,376 |
| Senior Center | 151,273 | 5,701 | - | (1,829) | 155,145 |
| Total Culture and Recreation | 9,329,696 | 426,180 | - | (12,355) | 9,743,521 |
| Total Governmental Funds Capital Assets | \$ 59,875,904 | \$ 113,868,686 | \$ - | \$ (414,625) | \$ 173,329,965 |

SECTION III - STATISTICAL

Schedule 1
CITY OF MADISON, ALABAMA
Net Assets by Activities Type
Last Five Years

| | Fiscal Year | | | | |
|---|------------------------|------------------------|------------------------|------------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Primary government | | | | | |
| Invested in capital assets, net of related debt | \$ 13,924,216 | \$ 22,619,851 | \$ 29,629,406 | \$ 39,911,335 | \$ 127,888,947 |
| Restricted | 11,321,571 | 8,912,225 | 8,734,990 | 9,054,091 | 15,559,292 |
| Unrestricted | <u>(92,949,757)</u> | <u>(90,415,420)</u> | <u>(87,960,100)</u> | <u>(82,616,266)</u> | <u>(88,119,158)</u> |
| Total primary government net assets | \$ (67,703,970) | \$ (58,883,344) | \$ (49,595,704) | \$ (33,650,840) | \$ 55,329,081 |

Schedule 2
CITY OF MADISON, ALABAMA
Changes in Net Assets
Last Five Years

| | Fiscal Year | | | | |
|---|------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Expenses | | | | | |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General Administration | \$ 1,394,540 | \$ 1,498,013 | \$ 1,843,331 | \$ 1,637,763 | \$ 2,243,804 |
| Police Protection | 3,597,210 | 3,792,077 | 4,224,855 | 4,492,227 | 5,076,097 |
| Public Works | 3,128,318 | 3,195,581 | 3,519,441 | 3,683,936 | 6,512,629 |
| City Clerk | 509,185 | 497,313 | 514,980 | 593,326 | 600,855 |
| Recreation | 1,648,624 | 1,722,553 | 1,735,813 | 1,807,848 | 2,139,803 |
| Fire | 2,535,675 | 3,083,500 | 3,415,526 | 3,794,817 | 4,346,954 |
| Planning and Building | 646,654 | 670,844 | 1,113,999 | 1,108,540 | 950,345 |
| Court | 733,894 | 782,283 | 728,975 | 820,348 | 977,773 |
| City Council | 194,887 | 148,081 | 166,347 | 166,233 | 164,042 |
| Finance | 336,586 | 325,728 | 412,043 | 676,174 | 933,230 |
| Human Resources | 1,668,221 | 2,001,359 | 2,334,041 | 2,607,912 | 2,943,704 |
| Mayor's Office | 215,210 | 221,062 | 205,702 | 222,821 | 294,973 |
| Revenue | 164,043 | 172,564 | 177,909 | 193,477 | 271,231 |
| Engineering | 317,077 | 508,776 | - | - | 370,309 |
| Senior Center | 192,828 | 205,440 | 221,414 | 240,054 | 247,233 |
| Information Technology | 165,658 | 264,432 | 195,542 | - | - |
| Legal | 321,162 | 331,916 | 238,394 | 270,325 | 342,431 |
| Interest on long-term debt | 5,242,670 | 5,339,585 | 5,187,096 | 5,052,733 | 5,325,401 |
| Total primary government expenses | \$ 23,012,442 | \$ 24,761,107 | \$ 26,235,408 | \$ 27,368,534 | \$ 33,740,814 |
| Program Revenues | | | | | |
| Governmental activities: | | | | | |
| Charges for services: | | | | | |
| General Administration | \$ 2,276,788 | \$ 2,527,571 | \$ 3,291,409 | \$ 3,883,220 | \$ 4,309,020 |
| Police Protection | 815,943 | 775,629 | 726,247 | 929,819 | 1,301,002 |
| Public Works | 268,497 | 281,387 | 557,889 | 701,200 | 885,562 |
| Recreation | 203,199 | 213,074 | 212,315 | 199,431 | 196,753 |
| Fire | - | - | 876 | 1,820 | 1,750 |
| Planning and Building | 47,487 | 70,134 | 68,826 | 116,540 | 63,093 |
| Operating grants and contributions | 275,534 | 462,353 | 571,702 | 719,661 | 798,730 |
| Capital grants and contributions | 5,694,581 | 7,551,944 | 5,818,671 | 10,809,511 | 6,007,246 |
| Total governmental activities program revenues | 9,582,029 | 11,882,092 | 11,247,935 | 17,361,202 | 13,563,156 |
| General Revenues and other Changes in Net Assets | | | | | |
| Governmental activities: | | | | | |
| Property taxes and payments in lieu of taxes | 4,038,035 | 4,363,486 | 4,977,999 | 5,840,049 | 6,365,870 |
| Sales and use taxes | 8,950,553 | 9,594,767 | 10,262,568 | 11,415,565 | 12,243,150 |
| Franchise taxes | 223,573 | 221,689 | 254,292 | 264,641 | 272,468 |
| Motor fuel taxes | 864,166 | 855,290 | 901,617 | 901,443 | 953,992 |
| Alcoholic beverage taxes | 749,075 | 683,839 | 714,943 | 769,249 | 828,045 |
| Rental taxes | 362,116 | 339,205 | 323,682 | 355,019 | 408,314 |
| Lodging taxes | 420,887 | 669,228 | 766,627 | 872,677 | 909,090 |
| Other taxes | 172,257 | 318,803 | 377,061 | 483,421 | 218,401 |
| Unrestricted investment earnings | 237,034 | 130,950 | 241,056 | 447,027 | 1,168,713 |
| Miscellaneous | - | 4,618,776 | 5,614,248 | 4,761,282 | 18,314,482 |
| Loss on sale of fixed assets | (504) | (96,392) | (158,980) | (158,177) | (99,468) |
| Transfers | (17,076,132) | - | - | - | - |
| Total governmental activities | (1,058,940) | 21,699,641 | 24,275,113 | 25,952,196 | 41,583,057 |
| Total primary government | 8,523,089 | 33,581,733 | 35,523,048 | 43,313,398 | 55,146,213 |
| Changes in Net Assets | | | | | |
| Governmental activities | (14,489,353) | 8,820,626 | 9,287,640 | 15,944,864 | 21,405,399 |
| Total primary government | \$ (14,489,353) | \$ 8,820,626 | \$ 9,287,640 | \$ 15,944,864 | \$ 21,405,399 |

