



A Grand City

on a CHARMING SCALE

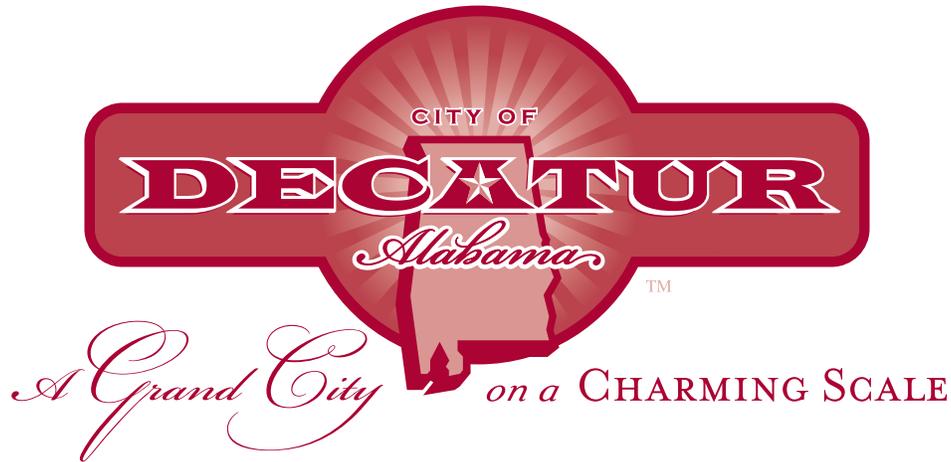
COMPREHENSIVE
ANNUAL
FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30,

2006

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

of the



FOR THE FISCAL YEAR ENDED
SEPTEMBER 30,
2006

FINANCIAL SERVICES
Gail Busbey, Chief Financial Officer
Linda McKinney, Finance Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Decatur
Alabama

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

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President

Executive Director

CITY OF Decatur
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 SEPTEMBER 30, 2006

Table of Contents

Part I - Introductory Section:	Page
Title Page	I
GFOA Certificate of Achievement	II
Table of Contents	III
Organizational Chart	VII
Boards and Commissions	VIII
Officials of the City of Decatur, Alabama	IX
Letter of Transmittal	X
Part II - Financial Section:	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	18
Statement of Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21

Table of Contents

Combining Statement of Net Assets – Discretely Presented Component Units	22
Combining Statement of Activities – Discretely Presented Component Units	23
Notes to the Financial Statements	24
Supplementary Information:	
Combining and Individual Fund Financial Statements:	
Balance Sheet – General Fund.....	54
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget & Actual – General Fund	55
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget & Actual – By Activity – General Fund.....	56
Combining Balance Sheet – Non-major Governmental Funds (by fund type)	63
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Non-major Governmental Funds (by fund type).....	64
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: 7 Cent Gas Tax Fund.....	65
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: 4 & 5 Cent Gas Tax Fund	66
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: Personnel Board Fund.....	67
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: Heritage Trust Fund	68
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: Corrections Fund	69
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: Docket Fee Fund	70
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: Drug Seizure Fund.....	71
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: Room Occupancy Tax Fund	72
Combining Statement of Net Assets – Non-major Proprietary Funds	73
Combining Statement of Revenue, Expenses and Changes in Fund Net Assets – Non-major Proprietary Funds	74
Combining Statement of Cash Flows – Non-major Proprietary Funds.....	75

Table of Contents

Part III - Single Audit Section:

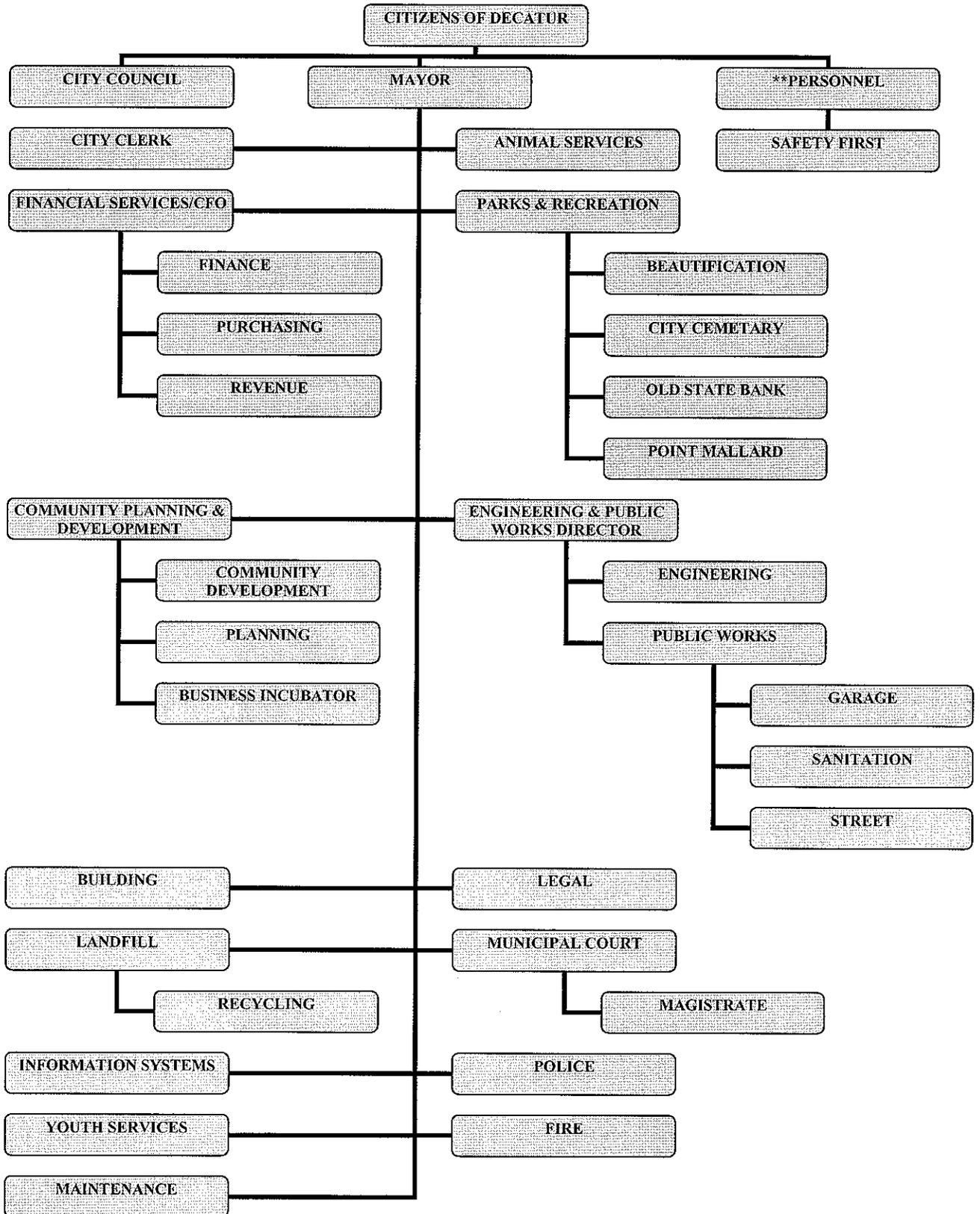
Independent Auditor's Reports.....	76
Schedule of Expenditures of Federal Awards.....	80
Notes to Schedule of Expenditures of Federal Awards.....	82
Schedule of Findings and Questioned Costs.....	83
Summary Schedule of Prior Year Audit Findings.....	86

Part IV - Statistical Section (Unaudited):

Table of Contents.....	A-1
Net Assets by Component, Last Four Fiscal Years.....	B-1
Changes in Net Assets, Last Four Fiscal Years.....	B-2
Fund Balance, Governmental Funds, Last Four Fiscal Years.....	B-4
Changes in Fund Balances, Governmental Funds, Last Four Fiscal Years.....	B-5
Assessed and Estimated Actual Value of Taxable Property, Last Four Fiscal Years.....	C-1
Direct and Overlapping Property Tax Rates, Last Four Fiscal Years.....	C-2
Principal Property Taxpayers, Last Four Fiscal Years.....	C-3
Property Tax Levies and Collections, Last Three Fiscal Years.....	C-4
Taxable Sales by Category, Current Year and Prior Calendar Year.....	C-5
Direct and Overlapping Sales Tax Rate, Last Ten Fiscal Years.....	C-6
Principal Sales Tax Remitters, Current Year and Prior Year.....	C-7
Ratio of Outstanding Debt by Type, Last Four Fiscal Years.....	D-1
Ratio of General Bonded Outstanding, Last Four Fiscal Years.....	D-2
Direct and Overlapping Governmental Activities Debt as of September 30, 2006.....	D-3
Legal Debt Margin Information, Last Ten Fiscal Years.....	D-4
Pledged-Revenue Coverage, Last Ten Fiscal Years.....	D-5
Demographic and Economic Statistics, Last Ten Fiscal Years.....	E-1
Principal Employers, Current Year.....	E-2
Full-Time-Equivalent City Government Employees by Function, Last Four Fiscal Years.....	F-1
Operating Indicators by Function/Program, Last Seven Fiscal Years.....	F-2
Capital Asset Statistics by Function/Program, Last Seven Fiscal Years.....	F-3

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2006 City of Decatur Organizational Chart



**** Personnel Department works independently and answers to the Personnel Board whose members are appointed by the City Council.**

City of Decatur

Boards and Commissions

Decatur Historic Preservation Commission	Housing Board of Adjustments & Appeals
Medical Clinic Board	Planning Commission
Industrial Development Board	Board of Zoning and Adjustment
Public Building Authority	Decatur Animal Services Board
Housing Authority	Decatur Health Care Authority
Board of Examinations and Appeals	Small Business Development Board
Parks & Recreation Board	Personnel Board
Old Bank Building Board	Municipal Utilities Board
Decatur Beautification Board	City Board of Education
Community Preservation Board	Urban Forestry Board
Downtown Redevelopment Authority	Educational Building Authority

City / County Boards

North Central Mental Retardation Authority	Board of Equalization
State Products Mart Authority	Wheeler Basin Regional Library
E-911 Board	Healthcare Authority of Morgan County
Civil Defense/Emergency Management	Airport Authority
Decatur/Morgan County Port Authority	Decatur/Morgan County Farmer's Market Board
EMS Advisory Committee	Mental Health Center of North Central Alabama

OFFICIALS OF THE CITY OF DECATUR

MAYOR

Don Kyle

CITY COUNCIL

Billy Jackson – President

Ronny Russell – President Pro Tempore
Gary Hammon

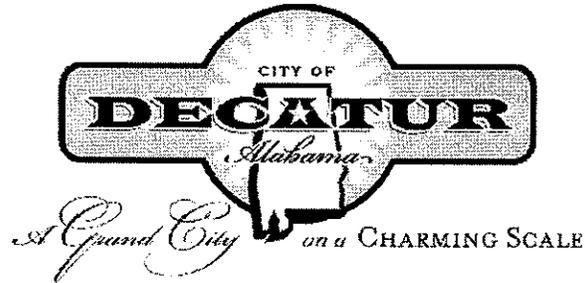
David Bolding
Ray Metzger

DEPARTMENT DIRECTORS

Animal Shelter	Danny Melson
Building Department	Jimmy Brothers
Chief Financial Officer	Gail Busbey
City Attorney	Herman Marks
City Clerk	Betty Marshall
City Engineer/Public Works Director	Mark Petersohn
Community Planning & Development	Michelle Gilliam-Jordan
Fire Chief	Charlie Johnson
Information Systems	Todd Russell
Municipal Judge	Bill Cook, Jr.
Landfill	Rickey Terry
Parks & Recreation	Jeff Dunlap
Personnel	Ken Smith
Police Chief	Joel Gilliam
Youth Services	Bruce Jones

OTHER KEY PERSONNEL

Beautification Coordinator	Linda Eubanks
Court Magistrate	Janice Clemons
Finance Supervisor	Linda McKinney
Maintenance Supervisor	Ray Wilkinson
Old State Bank Coordinator	Melinda Dunn
Purchasing Agent	Jeff Fussell
Recycling Coordinator	Emily Johnson
Revenue Administrator	Ronne Harvell



March 30, 2007

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Decatur, Alabama

The Comprehensive Annual Financial Report of the City of Decatur, Alabama, for the fiscal year ending September 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. This report, including the exhibits and statistical data contained herein, has been prepared by the Finance Department of the City of Decatur in conformity with the standards established by the Governmental Accounting Standards Board and complies with accounting principles generally accepted in the United States of America (GAAP). We believe the data as presented is accurate in all material aspects, and that it is presented in a manner to fairly set forth the financial position and results of operations of the City.

Alabama state law requires an annual audit to be made, in accordance with generally accepted auditing standards, of all books and accounts of the City by an independent public accountant. This requirement has been met and the report of Beason & Nalley, Inc., Certified Public Accountants, for the fiscal year ended September 30, 2006 is included in this report. This year's annual audit included a single audit of all federal grants, which complies with federal legislation. The single audit report is forwarded to the City's grantor agencies for review.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Decatur's MD&A can be found immediately following the report of our independent auditors, Beason & Nalley, Inc., Certified Public Accountants.

Profile of the Government

Decatur, Alabama was named in honor of the illustrious naval hero, Commodore Stephen Decatur, famed for his gallantry in the conflict with the Barbary States of North Africa, and later in the War of 1812. The town was incorporated December 8, 1826, by an act of the legislature.

Decatur, the county seat of Morgan County, is situated in northern Alabama, on the Tennessee River, midway between Nashville, Tennessee (110 miles to the north), Birmingham, Alabama (85 miles to the south), Atlanta, Georgia (200 miles to the east), and Memphis Tennessee (200 miles to the west). Huntsville, Alabama is thirty miles east of Decatur.

Since October 1968, the City of Decatur has been governed by a mayor-council form of government. The mayor is chief executive officer of the city and is elected by general election to a four year term. The city council is the legislative body and consists of five (5) members, who are elected for four year terms. Prior to 1988, members of the city council were elected on an "at large" basis. In 1988, the city council

established five (5) electoral districts, one of which is primarily black in population. An election was held August 23, 1988, on a "single member district" basis to fill all five places on the city council.

The City of Decatur provides a full range of services. These include police and fire protection, sanitation services, the construction and maintenance of streets and infrastructure, recreational facilities (26 parks comprising 1,278 acres, 46 tennis courts, 4 recreation centers, 34 ball fields, 2 pools, 4 golf courses both public & private, 31 soccer fields on 62 acres), cultural events, community services, and general administrative services. The city operates Point Mallard Park, a major 750 acre family recreation park on the Tennessee River, and home of America's first wave pool. At this location, in addition to the wave pool, there is an Olympic diving pool, water slides, Kiddies water feature, 18-hole championship golf course, regulation size ice rink, and a 210 sites campground. The City continues to make major investments in the park. Utility services are provided through a separate Municipal Utilities Board, which functions as a department of the City of Decatur and has been included as an integral part of the City's financial statements.

The City maintains budgetary controls to ensure compliance with legal provisions in the annually appropriated budgets adopted by the City Council. Activities of the general fund and special revenue funds are included in the budget process. Project length financial plans are adopted for all capital project funds. A formal budget is not adopted for the debt service funds because effective control is achieved through the related debt's indenture provisions. Although not legally required, the City Council also approves operating budgets for the Point Mallard and Landfill enterprise funds and the Cemetery permanent fund. The legal level of budgetary control is the department level. A formal amendment to the original budget is adopted after the Council reviews and approves changes at mid-year. All annual appropriations lapse at year-end.

Local economy

The information presented in the financial statements is better understood when it is considered from the broader perspective of the specific environment within which the City of Decatur operates.

Decatur and Morgan County have a strong, diversified industrial base built on the area's access to raw materials and their end markets. Looking back on economic activity for the past year, positive trends continue for the area despite layoffs and company downsizings that have occurred over the past couple of years. In fiscal year 2006, twenty-eight Morgan County companies invested \$508.1 million and created 355 new jobs, up from the previous year; this continuing investment in new and expanded facilities expresses their confidence in the future of Decatur and Morgan County.

The Decatur MSA (Metropolitan Statistical Area) unemployment rate improved in 2006 with 3.1% unemployed, compared to an unemployment rate of 3.9% September 30, 2005. This rate is lower than the state's average unemployment rate, which was 3.3% at September 30, 2006.

Long-term financial planning

Leadership of the City continues to invest in long-term economic development initiatives. Ground was broken in 2006 for a new major retail development which will consist entirely of retailers new to the City and bring a new dimension to retail sales in Decatur; significant increases in sales tax revenues are projected from this development, which is scheduled to open in October, 2007. The City provided a \$4,750,000 incentive program to bring this project to fruition.

Another economic development initiative is the investment in recreational facilities in the City. The Ingalls Harbor, with over 30 acres adjacent to the Tennessee River, is designed for a marina, but can be used for many other open-air events, increasing tourism and sales tax revenues. It opened to rave reviews for the annual Riverfest, a major tourist event each September. The first of several major fishing tournaments in 2006 led to the director of one of the major tournaments calling our facility the best in the country. Tourism events involve hotel night stays, thus increasing lodging tax revenues, one of the sources of funding for the marina development. A new tennis complex is under construction, which will provide

facilities (including indoor play under a heated, lighted tennis "bubble") to entice large tennis tournaments to the City. The City has continued to invest in the Jack Allen Recreation Complex, which has proven to be a major sales tax revenue source to the City, as it has hosted several large soccer tournaments.

To further economic development, attract new residents and provide greater service to our Citizens, the City has retained a marketing firm to develop a comprehensive marketing plan and to revamp the City's website.

The City continues to work toward implementation of Envision Decatur, a plan for the renovation of the downtown, uptown, riverfront, and West Moulton Street areas. The consultant contract was completed in the Spring of 2004 and estimated time for full implementation of this plan is twenty years. Work has continued on Hospitality Park, an entryway to the City which is part of the North Alabama Birding Trail. Work at the park was funded by the room occupancy tax generated by tourism. Improvements to Delano Park, funded by grants, included restoration of the Rose Garden, a new \$200,000 water play feature through the Land, Water, and Conservation program, and a \$200,000 walking trail funded through the Alabama Department of Transportation. Additional developments are planned at Delano Park, including the only all-access playground in North Alabama, allowing access to people with multiple handicaps.

The new Turner-Surles Community Resource Center opened in March 2006 in Northwest Decatur, providing a beautiful multi-use facility available to the whole community. It houses a senior citizens program and nutrition site daily and provides a facility for large meetings not previously available in the City. The North West Community Development Corporation was formed to provide the organizational framework for community based leadership to plan and implement actions which will lead to the revitalization, development and sustainability of Northwest Decatur using this new Resource Center. Approximately one million dollars have been spent on this new resource center funded entirely by community development block grant funds.

The City and the Decatur Board of Education have worked together to insure a safe school environment for the students and faculty. In September 2005, the U.S. Department of Justice awarded a \$372,844 Secure Our Schools grant for the purchase and installation of metal detectors and camera surveillance systems for the two high schools and three middle schools. The City's match was \$111,853. The project has been completed and utilized to greatly improve overall security on each campus. This project enabled both high schools and one middle school to receive the 2006 Alabama Attorney General's "Safe School Award," only given to schools that meet stringent safety guidelines. The U.S. Department of Justice Cops in Schools grant, completed in 2006, provided the School Resource Officers (SRO) new training on techniques to promote the prevention of crimes by human behavior alteration based on building design, lighting, and landscaping.

Awards and Acknowledgements

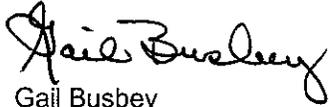
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Decatur for its comprehensive annual financial report for the fiscal year ended September 30, 2005. This was the fourteenth consecutive year that the government has achieved 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 generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report is possible because of the efficient and dedicated service of the entire staff of the finance department, particularly that of Finance Supervisor Linda McKinney. We wish to express our appreciation to our independent auditors, especially Jeremy Jefferys, CPA and Julie Reeves, CPA.

We would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

A handwritten signature in black ink that reads "Gail Busbey". The signature is written in a cursive style with a large initial "G".

Gail Busbey
Chief Financial Officer



Independent Auditor's Report

The Honorable Mayor and Members
of the City Council
City of Decatur
Decatur, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Decatur, Alabama ("the City") as of and for the year ended September 30, 2006, 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 Decatur's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Decatur's Board of Education ("Board of Education"), which is a component unit of the City, or the financial statements of the Municipal Utilities Board Enterprise Fund ("Utilities Board"). The Board of Education's financial statements represent 98.7% of the total assets and 99.8% of the revenues of the discretely presented component units. The Utilities Board's financial statements represent 91.1% of the total assets and 95.1% of the operating revenues of the enterprise funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Decatur, Alabama, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, and the School Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The management's discussion and analysis beginning on page 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and other auditors 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 opinions on the financial statements that collectively comprise the City of Decatur's basic financial statements. The introductory section, supplementary information and statistical 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 supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

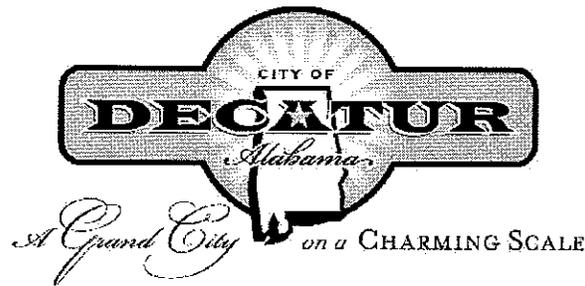
In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2007 on our consideration of the City of Decatur's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Beason-Held, CPA

Huntsville, Alabama

February 2, 2007

BASIC FINANCIAL STATEMENTS



Management's Discussion and Analysis

As management of the City of Decatur (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the challenges of the coming and subsequent years), d) identify any material deviations from the financial plan (the adopted budget) and (e) identify individual fund issues or concerns.

Because the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and known facts, we encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

2006 Highlights

Financial Highlights

- The total net assets of the City are \$248.3 million. Of this amount, \$24.2 million from governmental activities is considered unrestricted, which means the City may use this amount, plus future revenues, to meet its ongoing obligations to citizens and creditors.
- The unrestricted net assets of the business-type activities are \$33.7 million and may be used to meet the ongoing obligations of the business-type activities.
- The City's net assets increased by \$5.1 million (or 2.1%). The governmental net assets decreased \$678 thousand (or 1.4 %) and business-type net assets increased by \$5.8 million (or 3%).
- The governmental activities revenues increased \$3.8 million (or 5.5%), and total expenses of governmental activities increased \$7.8 million (or 11.9 %).
- As of September 30, 2006, the governmental funds reported a combined ending fund balance of \$22.3 million, a decrease of \$2.8 million from the prior year. Of the ending fund balance, \$19.1 million is unreserved and available to finance the activities of the governmental funds and \$3.2 million is reserved to meet existing obligations.
- The General Fund reported a fund balance of \$20.9 million and \$11.2 million of this amount is available for any purpose. The fund balance increased \$1.1 million from the prior year.
- The City's total debt decreased by \$2.1 million during 2006. \$8.2 million in principal was paid during the year.

Management's Discussion and Analysis- Continued

City Highlights

- The Crossings of Decatur, a major retail development, broke ground in September.
- The Base Realignment and Closure Commission (BRAC) announced that 4700 direct jobs (as well as a minimum of 4700 indirect jobs) will move to Redstone Arsenal by 2011. Based on prior BRAC experience, Decatur expects a minimum of 500 new residents with a total annual salary of \$60,000 each to move into Decatur.
- The City streamlined operations by reorganizing and/or combining several departments under a single department head, including the Planning and Community Development Departments, Public Works and Engineering Departments, and Parks and Recreation and Point Mallard Park.
- The City hired a public relations firm to create a comprehensive marketing plan for the City and to redesign the City's website.

USING THIS ANNUAL REPORT

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, public services, intergovernmental, community service, community development, and personnel board functions. The intergovernmental functions of the City are those activities whereby the City provides financial resources to other governmental entities, primarily the Decatur Board of Education for support of the city school system.

The business-type activities of the City include the Municipal Utilities Board, Sanitary Landfill and Point Mallard operations. All of these activities are collectively referred to in the financial statements as those of the *primary government*.

As described in the letter of transmittal and notes to the financial statements, other entities' activities are included in this report because of the relationship of these legally separate entities to the City. Financial information of the Board of Education and Public Building Authority are referred to in the financial statements as those of the *discretely-presented component units*. This discussion and analysis focuses

Management's Discussion and Analysis- Continued

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

The government-wide financial statements can be found on pages 13 through 14 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is 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.

The City maintains sixteen individual governmental funds:

- General Fund and the School Fund are considered to be *major* funds, and information is presented separately in the *governmental fund balance sheet* and in the *governmental fund statement of revenues, expenditures, and changes in fund balances* for these funds.
- The fourteen other governmental funds are considered to be *nonmajor* governmental funds, and they are combined into a single, aggregated presentation in the basic financial statements. Individual fund data for each of these funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

Proprietary funds. The City maintains only one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Sanitary Landfill and Point Mallard operations and the Municipal Utilities Board Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The basic proprietary fund financial statements provide information as follows:

- The Municipal Utilities Board Fund is considered to be a *major* proprietary fund of the City, and information is presented separately in the *proprietary statement of net assets* and in the *proprietary fund statement of revenues, expenditures, and changes in fund net assets* for these funds
- The other two enterprise activities are considered to be *nonmajor* proprietary funds, and they are combined into a single, aggregated presentation in the basic financial statements. Individual fund

Management's Discussion and Analysis- Continued

data for each of these funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 19 through 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 53 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. Because the City adopts an annual operating budget for most of its government funds, a comparison of budget to actual results is provided for these funds to demonstrate compliance with the budget. This information and the combining nonmajor funds statements referred to earlier can be found beginning on page 54 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Overall, the City's assets exceeded liabilities by \$248.3 million at the close of the most recent fiscal year.

The largest portion of the City's net assets (75.6 percent) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, infrastructure, and other), 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 capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets (1.1 percent) represents resources that are subject to restrictions as to how they may be used, such restrictions being imposed by legal requirements other than those imposed by the City Council (e.g. state or federal law).

The remaining balance of unrestricted net assets is \$58.0 million, which consisted of \$24.3 million from governmental activities and \$33.7 million from business-type activities.

The positive unrestricted net assets of the business-type activities are available to be used to fund governmental activities if deemed necessary by the City Council because they are only restricted for business-type activities by local ordinance.

Management's Discussion and Analysis- Continued

City of Decatur's Net Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$31,499	\$32,580	\$52,322	\$45,111	\$ 83,821	\$ 77,691
Capital assets	82,662	80,583	209,086	212,673	291,748	293,256
Total assets	114,161	113,163	261,408	257,784	375,569	370,947
Long-term liabilities outstanding	61,470	61,008	43,529	46,182	104,999	107,190
Other liabilities	6,130	4,916	16,144	15,690	22,274	20,606
Total liabilities	67,601	65,924	59,674	61,872	127,273	127,796
Net assets:						
Invested in capital assets, net of related debt	24,603	22,479	163,021	162,954	187,624	185,433
Restricted	(2,385)	1,368	4,981	4,825	2,596	6,193
Unrestricted	24,343	23,392	33,733	28,133	58,076	51,525
Total net assets	\$46,561	\$47,239	\$ 201,735	\$ 195,912	\$ 248,296	\$ 243,151

Net assets from governmental activities decreased \$678 thousand in fiscal year 2006 and net assets from business-type activities increased \$5.8million. Net assets also changed due to prior period adjustments of \$212,000 as noted in Note 4K on page 46.