Schedule 3
CITY OF MADISON, ALABAMA
Fund Balances of Governmental Funds
Last Five Years

| | Fiscal Year | | | | |
|------------------------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| General Fund | | | | | |
| Reserved | \$ 376,410 | \$ 1,180,616 | \$ 821,403 | \$ 1,271,389 | \$ 1,307,743 |
| Unreserved | 2,323,275 | 1,555,491 | 2,190,712 | 3,855,965 | 5,667,055 |
| Total general fund | <u>\$ 2,699,685</u> | <u>\$ 2,736,107</u> | <u>\$ 3,012,115</u> | <u>\$ 5,127,354</u> | <u>\$ 6,974,798</u> |
| | | | | | |
| All Other Governmental Funds | | | | | |
| Reserved | \$ 8,394,699 | \$ 5,944,429 | \$ 5,614,365 | \$ 6,082,274 | \$ 15,870,504 |
| Unreserved, reported in | | | | | |
| Special revenue funds | 389,544 | 204,314 | 200,855 | 491,002 | 10,400 |
| Debt service funds | - | - | - | - | - |
| Capital projects funds | - | - | - | - | - |
| Total all other governmental funds | <u>\$ 8,784,243</u> | <u>\$ 6,148,743</u> | <u>\$ 5,815,220</u> | <u>\$ 6,573,276</u> | <u>\$ 15,880,904</u> |
| | | | | | |
| Total all governmental funds | <u>\$ 11,483,928</u> | <u>\$ 8,884,850</u> | <u>\$ 8,827,335</u> | <u>\$ 11,700,630</u> | <u>\$ 22,855,702</u> |