Management's Discussion and Analysis- Continued

City of Decatur's Changes in Net Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$17,770	\$15,383	\$143,122	\$124,326	\$ 160,892	\$ 139,709
Operating grants & contributions	685	474	-	-	685	474
Capital grants & contributions	2,273	2,068	1,664	1,675	3,937	3,743
General revenues:						
Sales taxes	34,171	31,823	-	-	34,171	31,823
Property taxes	8,927	8,507	-	-	8,927	8,507
Other taxes	7,980	8,727	-	-	7,980	8,727
Interest on investments	1,416	829	1,996	1,017	3,412	1,846
Other	279	1,874	-	-	279	1,874
Total revenues	73,501	69,685	146,782	127,018	220,283	196,703
Expenses:						
General government	9,457	4,106			9,457	4,106
Public safety	18,468	18,736			18,468	18,736
Public works	7,067	7,865			7,067	7,865
Public services	9,425	7,497			9,425	7,497
Intergovernmental assistance	18,146	17,335			18,146	17,335
Community service contracts	2,556	2,426			2,556	2,426
Community development	1,634	721			1,634	721
Personnel board	498	530			498	530
Interest on long-term debt	2,680	2,877			2,680	2,877
Unallocated depreciation	3,396	3,457			3,396	3,457
Municipal Utilities Board:			134,770	116,461	134,770	116,461
Other			6,830	6,288	6,830	6,288
Total expenses	73,327	65,550	141,600	122,749	214,927	188,299
Increase in net assets before Transfers	174	4,135	5,182	4,269	5,356	8,404
Transfers	(640)	(1,305)	640	1,305	-	-
Increase in net assets	(466)	2,830	5,822	5,574	5,356	8,404
Net assets - beginning of year	47,239	44,409	195,912	190,163	243,151	234,572
Prior period adjustments	(212)			175	(212)	175
Net assets - end of year	\$ 46,561	\$ 47,239	\$ 201,734	\$ 195,912	\$ 248,295	\$ 243,151

Management's Discussion and Analysis- Continued

Governmental Activities. Revenues from governmental activities increased \$3.8 million (5.5 percent) during 2006. The most significant changes were as follows:

- Sales taxes increased \$2.3 million, or 7.4 percent compared to 2006, due to an increase in retail sales and record unemployment rates.
- Property taxes increased 4.9 percent due to annual property value re-appraisals.
- Interest on investments increased \$587 thousand, or 71 percent due to rising interest rates and increased revenues.
- Capital grants and contributions increased \$205 thousand. This was due to a net increase in total grants greater than decreases in capital contributions in the current year. The contribution of streets, drainage and sidewalks in four subdivisions totaling \$1.4 million is a decrease over 2005 contributions. Capital grants of \$857 thousand were an increase over 2005 totals. FY 2006 grants included a \$495 thousand Economic Development Incentive Grant for improvements to Ingalls Marina, a \$112 thousand Secure Our Schools Grant for video surveillance systems for the City's middle and high schools and \$78 thousand COPS Technology Grant for the Police Department.

Expenses of governmental activities increased \$7.8 million (11.9 percent) in 2006. The majority of this increase represents a \$4.75 million land purchase made as a retail incentive for a major retail development. Expenses have increased in the Parks and Recreation Department, due to the addition of new facilities and expansion of existing facilities, such as the Jack Allen Recreation Complex, and purchases of new equipment to meet the increasing maintenance needs of these facilities. Personnel costs remained stable, due to a decrease in health insurance premiums which offset the costs of an across-the-board 2% cost of living increase at mid-year with scheduled 5% employee step increase on employee anniversary dates for those employees who have not reached the top of their pay scale (approximately one-half of all full-time employees.) Operating expenses, particularly fuel-related costs and depreciation, also increased.

Business-Type Activities. Revenues from business-type activities increased \$19.8 million (15.6 percent). The majority of the increase was related to rate increases for the Municipal Utilities Board which were implemented in the current year. Two rate increases were levied on sales of electric power by TVA during 2006 and the costs of natural gas continued to increase. These revenue increases were largely offset by accompanying increases in expenses. Revenues from water sales were increased due to a long, hot and dry summer.

Because of Alabama's territorial law for electric utility systems, the Electric System had a net loss of 309 customers. The Gas System had a net loss of 99 customers, partly attributed to the high costs of natural gas. The Water System had a net increase of 34 customers, all in industrial and commercial categories. The Wastewater System had a net loss of 5 customers, with an increase in industrial and commercial. Despite the overall decrease in customers, the Board was able to increase overall revenues based on increases in rates as noted above.

Charges for services represent ninety-eight percent of the revenues of the business-type activities and interest on investments and capital grants and contributions represent two percent.

Expenses of the business-type activities increased \$18.9 million, or 15.4 percent

Management's Discussion and Analysis- Continued

Financial Analysis of the Governments Funds

As noted earlier, the City used 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 spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the 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 as of September 30, 2006, were \$22.3 million, which was a decrease of \$2.8 million from the 2005 fiscal year. Of this amount, \$19.1 million constitutes unreserved fund balance, which is generally available for spending at the City's discretion, although it is subject to certain designation made within each fund by the City Council.

The net decrease of \$2.8 million in the combined fund balances of the City's governmental funds was mostly attributable to the changes in the individual funds as follows:

- An increase of \$1.1 million in the General Fund. This was primarily attributable to debt proceeds related to the Crossing Development in the amount of \$4.8 million, which were offset by an increase in expenditures which far outweighed the increase in revenues within this fund. Revenue increased \$2.6 million, expenses increased \$5.4 million and debt service decreased \$.5 million..
- The Non-major governmental fund balance decreased \$3.9 million as the City financed capital projects at the Marina, Jack Allen Recreation Complex, Jimmy Johns Tennis Complex and various other recreation facilities, as well as major equipment purchases, in anticipation of the issuance of long-term debt in October, 2006 and a \$495 thousand EDI grant for the Marina.

The General Fund is the primary operating fund of the City. The unreserved fund balance of the General Fund was \$20.9 million, but \$9.6 million of this amount has been designated, or earmarked by management for special purposes.

Proprietary funds. The focus of the City's proprietary funds (enterprise and internal service funds) is to provide the same type of information as found in the government-wide financial statements, but in more detail.

The unrestricted net assets of the enterprise funds increased \$5.6 million, which is primarily attributable to rate changes within the Municipal Utilities Board and weather-related revenues, as discussed earlier which caused increases in the amount of revenues that were greater than the related expenses for this fund.

Other factors concerning the finances of the City's proprietary funds have already been addressed in the discussion of the City's business-type activities.

Governmental Funds Budgetary Highlights

General Fund. A \$2,162,796 positive difference between budgeted and actual revenues is a result of the conservative budgeting approach of the governing body in budgeting FY 2006 revenues based on FY 2005 actual revenues. The \$3,652,995 negative difference between budgeted and actual expenditures is primarily the result of an expenditure of \$4,875,000 for the purchase of land as an economic development incentive for a major retail development. An increase of \$248,360 in revenues for business licenses was a result of aggressive enforcement and the economic growth reflected in sales and use tax collections. A (\$5,609) difference between budgeted and actual revenues from building permits reflects the national trend of a softening in the new housing market. A \$433,547 reduction in tax equivalent payments by Decatur Utilities' Gas Department was due to a reduction in their net revenues due to large fluctuations in

Management's Discussion and Analysis- Continued

the price of natural gas. Payments in lieu of taxes made by TVA decreased \$146,299, based upon TVA's formula of revenues and valuation of assets. Community Service Contracts budget was exceeded by \$63,381 in the form of payments to the Decatur Convention and Visitors Bureau; this amount was based on 75% of lodging tax collections; collections exceeded projections based on prior year revenues by this amount. Several large sporting events at the new Jack Allen Recreation Complex have contributed to the increase in lodging taxes, as well as sales and use tax revenues. Budgeted expenditures were exceeded by the Public Building, Community Development and Parks & Recreation Departments as a result of extreme fluctuations in fuel prices and overtime necessitated by several large special events.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of September 30, 2006, totals \$291.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, utility plant-in-service, park facilities, roads, curbs and gutters, streets and sidewalks, greenways, drainage and sewer systems. Total capital assets decreased \$1.5 million in 2006. Those used for governmental activities increased by \$2.1 million (2.6 percent) as total additions (\$11.9 million) exceeded depreciation and disposition of those assets (\$9.8 million). Capital assets used for business-type activities decreased by \$3.6 million (1.7 percent).

Major capital events during the fiscal year included the following:

- \$2.5 million spent on continued improvements at the Jack Allen Recreation Complex, to serve the 27 acre sports facility;
- \$1.975 million spent on boat launch, floating docks, and other improvements at Ingalls Marina;
- \$775,000 spent on improvements to tennis courts at Jimmy Johns Tennis Center, to create a central tennis facility suitable for tournament play;
- \$106,546 spent on a concession and restroom facility for the Aquadome ball field;
- \$102,486 spent on a video surveillance system for the jail;
- \$75,000 spent on the purchase of batting cage equipment at Wilson Morgan Park;
- \$1.5 million spent on vehicles and equipment for various departments, including 20 Police cars and 3 semi-automated garbage trucks.

City of Decatur's Capital Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$9,458	\$9,213	\$3,780	\$3,719	\$13,238	\$12,932
Land improvements	11,134	7,235	-	-	11,134	7,235
Buildings and improvements	13,767	12,205	9,186	9,234	22,953	21,439
Infrastructure	42,839	44,735	-	-	42,839	44,735
Construction in process	1,101	3,038	515	2,021	1,616	5,059
Machinery and Equipment	4,363	4,156	1,126	934	5,489	5,090
Utility plant-in-service	-	-	194,479	196,766	194,479	196,766
Total	\$82,662	\$80,582	\$209,086	\$212,674	\$291,748	\$293,256

Additional information on the City's capital assets can be found in Note 4C on pages 35 through 36 of this report.

Management's Discussion and Analysis- Continued

Long-term debt. As of September 30, 2006, the City had \$100.6 million of long-term debt outstanding. Of this amount, \$58.6 million is debt backed by the full faith and credit of the City and \$42 million is comprised of revenue bonds and warrants secured solely by specific revenue sources (utility system debt). The School System has debt of \$25.8 million in capital outlay warrants, for which the School System's ad valorem tax payments are pledged and which is not an obligation of the City of Decatur.

City of Decatur's Outstanding Debt (in thousands) General Obligation and Revenue Debt

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation warrants	\$57,970	\$57,935	\$-	\$-	\$57,970	\$57,935
Revenue warrants	-	-	42,025	44,820	42,025	44,820
Notes payable	630	630	-	-	630	630
Total	\$58,600	\$58,565	\$42,025	\$44,820	\$100,625	\$103,385

The City's general obligation bond rating by Standard & Poor's Corporation and Moody's Investor Services, Inc. are "AA-" and "Aa3", respectively.

Other than debt paid from proprietary fund revenue sources (e.g. revenue bonds), State of Alabama law limits the amount of general obligation debt cities can issue for purposes other than schools and drainage systems to twenty percent of the assessed value of real and personal property. As of September 30, 2006, the City's allocable debt outstanding was \$78.4 million less than the legal debt limit.

Additional information regarding the City's long-term debt can be found in Note 4F on pages 40 through 45 of this report.

2007 Budget

The Mayor and City Council have considered many factors in the development of the fiscal year 2007 budget. The approach to the budget process has been one of conservatism. Revenue projections are based on 2006 actual receipts of \$51 million for the General Fund budget. Department expenditures are currently held to the 2006 level, with adjustments for expected fluctuations in fuel and other necessary expenditures. Management believes revenues and expenditures will meet overall budgetary goals.

Request for Information

This financial report is designed with 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 Linda McKinney, P.O. Box 488 Decatur, AL 35602, by calling (256) 341-4561, or by sending an email to lmckinney@decatur-al.gov. This report and other City financial information are available on the City's website at www.decaturalabamausa.com.

CITY OF DECATUR
STATEMENT OF NET ASSETS
September 30, 2006

	Primary Government			(Restated) Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash & investments, at cost	\$ 22,817,415	\$ 34,209,072	\$ 57,026,487	\$ 26,248,364
Receivables (net of allowances)	6,380,277	10,877,774	17,258,051	-
Due from component units	56,545	-	56,545	-
Due from governmental entities	1,376,971	-	1,376,971	15,657,245
Inventories	20,298	2,266,417	2,286,715	181,661
Other	65,339	63,403	128,742	-
Deferred costs	538,703	164,177	702,880	201,737
Internal balances	243,840	(243,840)	-	-
Restricted assets				
Cash & investments, at cost	-	4,985,645	4,985,645	-
Capital assets				
Land, collections and construction in process	10,558,613	4,295,430	14,854,043	16,149,476
Other assets, net of accum. depreciation	72,103,317	204,790,268	276,893,585	49,763,253
Total assets	114,161,318	261,408,346	375,569,664	108,201,736
LIABILITIES				
Accounts payable	2,516,358	12,460,779	14,977,137	1,387,024
Accrued liabilities	1,841,909	40,314	1,882,223	6,782,750
Due to component units	1,373,955	-	1,373,955	-
Due to governmental entities	77,996	-	77,996	-
Customer deposits	-	3,642,869	3,642,869	-
Deferred revenue	20,999	400	21,399	11,570,524
Other	299,312	-	299,312	-
Liabilities payable from restricted assets:				
Matured warrants payable	-	2,910,000	2,910,000	-
Noncurrent liabilities				
Due within one year	6,318,526	19,447	6,337,974	428,782
Due in more than one year	55,151,928	40,600,161	95,752,089	26,927,182
Total liabilities	67,600,983	59,673,970	127,274,953	47,096,262
NET ASSETS				
Invested in capital assets, net of related debt	24,602,623	163,020,598	187,623,221	37,728,820
Restricted for:				
Capital projects	(3,210,457)	-	(3,210,457)	-
Debt service	825,097	4,980,645	5,805,742	-
Unrestricted	24,343,072	33,733,133	58,076,205	23,376,654
Total net assets	\$ 46,560,335	\$ 201,734,376	\$ 248,294,711	\$ 61,105,474

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) & Changes in Net Assets			(Restated) Component Units
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental activities								
General government	\$ 9,456,769	\$ 5,012,310	\$ -	\$ -	\$ (4,444,459)	\$ -	\$ (4,444,459)	\$ -
Public safety	18,468,401	2,247,078	-	-	(16,221,323)	-	(16,221,323)	-
Public works	7,066,626	2,248,765	1,416,336	-	(3,401,525)	-	(3,401,525)	-
Public services	9,425,623	569,054	-	-	(8,856,569)	-	(8,856,569)	-
Intergovernmental assistance	18,146,194	7,692,435	-	-	(10,453,759)	-	(10,453,759)	-
Community service contracts	2,555,873	-	-	-	(2,555,873)	-	(2,555,873)	-
Community development	1,633,891	-	856,815	-	(91,804)	-	(91,804)	-
Personnel board	498,392	-	-	-	(498,392)	-	(498,392)	-
Interest on long-term debt	2,680,090	-	-	-	(2,680,090)	-	(2,680,090)	-
Unallocated depreciation	3,395,762	-	-	-	(3,395,762)	-	(3,395,762)	-
Total governmental activities	73,327,621	17,769,642	685,272	2,273,151	(52,599,556)	-	(52,599,556)	-
Business-type activities								
Municipal Utilities Board	134,770,313	136,117,615	-	1,663,669	-	3,010,971	3,010,971	-
Point Mallard	3,652,042	2,838,530	-	-	-	(813,512)	(813,512)	-
Sanitary Landfill	3,177,393	4,166,182	-	-	-	988,789	988,789	-
Total business-type activities	141,599,748	143,122,327	-	1,663,669	-	3,186,248	3,186,248	-
Total primary government	\$ 214,927,369	\$ 160,891,969	\$ 685,272	\$ 3,936,820	\$ (52,599,556)	\$ 3,186,248	\$ (49,413,308)	\$ -
Component Units								
All	82,079,987	5,497,067	44,321,243	1,809,484	-	-	-	(30,452,193)
Total component units	\$ 82,079,987	\$ 5,497,067	\$ 44,321,243	\$ 1,809,484	\$ -	\$ -	\$ -	\$ (30,452,193)
General Revenues								
Sales & use taxes		\$ 34,171,298	\$ -	\$ -	\$ -	\$ 34,171,298	\$ 11,173,982	\$ 12,885,987
Property taxes		8,927,164	-	-	-	8,927,164	-	-
Alcoholic beverage taxes		1,959,620	-	-	-	1,959,620	-	-
Gasoline taxes		881,061	-	-	-	881,061	-	-
Automobile taxes		1,345,890	-	-	-	1,345,890	-	-
Lodging taxes		1,139,526	-	-	-	1,139,526	-	-
Rental taxes		1,099,616	-	-	-	1,099,616	-	-
Other taxes		1,554,270	-	-	-	1,554,270	-	976,271
Interest on investments		1,416,270	-	-	-	1,416,270	-	1,603,971
Other		278,875	-	-	-	278,875	-	4,693,028
Transfers		(640,061)	-	-	-	640,061	-	-
Total general revenues & transfers		52,133,529	2,635,794	54,769,323	(466,027)	5,822,042	5,356,015	861,046
Change in net assets								
Net assets, beginning - as previously reported		47,238,440	195,912,334	243,150,774	-	-	56,835,597	3,388,831
Restatement, Note 4A		(212,078)	-	(212,078)	-	-	-	-
Prior period adjustments								
Net assets, ending		\$ 46,560,335	\$ 201,734,376	\$ 248,294,711	\$ -	\$ 248,294,711	\$ 61,105,474	\$ -

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2006

	General Fund	School Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash & cash equivalents	\$ 16,552,818	\$ 690,256	\$ 5,108,608	\$ 22,351,682
Cash with fiscal agents	60,402	-	-	60,402
Investments, at cost	405,331	-	-	405,331
Receivables (net of allowances)				
Accounts	2,231,758	779,011	37,338	3,048,107
Notes	-	-	462,925	462,925
Taxes	2,868,377	-	-	2,868,377
Accrued interest	868	-	-	868
Due from other funds	3,196,658	30,186	1,786,411	5,013,255
Due from component units	780	-	55,765	56,545
Due from governmental entities	406,575	116,426	853,970	1,376,971
Deposits	65,339	-	-	65,339
Inventories	20,298	-	-	20,298
Total assets	25,809,204	1,615,879	8,305,017	35,730,100
LIABILITIES				
Accounts payable	1,269,286	647	1,246,425	2,516,358
Accrued liabilities	1,098,606	-	97,735	1,196,341
Due to other funds	-	-	4,769,415	4,769,415
Due to component units	-	1,373,955	-	1,373,955
Due to governmental entities	77,996	-	-	77,996
Deferred revenue	2,181,747	-	978,924	3,160,671
Other	288,006	-	11,306	299,312
Total liabilities	4,915,641	1,374,602	7,103,805	13,394,048
FUND BALANCES				
Reserved for:				
Encumbrances	-	-	1,692,685	1,692,685
Inventories	20,298	-	-	20,298
Perpetual care	-	-	704,596	704,596
Debt service	-	-	825,097	825,097
Unreserved & Designated for:				
Special purposes	8,331,935	-	-	8,331,935
Future capital needs	232,004	-	-	232,004
Landfill	1,063,609	-	-	1,063,609
Other	1,380	-	-	1,380
Unreserved & undesignated, reported in:				
General fund	11,244,337	-	-	11,244,337
Special revenue funds	-	241,277	1,189,291	1,430,568
Capital projects funds	-	-	(3,210,457)	(3,210,457)
Total fund balance	20,893,563	241,277	\$ 1,201,212	22,336,052
Total liabilities and fund balance	\$ 25,809,204	\$ 1,615,879	\$ 8,305,017	

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 fund:	\$ 82,661,930
Other long-term receivables are not available for current-period expenditures and, therefore, are deferred in the funds	3,139,672
Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(61,577,319)

Net assets of governmental activities

\$ 46,560,335

**CITY OF DECATUR
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006**

	General Fund	School Fund	Other Governmental Funds	Total Governmental Funds
REVENUE				
Sales & use taxes	\$ 25,699,285	\$ 8,472,013	\$ -	\$ 34,171,298
Property taxes	2,448,339	6,478,825	-	8,927,164
Other taxes	6,469,675	1,151,290	359,018	7,979,983
Licenses & permits	5,506,691	-	-	5,506,691
Fines & forfeitures	862,514	-	347,437	1,209,951
Revenues from money & property	1,319,688	(1,318)	320,037	1,638,407
Charges for services	3,178,711	-	-	3,178,711
Intergovernmental	5,252,277	583,261	2,848,216	8,683,754
Gifts & donations	-	-	10,000	10,000
Other revenues	285,641	-	203,642	489,283
Total revenues	51,022,821	16,684,071	4,088,350	71,795,242
EXPENDITURES				
Current				
General government	8,166,434	20,723	213,690	8,400,847
Public safety	17,654,904	-	777,204	18,432,108
Public works	6,453,216	-	678,831	7,132,047
Public services	8,327,629	-	5,849,131	14,176,760
Intergovernmental assistance	4,079,899	13,777,779	-	17,857,678
Community services contracts	2,555,873	-	-	2,555,873
Community development	-	-	2,028,470	2,028,470
Personnel Board	-	-	498,392	498,392
Debt service				
Principal	2,285,162	2,325,000	780,000	5,390,162
Interest and fiscal charges	1,936,371	561,121	155,889	2,653,381
Debt issuance costs	26,160	-	53,453	79,613
Total expenditures	51,485,648	16,684,623	11,035,060	79,205,331
Excess (deficiency) of revenues over expenditures	(462,827)	(552)	(6,946,710)	(7,410,089)
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	4,775,000	-	505,000	5,280,000
Transfers in	65,018	-	2,912,030	2,977,048
Transfers (out)	(3,238,647)	-	(378,462)	(3,617,109)
Total other financing sources	1,601,371	-	3,038,568	4,639,939
Net change in fund balance	1,138,544	(552)	(3,908,142)	(2,770,150)
Fund balance, beginning	19,755,019	241,829	5,109,354	25,106,202
Fund balance, ending	\$ 20,893,563	\$ 241,277	\$ 1,201,212	\$ 22,336,052

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

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

Net change in fund balances - total governmental funds	\$ (2,770,150)
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 expense in the current period.	2,063,579
Governmental funds report the sales of capital assets as revenues and unlike the Statement of Activities, do not recognize the effect of the cost of those assets and their related depreciation. This is the amount by which the cost of assets sold, minus their accumulated depreciation, was exceeded by the proceeds from the sales. This amount is included in Other revenue in the Statement of Activities.	15,458
Revenues in the statement of activities that do not provide current financial resources	398,447
For governmental funds, the issuance of long-term debt (e.g. warrants and leases) provide current financial resources and the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	44,830
Other expenses reported in the Statement of Activities that do not require current financial resources.	<u>(218,191)</u>
Change In Net Assets Of Governmental Activities	<u><u>\$ (466,027)</u></u>

CITY OF DECATUR
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET & ACTUAL
 For the Year Ended September 30, 2006

	General Fund				School Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual Amounts	
	Original	Final						
REVENUES								
Taxes and payments in lieu of taxes	\$ 32,571,239	\$ 33,115,212	\$ 34,617,299	\$ 1,502,087	\$ 14,717,217	\$ 14,717,217	\$ 16,102,128	\$ 1,384,911
Licenses and permits	5,260,874	5,260,874	5,506,691	245,817	-	-	-	-
Fines and forfeitures	970,310	970,310	862,514	(107,796)	-	-	-	-
Revenues from money and property	672,946	672,946	1,319,688	646,742	-	-	(1,318)	(1,318)
Charges for services	2,999,068	3,021,968	3,178,711	156,743	-	-	-	-
Intergovernmental	5,362,592	5,362,592	5,252,277	(110,315)	545,667	570,667	583,261	12,594
Other revenues	456,123	456,123	285,641	(170,482)	-	-	-	-
Total revenues	48,293,152	48,860,025	51,022,821	2,162,796	15,262,884	15,287,884	16,684,071	1,396,187
EXPENDITURES								
Current								
General government	3,513,601	3,620,701	8,166,434	(4,545,733)	23,513	48,513	20,723	27,790
Public safety	17,908,439	18,071,167	17,654,904	416,263	-	-	-	-
Public works	6,637,008	6,847,829	6,453,216	394,613	-	-	-	-
Public services	7,889,661	7,956,200	8,327,629	(371,429)	-	-	-	-
Intergovernmental assistance	4,329,137	4,612,600	4,079,889	532,701	12,362,012	12,362,012	13,777,779	(1,415,767)
Community services contracts	2,502,577	2,502,577	2,555,873	(53,296)	-	-	-	-
Debt service								
Principal	2,915,162	2,285,162	2,285,162	-	2,235,000	2,235,000	2,325,000	(90,000)
Interest	1,928,560	1,936,417	1,936,371	46	642,359	642,359	561,121	81,238
Debt insurance costs	-	-	26,160	(26,160)	-	-	-	-
Total expenditures	47,624,145	47,832,653	51,485,648	(3,652,995)	15,262,884	15,287,884	16,684,623	(1,396,739)
Excess of revenues over expenditures	669,007	1,027,372	(462,827)	(1,490,199)	-	-	(552)	(552)
OTHER FINANCING SOURCES (USES)								
Long-term debt issued	-	-	4,775,000	4,775,000	-	-	-	-
Operating transfers in	51,357	51,357	65,018	13,661	-	-	-	-
Operating transfers out	(1,263,554)	(3,358,081)	(3,238,647)	119,434	-	-	-	-
Total other financing sources (uses)	(1,212,197)	(3,306,724)	1,601,371	4,908,095	-	-	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(543,190)	(2,279,352)	1,138,544	3,417,896	-	-	(552)	(552)
Fund balance, beginning	19,755,019	19,755,019	19,755,019	-	239,780	239,870	241,829	-
Fund balance, ending	\$ 19,211,829	\$ 17,475,667	\$ 20,893,563	\$ 3,417,896	\$ 239,780	\$ 239,870	\$ 241,277	\$ (552)

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 September 30, 2006

	Municipal Utilities Board	Other Enterprise Funds	Totals
ASSETS			
Current assets			
Cash & cash equivalents	\$ 23,136,344	\$ 11,072,728	\$ 34,209,072
Receivables (net of allowance)			
Accounts	10,433,528	440,180	10,873,708
Other	4,066	-	4,066
Inventories, at cost	2,237,238	29,179	2,266,417
Other	63,403	-	63,403
Total current assets	35,874,579	11,542,087	47,416,666
Noncurrent assets			
Restricted cash, cash equivalents and investments:			
Revenue warrant covenant accounts	4,985,645	-	4,985,645
Deferred costs	164,177	-	164,177
Capital assets:			
Land	2,364,515	1,415,739	3,780,254
Buildings	-	7,445,983	7,445,983
Improvements other than buildings	-	14,727,217	14,727,217
Furniture & equipment	-	4,416,315	4,416,315
Utility plant in service	291,202,454	-	291,202,454
Construction work in progress	515,176	-	515,176
Less accumulated depreciation	(96,723,877)	(16,277,824)	(113,001,701)
Total capital assets (net of accumulated depreciation)	197,358,268	11,727,430	209,085,698
Total noncurrent assets	202,508,090	11,727,430	214,235,520
Total assets	238,382,669	23,269,517	261,652,186
LIABILITIES			
Current liabilities			
Accounts payable	12,181,584	279,195	12,460,779
Accrued liabilities	-	40,314	40,314
Compensated absences	-	19,447	19,447
Customer deposits	3,642,869	-	3,642,869
Revenue warrants payable - current	2,910,000	-	2,910,000
Deferred revenue	-	400	400
Due to other funds	243,840	-	243,840
Total current liabilities	18,978,293	339,356	19,317,649
Noncurrent liabilities			
Landfill closure and post-closure care costs	-	1,851,647	1,851,647
Revenue notes payable	38,573,493	-	38,573,493
Compensated absences	-	175,021	175,021
Total noncurrent liabilities	38,573,493	2,026,668	40,600,161
Total liabilities	57,551,786	2,366,024	59,917,810
NET ASSETS			
Invested in capital assets, net of related debt	151,293,168	11,727,430	163,020,598
Restricted for debt service	4,980,645	-	4,980,645
Unrestricted	24,557,070	9,176,063	33,733,133
Total net assets	\$ 180,830,883	\$ 20,903,493	\$ 201,734,376

The accompanying notes are an integral part of this statement.