Schedule 4
CITY OF MADISON, ALABAMA
Changes in Fund Balances of Governmental Funds
Last Five Years

| | Fiscal Year | | | | |
|--|-----------------------|-----------------------|--------------------|---------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Revenues | | | | | |
| Taxes | \$ 13,968,476 | \$ 15,230,729 | \$ 16,324,294 | \$ 19,085,131 | \$ 20,733,461 |
| Licenses and permits | 2,162,875 | 2,299,540 | 2,950,878 | 3,752,459 | 4,157,453 |
| Intergovernmental | 1,910,436 | 2,448,784 | 2,289,579 | 1,906,605 | 1,947,433 |
| Charges for services | 585,407 | 636,908 | 918,152 | 1,083,486 | 1,312,147 |
| Fines | 785,322 | 752,292 | 708,177 | 913,974 | 1,287,580 |
| Investment earnings | 237,034 | 130,950 | 241,056 | 447,027 | 1,168,713 |
| Contributions and donations | 17,745 | 79,092 | 11,178 | 10,471 | 48,606 |
| Other revenues | 185,253 | 5,633,724 | 5,342,174 | 5,685,364 | 5,556,776 |
| Total revenues | 19,852,548 | 27,212,019 | 28,785,488 | 32,884,517 | 36,212,169 |
| Expenditures | | | | | |
| General administration | 1,179,019 | 1,342,417 | 1,175,864 | 1,360,195 | 1,250,802 |
| Police | 3,437,120 | 3,620,001 | 4,048,121 | 4,337,096 | 4,888,887 |
| Public works | 2,965,584 | 2,940,409 | 3,075,737 | 3,118,878 | 3,950,504 |
| City clerk | 504,695 | 492,853 | 510,793 | 589,262 | 596,897 |
| Recreation | 1,460,023 | 1,502,170 | 1,513,105 | 1,599,819 | 1,928,529 |
| Fire | 2,418,808 | 2,920,934 | 3,201,289 | 3,579,012 | 4,127,248 |
| Planning and Building | 636,677 | 660,742 | 1,096,434 | 1,088,186 | 935,285 |
| Court | 730,278 | 778,990 | 725,414 | 816,962 | 973,634 |
| City council | 193,299 | 146,493 | 164,692 | 163,735 | 161,141 |
| Finance | 327,814 | 316,854 | 403,115 | 658,035 | 914,484 |
| Human resources | 1,665,838 | 1,998,967 | 2,331,458 | 2,605,761 | 2,941,506 |
| Mayor's office | 213,934 | 219,818 | 204,634 | 221,642 | 293,795 |
| Revenue | 164,043 | 170,955 | 174,212 | 191,697 | 269,254 |
| Engineering | 312,273 | 502,861 | - | - | 365,580 |
| Senior center | 187,685 | 198,251 | 214,903 | 230,697 | 238,550 |
| Information technology | 159,160 | 256,366 | 186,124 | - | - |
| Legal | 321,014 | 331,768 | 238,057 | 269,951 | 342,057 |
| Capital outlay | 8,767,979 | 10,245,968 | 8,117,969 | 11,964,904 | 5,099,131 |
| Debt service | | | | | |
| Interest | 5,210,496 | 5,329,072 | 5,241,344 | 5,080,475 | 4,923,795 |
| Principal | 2,197,496 | 2,681,158 | 2,767,134 | 2,923,409 | 3,074,792 |
| Bond issuance costs | 260,316 | - | 206,213 | - | 559,525 |
| Total expenditures | 33,313,551 | 36,657,047 | 35,596,612 | 40,799,716 | 37,835,396 |
| Excess of revenues over (under) expenditures | (13,461,003) | (9,445,028) | (6,811,124) | (7,915,199) | (1,623,227) |
| Other Financing - Sources and Uses | | | | | |
| Transfers in | 4,185,594 | 4,640,911 | 5,076,988 | 5,085,410 | 17,698,428 |
| Transfers in - component unit | 3,988,552 | - | - | - | - |
| Transfers out | (4,185,594) | (4,640,911) | (5,076,988) | (5,085,410) | (17,698,428) |
| Donated assets | 5,415,607 | 6,195,060 | 5,283,826 | 9,975,519 | - |
| Sales of capital assets | 60,740 | 40,890 | 13,270 | 36,014 | 35,059 |
| Proceeds from borrowing | 21,325,000 | - | 1,250,000 | - | - |
| Refunding bond issued | - | - | 18,775,000 | - | 37,980,000 |
| Bond proceeds to refund | - | - | (18,568,787) | - | (25,707,746) |
| Bond proceeds transferred to component unit | (21,064,684) | - | - | - | - |
| Premium on debt issued | - | - | - | - | 285,481 |
| Capital leases | 1,166,090 | 610,000 | - | 776,961 | 185,305 |
| Other | - | - | 300 | - | 200 |
| Total other financing - sources and uses | 10,891,305 | 6,845,950 | 6,753,609 | 10,788,494 | 12,778,299 |
| Net change in fund balances | \$ (2,569,698) | \$ (2,599,078) | \$ (57,515) | \$ 2,873,295 | \$ 11,155,072 |
| Debt service as a percentage of noncapital expenditures | 30.18% | 30.33% | 29.14% | 27.76% | 24.66% |