**CITY OF DECATUR
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 For the Year Ended September 30, 2006**

	Municipal Utilities Board	Other Enterprise Funds	Totals
Operating revenue			
Charges for services	\$ 136,117,615	\$ 4,166,182	\$ 140,283,797
Premiums & fees	-	2,838,530	2,838,530
Total operating revenue	136,117,615	7,004,712	143,122,327
Operating expenses			
Personnel, operations & maintenance	125,146,933	2,427,890	127,574,823
Closure and postclosure costs	-	169,206	169,206
Depreciation and amortization	7,594,916	1,128,900	8,723,816
Administrative costs	-	3,121,376	3,121,376
Total operating expenses	132,741,849	6,847,372	139,589,221
Operating income	3,375,766	157,340	3,533,106
Nonoperating revenue (expenses)			
Interest income	1,473,821	521,912	1,995,733
Interest expense	(2,028,484)	(3,182)	(2,031,666)
Intergovernmental	-	(33,121)	(33,121)
Gain (loss) on disposition of assets	-	1,500	1,500
Miscellaneous revenue (expense)	20	52,740	52,760
Total nonoperating revenue (expenses)	(554,643)	539,849	(14,794)
Income before contributions, transfers & special items	2,821,123	697,189	3,518,312
Capital contributions	1,663,669	-	1,663,669
Transfers in	-	673,182	673,182
Transfers (out)	-	(33,121)	(33,121)
Change in net assets	4,484,792	1,337,250	5,822,042
Total net assets, beginning	176,346,091	19,566,243	195,912,334
Total net assets, ending	\$ 180,830,883	\$ 20,903,493	\$ 201,734,376

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Year Ended September 30, 2006

	Municipal Utilities Board	Other Enterprise Funds	Totals
Operating activities			
Receipts from customers and users	\$136,992,411	\$ 7,013,370	\$ 144,005,781
Other operating cash receipts	-	48,083	48,083
Payments to suppliers	(116,556,631)	(4,924,768)	(121,481,399)
Payments to employees	(8,392,438)	(1,593,628)	(9,986,066)
Payments for interfund services	-	6,833	6,833
Non-operating cash payments	-	400	400
Net cash provided (used) by operating activities	12,043,342	550,290	12,593,632
Noncapital financing activities			
Transfers in	-	673,182	673,182
Transfers (out)	-	(33,121)	(33,121)
Net cash provided (used) by noncapital financing activities	-	640,061	640,061
Capital and related financing activities			
Acquisition and construction of capital assets	(4,641,884)	(758,578)	(5,400,462)
Proceeds from sale of capital assets	-	1,500	1,500
Capital contributions	1,663,669	-	1,663,669
Principal payments on capital leases	-	(45,000)	(45,000)
Principal payments on warrants	(2,795,000)	-	(2,795,000)
Interest paid on capital leases	-	(3,182)	(3,182)
Interest paid on warrants	(2,011,121)	-	(2,011,121)
Net cash provided (used) by capital and related financing activities	(7,784,336)	(805,260)	(8,589,596)
Investing activities			
Decrease (increase) in restricted assets	104,030	-	104,030
Miscellaneous non-operating income	20	-	20
Sale of investments	-	3,134,781	3,134,781
Interest received	1,470,379	526,569	1,996,948
Net cash provided (used) by investing activities	1,574,429	3,661,350	5,235,779
Net increase (decrease) in cash and cash equivalents	5,833,435	4,046,441	9,879,876
Cash and cash equivalents, beginning	17,302,909	7,026,287	24,329,196
Cash and cash equivalents, ending	\$ 23,136,344	\$ 11,072,728	\$ 34,209,072
Operating income (loss)	\$ 3,375,766	\$ 157,340	\$ 3,533,106
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	7,594,916	1,128,900	8,723,816
Miscellaneous item	-	184,168	184,168
Change in assets and liabilities:			
Receivables	158,595	8,658	167,253
Accounts payable	425,042	(835,754)	(410,712)
Contract retainages	-	(48,378)	(48,378)
Inventory	(944,085)	(9,030)	(953,115)
Due to (from) other funds	32,909	5,478	38,387
Accrued liabilities	218,891	(42,847)	176,044
Deferred demand credit	687,657	-	687,657
Deferred revenue	488,285	400	488,685
Other items	5,366	1,355	6,721
Net cash provided (used) by operating activities	\$ 12,043,342	\$ 550,290	\$ 12,593,632

The accompanying notes are an integral part of this statement.

**CITY OF DECATUR
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS
September 30, 2006**

	Governmental Activities (Restated) Board of Education	Business-Type Activities Public Building Authority	Total
ASSETS			
Cash & cash equivalents	\$ 26,103,795	\$ 108,836	\$ 26,212,631
Investments, at cost	35,733	-	35,733
Due from primary government	1,373,955	-	1,373,955
Due from governmental entities	14,283,290	-	14,283,290
Inventories	181,661	-	181,661
Deferred Charges	201,737	-	201,737
Capital assets			
Land and construction in process	16,016,174	133,302	16,149,476
Other assets, net of accum. depreciation	48,554,783	1,208,470	49,763,253
Total assets	106,751,128	1,450,608	108,201,736
LIABILITIES			
Accounts payable	1,387,024	-	1,387,024
Accrued liabilities	6,782,750	-	6,782,750
Deferred revenue	11,570,524	-	11,570,524
Noncurrent liabilities			
Due within one year	273,782	155,000	428,782
Due in more than one year	26,588,669	338,513	26,927,182
Total liabilities	46,602,749	493,513	47,096,262
NET ASSETS			
Invested in capital assets, net of related debt	37,728,820	-	37,728,820
Restricted for:			
Unrestricted	22,419,559	957,095	23,376,654
Total net assets	\$ 60,148,379	\$ 957,095	\$ 61,105,474

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

City of Decatur
Notes To The Financial Statements
September 30, 2006

TABLE OF CONTENTS

Note	Page
1. Summary of Significant Accounting Policies	
A. Reporting Entity	25
B. Government-wide and Fund Financial Statements	26
C. Measurement Focus, Basis of Accounting and Basis of Presentation	27
D. Assets, Liabilities, and Net Assets or Equity	28
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	31
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	31
3. Stewardship, Compliance and Accountability	
A. Budgetary Information	32
B. Excess of Expenditures Over Appropriations	33
4. Detailed Notes on All Funds	
A. Restatement of Beginning Net Assets (Proprietary Funds and Component Units)	34
B. Deposits and Investments	34
C. Capital Assets	35
D. Interfund Receivables, Payables, and Transfers	37
E. Leases	39
F. Long-Term Debt	40
G. Conduit Debt Obligations	45
H. Fund Equity Reserves and Designations	45
I. Tax Equivalents	46
J. Closure and Postclosure Care Cost	46
K. Prior Period Adjustment	46
5. Other Information	
A. Contingent Liabilities and Commitments	47
B. Jointly Governed Organizations	47
C. Related Organizations	48
D. Pension Plans	48
E. Post-Retirement Health Plan	51
F. Risk Financing Programs	52
G. GASB Accounting Pronouncements	53

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Decatur, Alabama (the "City") was established in 1820, incorporated in 1826, and since October 1968 has been governed by an elected Mayor and five-member Council. The City is the County Seat of Morgan County.

The City complies with Accounting Principles Generally Accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The blended component unit, although a legally separate entity, is in substance part of the government's operations, and so data from this unit is combined with data of the primary government. The City has one component unit that meets the blended criteria. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the government. Each blended and discretely presented component unit has a September 30 year-end.

Primary Government

The primary government consists of various departments, agencies and other organizational units governed directly by the mayor and council of the City of Decatur. The following organizations were evaluated and found to be an integral part of the primary government. This means that all financial information is integrated into the body of the primary government and they are in no way separate from that entity.

- Community Preservation Board
- Board of Examination and Appeals for Construction Industries
- Board of Sound Control
- Board of Zoning Adjustment
- City of Decatur Business Development Board
- City of Decatur Historic Preservation Commission
- Landfill
- Old Bank Board
- Parks and Recreation Board
- Planning Commission
- Municipal Utilities Board

Blended Component Unit

Personnel Board: The Personnel Board is responsible for overseeing all employee related matters for the City. Responsibilities of the Board include maintaining employee records, reviewing payroll data and approving new employees and pay increases. The members of the Board are appointed by the City Council and the City provides financial support to the Board. The Personnel Board is presented as a governmental fund type.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Discretely Presented Component Unit

City of Decatur Board of Education: The Board of Education is responsible for elementary and secondary education within the government's jurisdiction. The voters elect the members of the Board and the Board approves all budgets. However, the Board is fiscally dependent upon the government due to the tax levies received from the City of Decatur. The Board of Education is presented as a governmental fund type.

Public Building Authority: The Public Building Authority was established to construct and maintain the building occupied by the Morgan County Department of Human Resources. This building is leased to the State of Alabama and the lease payments are used for the debt service. The three-member board is wholly appointed by the City of Decatur. The City is responsible for maintenance of the building and is liable for any default on the lease. The Public Building Authority is presented as a proprietary fund type and is composed of one fund.

Complete financial statements for the Board of Education, a component unit, may be obtained at the entity's administrative offices.

Board of Education
302 Fourth Avenue Northeast
Decatur, Alabama 35601

Separate financial statements are not prepared for the Public Building Authority or the Personnel Board.

B. Government-wide and Fund Financial Statements

Financial information of the City, the primary government, and the Board of Education and Public Building Authority, the City's component units, is presented as follows:

- *Management's discussion and analysis* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- *Basic Financial Statements:* Government-wide financial statements consist of a statement of net assets and a statement of activities.

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues, including all taxes and other items, are presented as general revenues.

- *Fund financial statements* consist of a series of statements focusing on information about the City's major governmental and enterprise funds. Separate financial statements are presented for the governmental and proprietary funds.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The following are the City's major governmental funds:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the government, except those accounted for in another fund.
- The *School Fund* accounts for the specific revenues that are for specific expenditures – which include sales and use tax, and the designated portion of the tobacco tax, general property tax, automotive tax, and tax-equivalent – Electric and Water departments.

The following are the City's major enterprise funds:

- The *Municipal Utilities Board Fund* accounts for the operating expenses, user fees (revenue), assets and liabilities of the Municipal Utilities Board, which provides electricity, gas, water, and wastewater treatment to the City of Decatur and other regions. Decatur Utilities is managed by a three-member Board appointed by the City Council.

Additionally, the City reports the following fund types:

Governmental Funds:

- The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects or permanent funds). Such funds are established when required by statute, charter provision, local ordinance, or executive decision to finance particular functions or activities.
- The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital facilities and projects not financed by Proprietary or Fiduciary Funds.
- The *Debt Service Fund* accounts for the servicing of the Public Port and Infrastructure Warrants which are not being used for general government purposes. Sources of funds for servicing this debt consist of payments-in-lieu of taxes.
- The *Permanent Fund* accounts for resources that are legally restricted to the extent that earnings, and not principal, may be used for purposes that support the City's programs.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Proprietary Funds:

- *Enterprise Funds* account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The City applies all applicable Financial Accounting Standards Board pronouncements issued after November 30, 1989 in accounting and reporting for its proprietary operations.

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

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expense from nonoperating items. Operating revenues and expense generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Decatur Utilities enterprise fund are charges to customers for services and fees. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Assets or Equity

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.

Cash and investments classified as restricted assets on the Municipal Utilities Board Enterprise Fund balance sheet were created per the warrant indentures and are to be used only for the repayment of outstanding revenue warrants of the Municipal Utilities Board Enterprise Fund.

State statute requires the City and its component units to invest in or collateralize funds with direct obligation of the United States, obligations of certain Federal agencies for which the full faith credit of the United States of America has been pledged, general obligation issues of other states, the State of Alabama, Alabama counties and Alabama Municipalities.

Investments consist of demand deposits and U.S. Treasury obligations with original maturities greater than three months from the date of acquisition. Thus, investments of the City, as well as its component units, are stated at cost, plus accrued interest, which is approximately the same as their fair value. The State Treasurer's investment pool operates in accordance with appropriate state laws. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Amounts receivable and payable from federal, state, county, and local governments are classified as "due from/to other governmental entities." No individually significant amounts were due from any single entity as of September 30, 2006.

Ad valorem, sales, franchise and liquor taxes and beverages licenses and taxes recorded within the General Fund and the non-major governmental funds are recognized under the susceptible to accrual concept.

Non-current portions of long-term receivables due to Governmental Funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate; however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of Governmental Fund type revenues represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of long-term loans receivable are offset by fund balance reserve accounts.

Property taxes are levied in May for the following year beginning October 1, at which time a lien is attached. These taxes are due and payable on October 1 and delinquent after December 31 in each year (except with respect to motor vehicles, which have varying due dates), after which a penalty and interest are required to be charged. If real property taxes are not paid by the June 15 following the due date, a tax sale is required to be held. Revenue is recognized in the year when the taxes are levied and collected. The taxes are collected by the Morgan County Revenue and License Commissioners and remitted to the City net of a collection fee ranging from 1 to 4 percent for the different taxes.

Privilege licenses and city liquor taxes are collected directly by the City and recorded when received since they are taxpayer-assessed.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. The costs of Governmental Fund type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The City uses the purchases method to account for monthly medical insurance payments. The average monthly payment is \$300,000.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets tangible in nature, with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. When capital assets are disposed, the cost and related accumulated depreciation are removed, and any gain or loss arising from the disposal is credited or charged to operations.

The cost 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 when constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant and equipment of the component units are generally recorded using the same policy as the City.

Depreciation of all exhaustible capital assets except infrastructure is charged as an expense against their operations or functions whereas the infrastructure depreciation is unallocated. Property, plant, equipment, and infrastructure of the primary government, as well as the component units, are depreciated using the straight-line method over the estimated useful lives as follows:

Building improvements	10-20 years
Buildings	20-40 years
Sidewalks, streets, and bridges	20-50 years
Traffic signals	15 years
Utility plants in service	40-50 years
Improvements:	
Pumping stations	50 years
Outfall lines	50 years
Land improvements	12-25 years
Surface lots	15-20 years
Furniture and equipment	3 -12 years
Greenways	15 years
Drainage systems	40 years
Motor vehicles	5 years

Compensated Absences

City employees may accumulate up to three-hundred and seventy (370) days of sick leave. Employees of the City who have twenty-five (25) years of service or who have reached sixty (60) years of age and have 10 years of service are entitled to payment for one-half (1/2) of their accumulated sick leave upon retirement, not to exceed a maximum of 600 hours. The liability is calculated according to GASB Statement No. 16 using the termination payment method for governmental funds and the vesting method for proprietary funds. Vacation is accrued when incurred in proprietary funds and reported as a fund liability. Compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are considered to be and are accrued as a long-term liability. Compensated absences have been historically liquidated through the fund from which the employee is paid. All reimbursable leave is paid at the time of an employee's resignation or retirement.

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as 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, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, reservations of fund balance represent amounts that are not appropriate or are legally segregated for a specific purpose. Reservations are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

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 that reconciliation explains that "long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$61,577,319 difference are as follows:

Warrants Payable	\$57,814,028
Less: Deferred charge on refunding (to be amortized as interest expense)	(538,703)
Notes payable	629,963
Accrued interest payable	645,568
Capital leases payable	154,019
Compensated absences	<u>2,872,444</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets-governmental activities	<u>\$61,577,319</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 a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$2,063,579 difference are as follows:

Capital outlay	\$ 8,824,853
Depreciation expense	<u>(6,761,274)</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 2,063,579</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., warrants and leases) provide current financial resources and the repayment of long-term debt consumes current financial resources. 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 \$44,830 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation debt	\$ 5,280,000
Issuance costs	(79,612)
Principal repayments:	
General obligation debt	(5,245,000)
Payment on capital lease	(145,162)
Amortization of premium and refunding loss	84,765
Deferral of issuance costs	<u>60,179</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 44,830</u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

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

Another element of that reconciliation states that “other expenses reported in the statement of activities that do not require current financial resources.” The details of this \$218,191 difference is as follows:

Compensated absences	\$ (128,248)
Claims	(147,998)
Accrued interest	58,055
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	\$ (218,191)

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The following section describes the budgeted and non-budgeted funds:

<u>Annually-Budgeted Governmental Funds</u>	<u>Governmental Funds Not Annually-Budgeted</u>
General Fund	Special Revenue Funds
Special Revenue Funds	Community Development Fund
7 Cent Gas Tax Fund	Municipal Court Fund
4&5 Cent Gas Tax Fund	Debt Service Fund
School Fund	Public Port and Infrastructure Warrants Fund
Personnel Board Fund	Capital Projects Funds
Heritage Trust Fund	2006 GO Warrants Fall Capital Projects Fund
Docket Fees Fund	Capital Improvements Fund
Drug Seizure Fund	Permanent Fund
Room Occupancy Fund	Perpetual Care Fund
Corrections Fund	

The Municipal Utilities Board Fund is managed by a separate board appointed by the City Council. This Fund is independent of the City's budgeting process. The Community Development Fund adopts a grant-length budget as prescribed by grantor provisions. The Debt Service Funds are not annually budgeted since budgetary control exists through general obligation bond indenture provisions. While annual budgets are adopted for the Capital Projects Funds for management purposes, budgetary control is exercised using formally adopted project length budgets.

The City Council adopts budgets on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds, with the exception of the Community Development Fund. The Community Development Fund adopts project-length budgets as prescribed by grantor provisions.

The legal level of budgetary control is the department level. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments and expenditure requests, which result in a budget overrun, require the approval of the City Council. The council reviews and approves these changes at mid-year when a formal amendment to the original budget is adopted. All annual appropriations lapse at year-end.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

Prior to the beginning of the fiscal year, each city department prepares budget requests for submission to the finance department that will compile them and, together with an estimate of anticipated revenues, submits them to the mayor's office. The mayor and budget staff begins individual department reviews with department heads.

After changes are recommended and budget schedules are updated, the budget is finalized for submission to the City Council. The City Council reviews the budget, makes changes, and approves the budget. Budgeted amounts are as originally adopted, or as amended by the City Council.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

On or before October 1 of each year, the City of Decatur Board of Education, a discretely presented component unit, is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year, which shows expenditures in excess of income estimated to be available, plus any balances on hand. The superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without Board approval. Individual amendments to the budget as originally adopted are not considered material.

B. Excess of Expenditures Over Appropriations

The following funds incurred expenditures in excess of appropriations of the following amounts for the year ended September 30, 2006:

General Fund

<i>General Government:</i>	
Public building	\$ 26,616
Community development	23,420
Mayor and council	4,743,534
<i>Public Services:</i>	
Park and recreation	\$ 532,925
Cemetary	21,473
<i>Community service contracts:</i>	\$ 53,296

Special Revenue Funds

<i>7 Cent Gas Tax Fund:</i>	
Capital outlay	\$ 29,456
<i>Corrections Fund:</i>	
Personal expenses	\$ 9,410
Operating expenses	152,302

The excess expenditures were provided by available fund balance in the related funds.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Restatement of Beginning Net Assets – Component Unit

In the prior year, the Net Assets for the Decatur City Board of Education were restated due to overstated depreciation for certain assets having an invalid salvage value percentage. The amount of the error resulted in an understatement of net assets in the amount of \$3,388,831. This amount is shown as a change to the beginning net asset balance in the Discretely Presented Component Units Combining Statement of Activities.

B. Deposits and Investments

The following information is provided to give an indication of the steps the City takes to protect its cash deposits and the level of risk assumed for certain investments.

At fiscal year end, the entire bank balances of the City, the Board of Education and Public Building Authority were covered by federal depository insurance and insured by the Security for Alabama Funds Enhancement, or SAFE Program. The SAFE Program is administered by the State Treasurer according to State of Alabama statute. Effective January 1, 2001, any bank or financial institution in the State of Alabama accepting deposits of public funds is required to insure those funds by pledging eligible collateral to the State Treasurer for the SAFE collateral pool. The entire pool stands behind each deposit. Eligible collateral are those securities currently designated as acceptable collateral for state deposits as defined by State law.

A reconciliation of cash and investments as shown on the Combined Balance Sheet for the primary government is as follows:

Cash on hand	\$56,560,754
Carrying amount of deposits	405,331
Carrying amount of investments	<u>5,046,047</u>
 Total	 <u>\$62,012,132</u>
 Per Governmental Funds Balance Sheet-total governmental funds	
Cash and investments	\$22,817,415
Per Proprietary Funds Statement of Net Assets	
Total enterprise funds	
Cash and investments	34,209,072
Restricted cash for debt service	<u>4,985,645</u>
 Total	 <u>\$62,012,132</u>

A reconciliation of Discretely Presented Component Unit's cash and investments as shown on the Combining Statement of Net Assets for the Discretely Presented Component Unit is as follows:

	<u>Board of Education</u>
Cash on hand	\$26,103,795
Carrying amount of deposits	<u>35,733</u>
 Total Cash and investments	 <u>\$26,139,528</u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

C. Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	Balance September 30, 2005	Additions/ Transfers-in	Deletions/ Transfers-out	Balance September 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,213,229	\$ 256,504	\$ (11,919)	\$ 9,457,814
Construction in progress	3,038,187	839,871	(2,777,259)	1,100,799
Total capital assets, not being depreciated	12,251,416	1,096,375	(2,789,178)	10,558,613
Capital assets, being depreciated:				
Buildings and improvements	24,832,890	2,720,029	-	27,552,919
Land improvements	11,606,085	4,442,817	-	16,048,902
Furniture, equipment and other	21,267,037	2,099,133	(1,161,622)	22,204,548
Infrastructure	89,821,912	1,499,387	-	91,321,299
Total capital assets, being depreciated	147,527,924	10,761,366	(1,161,622)	157,127,668
Less accumulated depreciation for:				
Buildings and improvements	(12,628,089)	(1,157,553)	-	(13,785,642)
Land improvements	(4,370,630)	(544,499)	-	(4,915,129)
Furniture, equipment and other	(17,111,015)	(1,663,461)	933,370	(17,841,106)
Infrastructure	(45,086,713)	(3,395,761)	-	(48,482,474)
Total accumulated depreciation	(79,196,447)	(6,761,274)	933,370	(85,024,351)
Total capital assets, being depreciated, net	68,331,477	4,000,092	(228,252)	72,103,317
Governmental activities capital assets, net	\$ 80,582,893	\$ 5,096,467	\$ (3,017,430)	\$ 82,661,930
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,718,939	\$ 61,315	\$ -	\$ 3,780,254
Construction in progress	2,020,600	4,325,357	(5,830,781)	515,176
Total capital assets, not being depreciated	5,739,539	4,386,672	(5,830,781)	4,295,430
Capital assets, being depreciated:				
Buildings and improvements	21,451,496	726,948	(5,246)	22,173,198
Furniture, equipment and other	3,873,458	545,859	(3,000)	4,416,317
Utility plant-in-service	286,804,467	5,709,785	(1,311,798)	291,202,454
Total capital assets, being depreciated	312,129,421	6,982,592	(1,320,044)	317,791,969
Less accumulated depreciation for:				
Buildings and improvements	(12,217,432)	(775,467)	5,246	(12,987,653)
Furniture, equipment and other	(2,939,739)	(353,433)	3,001	(3,290,171)
Utility plant-in-service	(90,038,461)	(7,931,444)	1,246,028	(96,723,877)
Total accumulated depreciation	(105,195,632)	(9,060,344)	1,254,275	(113,001,701)
Total capital assets, being depreciated, net	206,933,789	(2,077,752)	(65,769)	204,790,268
Business-type activities capital assets, net	\$ 212,673,328	\$ 2,308,920	\$ (5,896,550)	\$ 209,085,698

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Depreciation expense of \$3,395,761 for the Governmental activities Infrastructure assets is not allocated to the functions. The depreciation expense for all other depreciable assets is charged to functions/programs of the primary government as follows:

<u>Governmental activities:</u>	
General government	\$ 879,885
Public Safety	640,603
Public Works	613,922
Public Services	934,654
Intergovernmental	<u>296,449</u>
Total depreciation expense – governmental activities	<u>\$ 3,365,513</u>
<u>Business-type activities:</u>	
Municipal Utilities Board Fund	\$ 7,594,916
Sanitary Landfill Fund	593,577
Point Mallard Fund	<u>535,323</u>
Total depreciation expense – business-type activities	<u>\$ 8,723,816</u>

Activity for the discretely presented component unit, Board of Education for the year ended September 30, 2006 was as follows:

	(Restated) Balance September 30, 2005	Additions/ Reclassifications	Deletions Reclassifications	Balance September 30, 2006
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,555,361	\$ 1,679,573	\$ -	\$ 5,234,934
Construction in progress	5,200,796	8,140,974	(2,560,530)	10,781,240
Total capital assets, not being depreciated	<u>8,756,157</u>	<u>9,820,547</u>	<u>(2,560,530)</u>	<u>16,016,174</u>
Capital assets, being depreciated:				
Buildings and improvements	62,336,908	11,479,227	(584,479)	73,231,656
Furniture, equipment and other	4,451,181	940,820	(236,099)	5,155,902
Total capital assets, being depreciated	66,788,089	12,420,047	(820,578)	78,387,559
Less accumulated depreciation	(28,417,639)	(2,071,966)	656,830	29,832,775
Total capital assets, being depreciated, net	38,370,450	10,348,081	(163,748)	48,554,783
Total governmental activities capital assets, net	<u>\$ 47,126,607</u>	<u>\$20,168,628</u>	<u>(\$2,724,278)</u>	<u>\$64,570,957</u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2006 is as follows:

Transfers In/Out:

Transfers Out:

From General Fund		
To non-major enterprise funds		\$2,877,880
From Non-major governmental funds		
To General Fund	31,897	
To other non-major governmental funds	34,151	
To non-major enterprise fund	<u>312,415</u>	378,463
From Non-major enterprise funds		
To General Fund		<u>33,121</u>
Total		<u><u>\$3,289,464</u></u>

Transfers In:

To General Fund:		
From non-major governmental funds	\$ 31,897	
From non-major enterprise funds	<u>33,121</u>	\$65,018
To Non-major governmental funds		
From General Fund	2,877,880	
From other non-major governmental funds	<u>34,151</u>	2,912,031
To Non-major enterprise funds		
From non-major governmental funds		<u>312,415</u>
Total		<u><u>\$3,289,464</u></u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Municipal Utilities Board Enterprise Fund	\$ 213,654
	Non-major Governmental Funds	<u>2,983,003</u>
		3,196,657
School Fund	Municipal Utilities Board Enterprise Fund	30,186
Non-major Governmental Funds	Other Non-major Governmental Funds	<u>1,786,411</u>
Total due to/from other funds		<u>\$5,013,254</u>

Due To/From Primary Government and Component Units:

Receivable Fund	Payable Fund	Amount
Component Unit – Board of Education	Primary Government - School Fund	<u>\$1,373,956</u>
Total due to/from primary government to component units		<u>\$1,373,956</u>

In general, transfers are used to (1) move revenues from the fund that collects the money to the fund that expends the money, (2) move receipts restricted or earmarked for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in a fund to provide operating advances to other funds in accordance with budgetary authorizations. The due to/from balances resulted from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

E. Leases

Operating Leases

The City entered into four non-cancelable operating lease agreements for the use of golf carts in 2006. Total costs for such leases were \$51,444 for the year ended September 30, 2006. The future minimum lease payments for these leases are as follow:

Year Ending September 30	Business-Type Activities Point Mallard
2007	\$ 51,444
2008	49,421
Total minimum lease payments	\$100,865

Capital Leases

The City has entered into various lease agreements as lessee for financing the acquisition of equipment. These lease agreements are treated as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the basic financial statements.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities Point Mallard
Equipment	\$2,004,580	\$139,639
Less: accumulated amortization	(1,634,966)	(139,639)
Total	\$369,614	\$ -

The future minimum lease obligations and the net present value of the minimum lease payments as of September 30, 2006 are as follows:

Year Ending September 30	Governmental Activities
2007	\$128,792
2008	29,957
Total minimum lease payments	158,749
Less amount representing interest	(4,730)
Present value of minimum lease payments	\$154,019

The future debt service requirements of the governmental activities leases at September 30, 2006 are primarily to be provided by the General Fund, and the requirements of the business-type activities will be provided by the respective fund.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

F. Long-Term Debt

General Obligation Warrants

The City issues general obligation ("G.O.") warrants, which is a direct obligation and pledge of the full faith and credit of the City, for the following purposes:

- a. For the acquisition and construction of major capital facilities.
- b. To refund other G.O. warrants.