Schedule 5
CITY OF MADISON, ALABAMA
Assessed Value of Taxable Property
Last Five Fiscal Years

| Fiscal Year Ended September 30 | Assessed Valuation Amount |
|---------------------------------------|--------------------------------------|
| 2003 | 307,166,440 |
| 2004 | 324,910,320 |
| 2005 | 405,172,480 |
| 2006 | 434,744,620 |
| 2007 | 485,303,840 |

Source: License Commissioner and Tax Assessor of Madison County

Schedule 6
CITY OF MADISON, ALABAMA
Principal Property Tax Payers
Current Year

| Taxpayer | Type of Business | Assessed Valuation | Rank | Percentage of Total Assessed Valuation |
|---|-------------------------|---------------------------|-------------|---|
| Intergraph Corporation | Computer sales | \$ 10,938,600 | 1 | 2.25% |
| Colonial Realty Limited Partnership | Apartment rental | 4,842,200 | 2 | 0.99% |
| Flagstone Investors Limited Partnership | Apartment rental | 4,251,020 | 3 | 0.88% |
| Grand Reserve at Madison LLC | Apartment rental | 3,422,320 | 4 | 0.71% |
| Lexington Apartments | Apartment rental | 2,843,780 | 5 | 0.59% |
| MV Apartment LLC | Apartment rental | 2,119,300 | 6 | 0.44% |
| Wal-Mart Stores East, #332 | Department store | 2,092,160 | 7 | 0.43% |
| Lowe's Homes Centers, Inc. | Home improvement store | 1,845,320 | 8 | 0.38% |
| Madison Surgery Center, LLC | Medical Care | 1,804,420 | 9 | 0.37% |
| BellSouth Telecommunications, Inc. | Telecommunications | 1,683,600 | 10 | 0.35% |
| Total | | \$ 35,842,720 | | 7.39% |

Assessed Valuation of City at September 30, 2007
\$ 485,303,840

Schedule 7
CITY OF MADISON, ALABAMA
Property Tax Levies and Collections
Last Five Fiscal Years

| Fiscal Year Ended September 30 | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of the Levy | |
|--------------------------------------|--|---|-----------------------|
| | | Amount | Percentage of Levy |
| 2003 | * | 3,796,378 | * |
| 2004 | * | 4,029,419 | * |
| 2005 | 4,412,597 | 4,206,265 | 95.32% |
| 2006 | * | * | * |
| 2007 | * | * | * |

* Data not available

Source: Madison County Tax Assessor

Schedule 8
CITY OF MADISON, ALABAMA
Ratios of Outstanding Debt by Type
Last Five Fiscal Years

| Fiscal Year | General Obligation Bonds | Capital Leases | Total Primary Government | Percentage of Personal Income* | Per Capita* |
|------------------------|---|---------------------------|---|---|------------------------|
| 2003 | 108,155,000 | 1,386,715 | 109,541,715 | 9.11% | 3,357.50 |
| 2004 | 105,785,000 | 1,685,557 | 107,470,557 | 6.97% | 3,112.47 |
| 2005 | 104,650,000 | 1,363,423 | 106,013,423 | 6.35% | 2,958.87 |
| 2006 | 102,045,000 | 1,821,975 | 103,866,975 | 5.71% | 2,697.84 |
| 2007 | 112,420,000 | 1,514,987 | 113,934,987 | 0.00% | 2,844.11 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Schedule 11 for personal income and population

Schedule 9
CITY OF MADISON, ALABAMA
Ratio of General Bonded Debt Outstanding
Last Five Fiscal Years

| Fiscal Year | General Obligation Bonds | Total | Percentage of Actual Taxable Value of Property* | Per Capita** |
|------------------------|---|--------------|--|---------------------|
| 2003 | 108,155,000 | 108,155,000 | 35.21% | 3,314.99 |
| 2004 | 105,785,000 | 105,785,000 | 32.56% | 3,063.66 |
| 2005 | 104,650,000 | 104,650,000 | 25.83% | 2,920.82 |
| 2006 | 102,045,000 | 102,045,000 | 23.47% | 2,650.52 |
| 2007 | 112,420,000 | 112,420,000 | 23.16% | 2,806.29 |

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

*See Schedule 5 for property value data.

**Population data can be found in Schedule 11.

Schedule 10
CITY OF MADISON, ALABAMA
Legal Debt Margin Information
Last Ten Fiscal Years

| | <u>1988</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Debt limit | \$ 36,761,364 | \$ 42,282,880 | \$ 46,944,118 | \$ 55,022,504 | \$ 59,002,296 | \$ 61,433,288 | \$ 64,982,064 | \$ 81,034,496 | \$ 86,948,924 | \$ 97,060,768 |
| Total net debt applicable to limit | <u>29,675,000</u> | <u>29,705,000</u> | <u>31,309,100</u> | <u>38,500,058</u> | <u>37,520,081</u> | <u>36,795,081</u> | <u>36,443,499</u> | <u>35,280,755</u> | <u>36,325,910</u> | <u>48,570,910</u> |
| Legal debt margin | \$ 7,086,364 | \$ 12,577,880 | \$ 15,635,018 | \$ 16,522,446 | \$ 21,482,215 | \$ 24,638,207 | \$ 28,538,565 | \$ 45,753,741 | \$ 50,623,014 | \$ 48,489,858 |
| Total net debt applicable to the limit as a percentage of debt limit | 80.72% | 70.25% | 66.69% | 69.97% | 63.59% | 59.89% | 56.08% | 43.54% | 41.78% | 50.04% |

Legal Debt Margin Calculation for Fiscal 2005:

| | |
|--|-----------------------------|
| Assessed Value | \$ 485,303,840 |
| Debt limit (20% of total assessed value) | 97,060,768 |
| Debt Applicable to limit | |
| General obligation bonds | 112,420,000 |
| Less: Exempt Debt | <u>63,849,090</u> |
| Total net debt applicable to limit | <u>48,570,910</u> |
| Legal debt margin | <u><u>\$ 48,489,858</u></u> |

Note: Under the Constitution of Alabama, the city's general obligation debt may not exceed 20 percent of total assessed property value.

Schedule 11
CITY OF MADISON, ALABAMA
Demographic and Economic Statistics
Last Ten Fiscal Years

| <u>Year</u> | <u>Population</u> | <u>Personal Income</u> | <u>Per Capita Personal Income</u> | <u>Unemployment Rate*</u> |
|-------------|-------------------|----------------------------|---------------------------------------|-------------------------------|
| 2003 | 32,626 | 1,202,355,000 | 36,853 | 4.30% |
| 2004 | 34,529 | 1,542,555,000 | 44,674 | 4.50% |
| 2005 | 35,829 | 1,670,025,000 | 46,611 | 3.10% |
| 2006 | 38,500 | 1,818,180,000 | 47,225 | 2.40% |
| 2007 | 40,060 | - | - | 2.80% |

Source: City of Madison; State of Alabama; Department of Industrial Relations
*Madison County

Schedule 12
CITY OF MADIISON, ALABAMA
Principal Employers
Current Year

| <u>Employer</u> | <u>Product</u> | <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> |
|-----------------------------------|--------------------------|------------------|-------------|--|
| Intergraph Corporation | Computer sales | 1,000 | 1 | 307.69% |
| Madison City School System | Education | 800 | 2 | 246.15% |
| Wal-Mart Super Center | Department Store | 430 | 3 | 132.31% |
| City of Madison | Municipal | 325 | 4 | 100.00% |
| Kroger Company | Grocery Store | 170 | 5 | 52.31% |
| Lowe's Home Improvement Warehouse | Home Improvement Store | 160 | 6 | 49.23% |
| Winn-Dixie | Grocery Store | 125 | 7 | 38.46% |
| Cracker Barrel | Restaurant | 120 | 8 | 36.92% |
| Valleyview Nursing Home | Nursing Home | 120 | 9 | 36.92% |
| Packaging Materials | Containers | 115 | 10 | 35.38% |
| Ruby Tuesday's | Restaurant | 110 | 11 | 33.85% |
| Bruno's | Grocery Store | 100 | 12 | 30.77% |
| Holiday Inn | Hotel | 90 | 13 | 27.69% |
| Halsey Grocery Company | Wholesale Food | 90 | 14 | 27.69% |
| Madison Manor | Nursing Home | 86 | 15 | 26.46% |
| Excellance Corporation | Ambulances | 75 | 16 | 23.08% |
| Nextel | Electronic Equipment | 74 | 17 | 22.77% |
| Applebee's | Restaurant | 60 | 18 | 18.46% |
| Water and Wastewater Board | Water and Sewer Services | 48 | 19 | 14.77% |
| SEA Wire & Cable Corporation | Computer Cable | 45 | 20 | 13.85% |
| Label-Aid Corporation | Labels | 40 | 21 | 12.31% |
| Total | | 4,183 | | 1287.08% |