Source of Repayment of Long-Term Debt

Repayment of the City's long-term debt is generally provided for as follows:

<u>Type of Debt</u>	<u>Paid From</u>	<u>Resources Provided By</u>
<u>Governmental Activities:</u>		
G.O. warrants - major capital facilities	General Fund Public Port and Infrastructure Warrants Fund	General Fund Public Port and Infrastructure Warrants Fund
G.O. warrants - school facilities	School Fund	School Fund
<u>Business-Type Activities:</u>		
Revenue warrants	Municipal Utilities Board Fund	Municipal Utilities Board Fund

Lease Revenue Bonds – Public Building Authority Component Unit

The Public Building Authority, a blended component unit of the City, issued bonds in 2003. Repayment of the bonds is secured by annual lease payments received by the Authority. Pursuant to the trust indenture, the Authority is required to maintain debt service reserve accounts for a portion of the outstanding principal. The Authority was in compliance with the reserve requirements at year-end.

The bonds do not constitute a direct obligation and pledge of the full faith and credit of the City.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Outstanding Debt

The amount of debt outstanding at September 30, 2006, and information related to it was as follows:

Series	Face Amount (thousands)	Dated	Final Maturity	Interest Rates (%)	Principal Maturities (thousands)	Ending Balance (thousands)	Amount Due Within One Year (thousands)
PRIMARY GOVERNMENT							
<u>Governmental Activities</u>							
<i>G.O. Warrants - general purposes</i>							
1997-Municipal	\$ 9,695	6/1/1997	6/1/2014	4.65 - 5.2	310 - 1,150	\$ 4,510	\$ 340
1997-B	3,975	6/1/1997	6/1/2011	4.65 - 5.0	295 - 410	1,845	325
2000	15,920	7/1/2000	6/1/2020	5.375 - 5.4	110 - 2,095	12,795	125
2003-A	3,945	2/1/2003	12/1/2007	2.25 - 2.5	760 - 835	1,640	805
2003-B	1,575	2/1/2003	12/1/2007	2.25 - 2.5	305 - 340	665	325
2003-C	3,775	2/1/2003	8/1/2013	2.5 - 4.0	205 - 500	2,315	470
2003-E	19,900	11/1/2003	7/1/2026	3.5 - 4.75	380 - 800	18,165	640
2006-AMFund	505	5/4/2006	5/20/2009	3.81	160 - 175	505	160
2006-Crossings	4,775	9/20/2006	9/20/2021	6.55	28 - 54	4,775	-
	<u>64,065</u>					<u>47,215</u>	<u>3,190</u>
<i>G.O. Warrants - school purposes</i>							
1997-School	7,965	6/1/1997	6/1/2013	4.65 - 5.1	530 - 715	4,365	590
1997-A	7,370	6/1/1997	6/1/2011	4.65 - 5.0	545 - 760	3,410	610
2003-D	7,305	2/1/2003	8/1/2009	2.0 - 3.125	865 - 1,220	2,980	1,220
	<u>22,640</u>					<u>10,755</u>	<u>2,420</u>
<i>Notes</i>							
Carnegie Library	830	6/27/2001	6/27/2006	4.475	50 - 630	630	630
	<u>830</u>					<u>630</u>	<u>630</u>
Total governmental activities	\$87,535					\$58,600	\$6,060

The City may incur a penalty upon the early retirement of AMFund debt based on the underlying agreement. The City does not expect to retire this debt prior to the stated maturity date.

During 2006, the City entered into an agreement to purchase land for the future Crossings development. Under this agreement, the City transferred ownership of the property to a developer and retained responsibility for the related debt. Fifty percent of future sales tax revenue and annual ad valorem taxes in excess of \$20,000 related to this development are to be reserved for reduction of this debt. Any amounts not covered by the above reserves at the end of fifteen years are to be reimbursed by the developer.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Outstanding Debt - Continued

Series	Face Amount (thousands)	Dated	Final Maturity	Interest Rates (%)	Principal Maturities (thousands)	Ending Balance	Amount Due Within One Year
<u>Business-Type activities</u>							
<i>Water System Revenue Warrants</i>							
1999	\$ 23,240	5/1/1999	5/1/2019	4.35 - 5.0	1,200 - 2,140	\$ 20,995	\$1,200
	<u>23,240</u>					<u>20,995</u>	<u>1,200</u>
<i>Wastewater System Revenue Warrants</i>							
1997	2,850	11/1/1996	8/15/2017	3.95	135 - 200	1,840	135
2000	15,590	12/22/1999	8/15/2020	3.85	665 - 1,095	12,095	665
2004	9,645	04/21/2004	8/15/2013	2.85	910 - 1,125	7,095	910
	<u>28,085</u>					<u>21,030</u>	<u>1,710</u>
Total business-type activities	<u>51,325</u>					<u>42,025</u>	<u>2,910</u>
Total Primary Government	<u>\$138,860</u>					<u>\$100,625</u>	<u>\$8,970</u>

COMPONENT UNITS

Governmental-Type Activities

Board of Education

2005	\$26,000	2005	2030	4.0 - 4.5	2,665 - 9,625	\$26,000	\$ -
	<u>26,000</u>					<u>26,000</u>	<u>-</u>

Business-Type Activities

Public Building Authority

2003	\$950	2/1/2003	3/1/2009	1.75 - 3.4	160 - 170	\$495	\$160
	<u>950</u>					<u>495</u>	<u>160</u>

Total Component Units	<u>\$26,950</u>					<u>\$26,495</u>	<u>\$160</u>
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The City is not obligated in any manner for the debt of the Public Building Authority or the Board of Education, discretely presented component units.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Future Debt Service

The City's future debt service requirements on its outstanding warrants and bonds as of September 30, 2006 are shown below. There is \$825,097 available in the Public Port and Infrastructure Warrants Fund to service general obligation debt and \$4,985,645 is available in the Municipal Utilities Board Enterprise Fund to service the revenue warrants

PRIMARY GOVERNMENT

	(thousands)			
	G.O. Warrants		Notes	
<u>Governmental activities:</u>	Principal	Interest	Principal	Interest
2007	\$5,610	\$2,751	\$630	-
2008	5,015	2,548	-	-
2009	4,220	2,379	-	-
2010	2,950	2,203	-	-
2011	3,105	2,062	-	-
Thereafter	37,070	16,112	-	-
Total governmental activities	\$57,970	\$28,055	\$ 630	-
<u>Business-type activities:</u>	Water System Revenue Warrants		Wastewater System Revenue Warrants	
	Principal	Interest	Principal	Interest
2007	1,200	1,016	1,710	741
2008	1,250	960	1,775	683
2009	1,310	902	1,845	624
2010	1,370	841	1,910	564
2011	1,435	777	1,980	500
Thereafter	14,430	3,421	11,810	1,971
Total business-type activities	\$20,995	7,917	\$21,030	\$ 5,083

COMPONENT UNITS

	Capital Outlay Warrants	
	Principal	Interest
<u>Governmental activities: Board of Education</u>		
2007	\$ -	\$ 1,107
2008	-	1,107
2009	-	1,107
2010	-	1,107
2011	-	1,107
Thereafter	26,000	12,802
Total governmental activities	\$26,000	\$18,337

	Lease Revenue Warrants	
	Principal	Interest
<u>Business-Type Activities – Public Building Authority</u>		
2007	160	25
2008	165	11
2009	170	5
Total business-type activities	\$ 495	\$ 41

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2006, was as follows (in thousands):

PRIMARY GOVERNMENT

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities:</u>					
General obligation warrants	\$ 57,935	\$ 5,280	\$ (5,245)	\$ 57,970	\$ 5,610
Notes payable	630	-	-	630	630
Subtotal	58,565	5,280	(5,245)	58,600	6,240
Less amounts deferred for:					
Issue discounts & premiums	20	-	(1)	19	-
Refunding losses	(261)	-	86	(175)	-
Total warrant, bonds, & notes	58,324	5,280	(5,160)	58,444	6,240
Capitalized leases	299	-	(145)	154	154
Compensated absences	2,205	2,184	(2,056)	2,333	234
Claims payable	417	520	(384)	553	55
Governmental activities Long-term liabilities	\$ 61,245	\$ 7,984	\$ (7,745)	\$ 61,484	\$ 6,683
<u>Business-Type Activities:</u>					
Revenue warrants	\$ 44,820	\$ -	\$ (2,795)	\$ 42,025	\$ 2,910
Less amounts deferred for:					
Issue discounts & premiums	(590)	48	-	(542)	-
Total warrants	44,230	48	(2,795)	41,483	2,910
Landfill closure and postclosure	1,682	170	-	1,852	-
Capitalized leases	45	-	(45)	-	-
Compensated absences	224	15	(45)	194	19
Business-type activities Long-term liabilities	\$ 46,181	\$ 233	\$ (2,885)	\$ 43,529	\$ 2,929

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

COMPONENT UNITS – PUBLIC BUILDING AUTHORITY

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Business-type activities – Public Building Authority</u>					
Revenue warrants	\$650	\$ -	\$(155)	\$495	\$160
Plus amounts deferred for:					
Issue discounts & premiums	(2)	-	1	(1)	-
Total Public Building Authority long-term liabilities	<u>\$648</u>	<u>\$ -</u>	<u>\$(154)</u>	<u>\$494</u>	<u>\$160</u>

G. Conduit Debt Obligations

From time to time, the City has, through its Industrial Development Board, issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2006, there were thirty-seven series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable for the nine series outstanding that were issued after September 30, 1996, was \$250,008,977. The aggregate principal amount payable for the twenty-eight series issued prior to September 30, 1996, could not be determined; however, their original issue amounts totaled \$732,455,000.

H. Fund Equity Reserves and Designations

General Fund

Reserve for inventories - represents a portion of general fund assets that do not represent available expendable financial resources.

Designated for special purposes – restricted revenues for future use related to certain expenditures.

Designated for future capital needs – restricted revenues for use related to certain capital expenditures in the subsequent year.

Designated for landfill –revenues set aside for purposes of funding operating deficit and development costs of the landfill should they occur.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Other Governmental Funds

Reserved for encumbrances - restricted monies for future payment of encumbered goods and services.

Reserved for perpetual care - funds restricted for maintenance of cemetery property.

Reserved for debt service - funds restricted to servicing debt.

I. Tax Equivalents

The Municipal Utilities Board Fund is required to pay to the City a tax equivalent which is determined by applying the current property tax rates to the Utilities' net plant in service at the end of the preceding year. The amount of tax equivalents paid to the City by the Municipal Utilities Board Fund during 2006 was \$1,444,812 by the Electric System, \$140,641 by the Natural Gas System, \$87,460 by the Wastewater System and \$495,381 by the Water System. These amounts are reported as intergovernmental revenue in the General Fund and the School Fund of the City and as operating expenses in the financial statements of the Municipal Utility Board Enterprise Fund.

J. Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will only be paid near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The total amount of \$1,851,647 reported for landfill closure and postclosure care liability at September 30, 2006 within the proprietary statement of net assets, represents the cumulative amount reported to date based on the use of 34.17 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure of \$3,567,292 as the remaining capacity is filled. These costs are based on the amount required to be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of September 30, 2006. The City expects to close the landfill in the year 2032. Actual costs of closure and postclosure may be higher due to inflation, changes in technology, or changes in laws and regulations.

K. Prior Period Adjustment

The following prior period adjustment has been made in the financial statements, which is reported as an adjustment to beginning net assets:

Adjustment to net assets of governmental activities in the government-wide financial statements:

Accrued compensated expense not previously recorded	\$ 212,078
Net decrease in net assets of governmental activities	\$ 212,078

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 5 – OTHER INFORMATION

A. Contingent Liabilities and Commitments

Litigation

The City is a defendant in a number of claims and lawsuits. The outcome of these matters is uncertain as of the date of this report. The City Attorney estimates the total liability with respect to these claims and lawsuits that are not covered by insurance will not exceed \$350,000, which is estimated to be currently payable and has been accrued as a liability in the City's General Fund at September 30, 2006.