Sources: City Planning Division and Finance Department
Total City Full Equivalent Employment:
325

Schedule 13
CITY OF MADISON, ALABAMA
Primary Government
Full-Time Equivalent Employees by Function/Program
Last Ten Fiscal Years

| Function | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| General Government: | | | | | | | | | | |
| City Clerk Department | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 4 |
| Court Clerk Department | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| City Council | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 3 |
| Finance Department | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 7 | 8 | 12 |
| Human Resources Department | 7 | 6 | 6 | 7 | 7 | 4 | 4 | 4 | 7 | 4 |
| Mayor's Office | 4 | 5 | 6 | 7 | 4 | 3 | 3 | 3 | 3 | 3 |
| Revenue Department | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |
| Legal Department* | 0 | 0 | 0 | 0 | 2 | 2 | 2 | 2 | 2 | 2 |
| Public Safety: | | | | | | | | | | |
| Police Department | 59 | 65 | 70 | 75 | 80 | 80 | 84 | 92 | 98 | 106 |
| Fire Department | 36 | 38 | 39 | 42 | 42 | 51 | 51 | 52 | 58 | 58 |
| Planning and Building Department | 13 | 16 | 13 | 13 | 13 | 15 | 15 | 24 | 21 | 19 |
| Streets and Highways | | | | | | | | | | |
| Public Works Department | 37 | 37 | 42 | 46 | 46 | 51 | 51 | 51 | 51 | 58 |
| Engineering Department** | 0 | 0 | 4 | 5 | 5 | 6 | 11 | 0 | 0 | 7 |
| Parks and Recreation | | | | | | | | | | |
| Recreation Department | 27 | 37 | 40 | 37 | 19 | 32 | 32 | 32 | 32 | 33 |
| Senior Center*** | 0 | 0 | 0 | 0 | 8 | 6 | 6 | 6 | 6 | 6 |
| Total | 203 | 224 | 240 | 253 | 247 | 273 | 282 | 291 | 304 | 325 |

Source: City Finance Department

*Employees are included in the Mayor's Office for 1998 thru 2001

**Employees are included in Planning and Building Department for 1998 thru 1999

***Employees are included in the Recreation Department for 1998 thru 2001

Schedule 14
CITY OF MADISON, ALABAMA
Capital Assets Statistics by Function/Program
Last Ten Fiscal Year

| Function | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------------------------|------|------|------|------|------|------|------|------|------|------|
| Public Safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Sub-Station | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Fire Stations | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 |
| Parks and Recreation | | | | | | | | | | |
| Recreation | | | | | | | | | | |
| Swimming pools | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Neighborhood parks | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 |
| Tennis Courts | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Ball fields | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| Soccer fields | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Senior Center | | | | | | | | | | |
| Community center (for seniors) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Source: Various city departments.

MDA PROFESSIONAL GROUP, P.C.

Certified Public Accountants and Business Consultants

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MEMBERS OF THE AMERICAN
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AFFILIATED OFFICES IN
PRINCIPAL CITIES WORLDWIDE
THROUGH AGN INTERNATIONAL, LTD.

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

Honorable Mayor and City Council
City of Madison
Madison, Alabama

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Madison (the City) as of and for the year ended September 30, 2007, which collectively comprise the City of Madison's basic financial statements and have issued our report thereon dated June 27, 2008. We did not audit the financial statements of the Water and Wastewater Board of the City of Madison and the Madison Board of Education. Those financial statements were audited by other auditors whose reports have been furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. *Reportable conditions* involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 07-01 and 07-02.



A *material weakness* is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. All of the reportable conditions mentioned above are considered to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Mayor and the City Council, and is not intended to be and should not be used by anyone other than these specified parties.

MDA Professional Group, P.C.

Huntsville, Alabama
June 27, 2008

MDA PROFESSIONAL GROUP, P.C.

Certified Public Accountants and Business Consultants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and City Council
City of Madison, Alabama
Madison, Alabama

Compliance

We have audited the compliance of the City of Madison, Alabama with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City of Madison, Alabama's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Madison, Alabama's management. Our responsibility is to express an opinion on the City of Madison, Alabama's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Madison, 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 Madison, Alabama's compliance with those requirements.



In our opinion, the City of Madison, Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the City of Madison, 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 Madison, Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Madison's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Madison, Alabama's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 07-01 to be a material weakness.

The City of Madison's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Madison's response and, accordingly, we express no opinion on it.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF MADISON, ALABAMA

Year ended September 30, 2007

| | Federal CFDA Number | Pass-through Grantor Number | Federal Expenditures |
|---|---------------------------|-----------------------------------|--------------------------|
| U.S. DEPARTMENT OF JUSTICE | | | |
| Bulletproof Vest Program (2006) | 16.607 | - | \$ 2,812 |
| Cops in Schools | 16.710 | - | 6,739 |
| Universal Hiring | 16.710 | - | 185,268 |
| Cops Technology Grant | 16.710 | - | 117,706 |
| Cops Technology Grant | 16.710 | - | 17,647 |
| <i>Passed through Alabama Department of Economic and Community Affairs:</i> | | | |
| Domestic Violence Program (Violence Against Women) | 16.588 | 06-WP-LE-007 | 31,308 |
| <i>Passed through City of Huntsville from Alabama Department of Homeland Security:</i> | | | |
| Grant #3DOF (Reimbursement for Training Exercise) | 16.007 | 3DOF | 1,131 |
| <i>Passed through North Alabama Highway Safety Office from Alabama Department of Economic: and Community Affairs-Law Enforcement Traffic Safety Section</i> | | | |
| Enforcing Underage Drinking Laws | 16.727 | 06-AH-LO-001 | <u>2,797</u> |
| TOTAL U.S. DEPARTMENT OF JUSTICE | | | 365,408 |
| Office of National Drug Control Policy | | | |
| High Intensity Drug Trafficking Areas Program | 7.999 | - | <u>8,346</u> |
| TOTAL OFFICE OF NATIONAL DRUG CONTROL POLICY | | | 8,346 |
| U.S. Department of Homeland Security | | | |
| Assistance to Firefighters | 97.040 | - | 81,495 |
| Staffing for Adequate Fire and Emergency Response (SAFER) Grant | 97.044 | - | 166,296 |
| <i>Passed through City of Huntsville:</i> | | | |
| Mobile Data Terminals & Sustainment for Heavy Rescue Team | 97.073 | unknown | 31,103 |
| Personnel Training for Response to WMD Incidents | 97.073 | unknown | 5,848 |
| Personnel Training and Equipment for Response to WMD Incidents | 97.073 | unknown | <u>34,978</u> |
| TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY | | | 319,720 |
| U.S. Department of Transportation | | | |
| <i>Passed through North Alabama Highway Safety Office from Alabama Department of Economic: and Community Affairs-Law Enforcement Traffic Safety Section</i> | | | |
| State and Community Highway Safety | 20.605 | 07-SP-PT-0001 | 1,609 |
| Seatbelt Grant | 20.605 | 06-HS-K4-007 | 2,226 |
| Driving Under the Influence Grant | 20.605 | 06-HS-K8-006 | <u>2,708</u> |
| TOTAL U.S. DEPARTMENT OF TRANSPORTATION | | | 6,543 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 700,017</u> |

The Accompanying Notes are an Integral Part of this Schedule

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

CITY OF MADISON, ALABAMA

Year ended September 30, 2007

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of the City of Madison. The City of Madison receives federal awards both directly from federal agencies and indirectly through pass-through entities. Federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Major Programs

Major programs are identified in the Summary of Auditors' Results section of the Schedule of Findings and Questioned Costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MADISON, ALABAMA

Year ended September 30, 2007

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
Material weaknesses identified? Yes
Reportable conditions identified
not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:
Material weaknesses identified? No
Reportable conditions identified
not considered to be material weaknesses? No

Type of auditors' report issued on compliance
for major programs:
Cops In Schools Unqualified
Universal Hiring Unqualified
Cops Technology Grant Unqualified
Cops Technology Grant Unqualified
Domestic Violence Program Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? No

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--------------------------------|
| 16.710 | Cops In Schools |
| 16.710 | Universal Hiring |
| 16.710 | Cops Technology Grant |
| 16.710 | Cops Technology Grant |
| 16.588 | Domestic Violence Program |

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

Auditee qualified as low-risk auditee? No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MADISON, ALABAMA

Year Ended September 30, 2007

Section II - Financial Statement Findings:

Finding 07-01: Payroll Functions

Condition: During our review of the accounting policies and procedures, we noted that the City is currently in violation of one of the policies. The accounting policies state that access to enter or change payroll data is restricted to personnel in the Human Resources Department. We noted that employees in the Finance Department have the capability to set up new employees and to make change to payroll and to process payroll.

Effect: There is a lack of segregation of duties.

Cause: Lack of adherence to the accounting policies and procedures.

Auditor's Recommendation: As currently written, the accounting policies and procedures effectively segregate the duties for processing payroll. We recommend that the City adhere to their current policy.

Views of Responsible Officials and Planned Corrective Actions: This information is in the City's separate Correction Action Plan.

Response: The Information Technology Division of the City has restricted access to the computer system for all personnel in the Finance Department to prohibit the functions to change employee IDs', create new employee records, and/or update pay data rates.

The restrictions made in the computer system by the Information Technology Division demonstrate the City's commitment to adherence to the accounting policies and procedures. The security computer access functions put in place by the Information Technology Division construct assurance there is no lack of segregation of duties between the two departments.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

CITY OF MADISON, ALABAMA

Year Ended September 30, 2007

Section II - Financial Statement Findings:

Finding 07-02: Adjustments to Unaudited Balances

Condition: Auditors made significant adjustments to the unaudited trial balance of the City. These adjustments were related to capital assets.

Cause and Effect: During the year ended September 30, 2007, the City was required to identify and value the infrastructure assets within the City consistent with the requirements of GASB Statement 34. The calculation and compiling of data obtained from the City Engineering Department had not been properly reviewed.

Auditors' Recommendation: All data compiled by other departments should be properly reviewed by the Finance Department prior to posting to the general ledger.

Views of Responsible Officials and Planned Corrective Actions: This information is in the City's separate Correction Action Plan.

Response: All data compiled for the purpose of becoming a part of the financial data of the City will be properly reviewed by personnel in the Finance Department to ensure the data is correct prior to posting to the general ledger.

Section III - Federal Award Findings and Questioned Costs:

None.

CITY OF MADISON, ALABAMA
Summary of Prior Audit Findings
Year Ended September 30, 2007

Finding 06-01: Payroll Functions

Condition: Per view of the Payroll/Personnel System Compete Report which details the level of access to the payroll system for all employees, we noted that employees in the Finance Department have access to change employee IDs', create new employee records, and update pay data rates. The Finance Department is also responsible for processing payroll for each pay period.

Recommendation: The auditor recommended only the personnel in the Human Resources Department be allowed to access the payroll functions to change employee IDs', create new employee records, and update pay data rates in order to maintain appropriate segregation of duties. The auditor further recommended periodic review by City management of all system pay rate data.

Current Status: Management revised the fiscal policy of the City to include a section "Segregation of Duties - Finance Department and Human Resources Department". Efforts were made to segregate the duties but during the process, at year end, certain employees in the Finance Department had access to change employee IDs', create new employee records and/or update pay data rates.

After September 30, 2007, management instructed the Information Technology Division to restrict access in the computer system for all personnel in the Finance Department to functions which change employee IDs', create new employee records and/or update pay data rates.

The system pay rate data is reviewed periodically by management.

Finding 06/02: Reporting

Federal agency: Office of the President-National Drug Task Force
CFDA 7.999, High Intensity Drug Trafficking Areas Program
Award number: 16 PGCP598Z

Condition: We noted during our Single Audit testing over compliance with reporting that the Financial Status Report (Form 269) was not being filed by the City in connection with the High Intensity Drug Trafficking Areas Grant (HIDTA). This exception is considered a reportable condition in internal control over compliance with major programs in accordance with A-133.

Recommendation: The auditor recommended that the reporting requirements of federal and state agencies which awarded grants and other federal monies expended by the City be followed. Management concurred with the recommendation and indicated the requirements of federal and state funding guidelines will be followed.

Current status: The City is in compliance with all reporting requirements of federal and state agencies which awarded grants and other federal monies expended by the City. No similar findings were noted in the audit for the fiscal year ending September 30, 2007.