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

Grants

The City participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other government units. As of September 30, 2006, significant amounts of grant expenditures have not been audited by the grantor agencies, but the City believes that future disallowed expenditures related to the unaudited grant programs, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

Construction Contracts

The City entered into various construction contracts as of September 30, 2006. The unfulfilled balance of these contracts that related to the non-major governmental funds operations are included in the "Reserve for Encumbrances" as described more fully in Note 4H.

B. Jointly Governed Organizations

Joint Ventures

The City of Decatur is involved in two joint ventures:

Decatur – Morgan County Port Authority was incorporated in 1982 for the purpose of developing the port and industrial park located in Morgan County on the Tennessee River. The Authority has a five-member board, which is appointed equally by the governing body of the City of Decatur and Morgan County. The reviewed financial statements are available at 219 East Moulton Street, Decatur, Alabama, 35601. The City has an ongoing financial responsibility and is directly obligated for the Authority's outstanding warrants.

Wheeler Basin Regional Library Board was organized in 1962 to provide information resources to the citizens of Decatur and surrounding areas. It has a ten-member board of which the City Council appoints three members. The City owns and maintains the building in which the library is located. This ongoing equity interest is recorded within the City's capital assets, as ownership is not attributable to any individual fund. The Library Board issues separately audited financial statements available from the Wheeler Basin Regional Library Board at 504 Cherry Street Northeast, Decatur, Alabama, 35601.

The City in conjunction with Morgan County created the following agencies and authorities in order to better service the citizens of Decatur and Morgan County.

Jointly Governed

Decatur-Morgan County Emergency Management Agency provides measures for the mobilization, organization, and direction of the civilian population and necessary support agencies to prevent, or minimize, the effect of fire, flood, earthquake and epidemic. The officers and employees of the City and Morgan County comprise the agency. The City provided \$28,100 in appropriations during the fiscal year ending September 30, 2006.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 5 – OTHER INFORMATION – CONTINUED

Decatur-Morgan County Farmers Market Board manages the operation of the facility known as the farmers market located adjacent to the intersection of First Avenue Southeast and Second Street Southeast in Decatur. The Board is comprised of five members who are jointly appointed by the governing bodies of the City of Decatur and Morgan County.

NARCOG – The North Alabama Regional Council of Governments provide regional planning for the physical, economic and human resources development within North Alabama. There are three particular programs controlled by NARCOG, which the City of Decatur supports financially. These are the Aging Program, Regional Planning, and Transportation Planning. The City of Decatur contributed a total of \$47,018 to these programs during the fiscal year.

The Health Care Authority of Morgan County-Decatur operates the Decatur General health care facilities located on Seventh Street, Decatur, Alabama. The Authority is comprised of five directors who are jointly appointed by the governing bodies of the City of Decatur and Morgan County.

Morgan County Emergency Management Commission District is commonly known as 911. This seven-member board, of which the City Council appoints three members, manages the emergency phone service 911 along with other duties. The City of Decatur provided \$594,149 in appropriations during the fiscal year.

North Central Alabama Mental Health Board provides mental health and general welfare services to the citizens of North Alabama. The Board is comprised of nine members of whom three are appointed by the City Council. The City contributed \$37,350 to the Board during the fiscal year.

North Central Alabama Mental Retardation Authority provides services to retarded children. The Board is comprised of five members of whom one is appointed by the City Council. The City contributed \$13,200 to the Authority during the fiscal year.

Pryor Field Airport Authority was organized in 1963 to oversee the Pryor Field Airport located within Limestone County. Its board is comprised of five members of whom one member is appointed by each of the following: Limestone County Commission, Decatur City Council, Morgan County Commission, and Athens City Council. The City contributed \$30,000 to the Authority during the fiscal year.

C. Related Organizations

The City's officials are responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations do not extend beyond member appointments. The City Council appoints the board members of the Board of Equalization; Decatur, Alabama Health Care Authority; Downtown Redevelopment Authority; Industrial Development Board of the City of Decatur; and Medical Clinic Board. The Mayor appoints the board members of the Housing Authority of the City of Decatur, Alabama.

D. Pension Plans

The City of Decatur's defined benefit pension plan provides retirement, disability benefits and death benefits to plan members and beneficiaries. The City is affiliated with the Employees' Retirement System of Alabama (the System), an agent multiple-employer pension plan administered by the Retirement Systems of Alabama. The Retirement Systems of Alabama assigns the authority to establish and amend the benefit provisions of the plans that participate in the System to the respective employer entities. For the City of Decatur, that authority rests with the City Council with the exception of the Municipal Utilities Board Enterprise Fund, for which the Board has the authority. The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Retirement Systems of Alabama, PO Box 302150, Montgomery, Alabama, 36130-2150 or by calling (334) 832-4140.

On October 1, 2002, the Municipal Utilities Board elected to move its retirement plan to the Employee Retirement System of Alabama. Prior to this date the assets of the plan were maintained by The Municipal Utilities Board of Decatur, Morgan County, Alabama Pension Plan, and a single-employer defined benefit pension plan administered by Aetna Life Insurance Company. Among the requirements, the Board was directed to move all of its assets for current employees and the majority of its assets for retired employees to the

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 5 – OTHER INFORMATION – CONTINUED

Employees Retirement System. A small number of annuity investments for certain employees are funded in the plan and could not be transferred. These retirees are paid from these assets and their retirement benefits from RSA are adjusted accordingly. The plan is fully funded with respect to these retirees and requires no current contributions.

State correctional officers, certified full-time firefighters, and certified full-time law enforcement officers are required to contribute 6% of their annual covered salary to the plan. All other System members are required by the State of Alabama to contribute 5% of their annual covered salary to the plan. The City is required to contribute at actuarially determined rates. The rate as a percentage of annual covered payroll for the City is 9.34%, with the exception of the Municipal Utilities Board Fund, for which the rate is 16.77%. The contribution requirements of plan members are established and may be amended by the Employee's Retirement System of Alabama.

For 2006, the City of Decatur's annual pension cost was equal to their required and actual 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 (net of administrative expenses), (b) projected salary increases ranging from 4.61% to 7.75% per year, and (c) 0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of the System's assets was determined using market values of instruments at September 30, 2005 for the City, and using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period in the years prior to September 30, 2005 and September 30, 2004, respectively. The System's unfunded actuarial accrued liability is amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2005 and September 30, 2004 was eighteen and twenty for the Board and the City, respectively.

Trend Information for the System			
	Fiscal Year Ending (1)	Annual Pension Cost (APC)	Percentage of APC Contributed
City of Decatur	9/30/06	1,926,493	100%
	9/30/05	1,844,308	100%
	9/30/04	1,627,581	100%
	9/30/03	1,376,829	100%
	9/30/02	965,488	100%
Municipal Utilities Board	9/30/05	1,055,331	100%
	9/30/04	1,129,323	100%
	9/30/03	1,055,331	100%
	9/30/02	12,197,944	100%

(1) Trend information for the Utilities for the year ended September 30, 2006 was not available from the System.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 5 – OTHER INFORMATION – CONTINUED

Schedule of Funding Progress for the System							
Department	Actuarial Valuation Date(1)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Decatur	9/30/05	\$63,790,804	\$79,255,382	\$15,464,578	80.5%	\$21,707,078	69.8%
	9/30/04	60,941,212	72,166,289	11,225,077	84.4%	21,200,230	52.2%
	9/30/03	57,761,965	68,409,110	10,647,145	84.4%	20,179,635	52.8%
	9/30/02	55,874,584	65,185,554	9,310,970	85.7%	20,487,418	45.4%
	9/30/01	54,745,398	58,315,524	3,570,126	93.9%	18,099,633	19.7%
	9/30/00	52,133,416	50,253,651	(1,879,765)	103.7%	17,576,098	(10.7%)
Municipal Utilities Board	9/30/05	\$19,538,611	\$32,934,918	\$13,396,307	59.3%	\$7,339,704	181.4%
	9/30/04	17,647,774	30,560,464	12,912,690	57.7%	7,121,446	181.3%
	9/30/03	15,908,417	27,643,247	11,734,830	57.5%	7,159,805	163.9%
	9/30/02	14,308,951	25,129,839	10,820,888	56.9%	6,317,144	171.3%

(1) Trend information for the Utilities for the year ended September 30, 2006 was not available from the System.

Component Unit

City Board of Education

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

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

The Teachers' Retirement System was established October 1, 1939, under the provisions of Act Number 419, of the Legislature of 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently fourteen members). Benefit provisions are established by the Code of Alabama 1975, Section 16-25-1 through Section 16-25-170, as amended, and Section 36-27B-1 through Section 36-27B-5, as amended.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 5 – OTHER INFORMATION – CONTINUED

Employees of the Board are required to contribute 5% of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Alabama Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriations bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

	Fiscal Year Ended September 30,		
	2006	2005	2004
Total percentage of payroll	13.17%	12.03%	11.56%
Contributions:			
Percentage contributed by the Board	8.17%	7.03%	6.56%
Percentage contributed by employees	5.00%	5.00%	5.00%
Amount contributed by the Board	\$3,565,559	\$2,883,110	\$2,630,879
Amount contributed by employees	2,182,105	2,050,576	2,005,243
Total Contributions	\$5,747,664	\$4,933,686	\$4,636,122

E. Post-Retirement Health Plan

The City of Decatur provides post employment health care benefits to each permanent full-time employee who has twenty-five years of qualified service or reaches age 60 under the state requirements with at least ten years of service with the City of Decatur and retires from the City of Decatur through the Employees Retirement System of the State of Alabama (ERS), prior to the age of sixty-five (65) and whose effective date of retirement, as approved by the ERS, falls on or after July 1, 1995.

Between July 1, 1995 and September 1, 1998, limited opportunities for insurance benefits for retirees were offered to full time employees who had attained age fifty-five and could retire through ERS prior to age sixty-five whereby the City would pay a portion of the monthly premium for Medical and Dental insurance until the retiree reaches age sixty-five. The portion paid by the City is equal to that being paid for active employees. All insurance benefits ceased at age sixty-five or Medicare eligibility.

Effective October 1, 1998, any employee, regardless of age, who qualified for retirement with at least twenty-five years of service or age sixty with at least ten years service with the City of Decatur qualified for medical and dental insurance benefits. (After adoption of the State Employees' Insurance benefit, the minimum ten (10) years service with the City of Decatur was dropped. Now, if eligible to retire through ERS, retiree is eligible for insurance benefits regardless of years of service with City.) The portion paid by the City is equal to that being paid for active employees. As of July 1, 2004, vision coverage was added as a benefit. The medical insurance continues as a secondary insurance to Medicare and the City continues to pay a reduced premium for the retirees insurance.

Currently eighty-one retirees are eligible to participate and eighty retirees eligible have elected to have the City pay a portion of the monthly premium for medical, dental and vision (where applicable) insurance until such time that the retiree reaches the age of sixty-five (65). Thirty of these retirees have single coverage and make no payment toward this coverage. The remaining fifty have family coverage and pay \$100 per month for the coverage.

In addition, when an eligible retiree reaches Medicare eligibility, the City will continue to pay for the medical insurance (at a reduced rate) with Medicare becoming primary. On September 30, 2006, there were twenty-four retirees eligible to receive this benefit and twenty-four retirees receiving the benefit, at a cost to the City of \$5,880 monthly.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 5 – OTHER INFORMATION – CONTINUED

The cost of retiree health care benefits is recognized as an expenditure as premiums are paid. During the year, expenditures of \$773,956 were recognized for post-employment health care.

The Municipal Utilities Board Enterprise Fund provides post-employment benefits other than pension benefits to all full time employees who retire as an eligible participant in the qualified retirement plan and who are age 55 or older. Benefits provided retirees at September 30, 2006 include:

1. Retiree group health/dental benefits to age 65. Retiree contributes a percentage of total premiums.
2. Retiree Medicare supplement policy at age 65. Retiree contributes a percentage of total premiums.
3. Dependent group health/dental benefits to age 65 with retiree contributing a percentage of the total premium.
4. Spouse Medicare supplemental policy at age 65. Retiree contributes a percentage of total premiums. (Provided until death of retiree)
5. Retirees who have a hire date on or after 1/1/04 and are 55 or older have group health/dental for a reduced 10-year period and contribute a higher percentage of the total premium.
6. Early Retirement Medical Option – Employees retiring under age 55 or older also have a reduced 10-year benefit period and pay a higher percentage of the total premium.
7. Life insurance based upon an amount agreed upon prior to retirement (Not restricted to those who retire at age 55 or older). Employees hired after January 1, 2003 no longer have life insurance benefits as an active or retired employee.

The Board administers the provisions of post-employment benefits, other than pension benefits. The benefits are expensed when paid.

At September 30, 2006, approximately seventy-one employees were receiving benefits. The cost of postretirement benefits other than pension benefits are included within the total benefit expenditures, and cannot be separately determined.

Component Units

The Board of Education and *The Public Building Authority* do not provide post-employment benefits.

F. Risk Financing Programs

The City elected to retain risk related to the employees' health and dental insurance for the first time beginning December 1, 1999. Then, on January 1, 2002 the City elected to no longer retain the health insurance risk and purchased health insurance. The City currently pays premiums to the State Employee Insurance Board. However, the City still retains the risk for the period under the health self-insurance. The amount of outstanding claims liability remaining as of September 30, 2006 is insignificant and immaterial to the City's statements as a whole.

The City has chosen to finance risks associated with workers compensation coverage through the City's general fund. The City maintains insurance coverage for individual claims in excess of \$250,000 or an aggregate of 115% of annual standard premium. Claims liabilities are based on estimated claim settlements.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2006

NOTE 5 – OTHER INFORMATION – CONTINUED

Changes in the balance of Workers' Compensation insurance claims liability are as follows:

	September 30,	
	2006	2005
Unpaid claims, beginning of year	\$417,378	\$478,222
Incurred claims	519,976	363,110
Less claim payments	(384,201)	(423,954)
Unpaid claims, end of year	\$553,153	\$417,378

The Electric, Water and Gas systems of the Utilities are also self-insured for general liability, health insurance and workers' compensation insurance. Reinsurance has been purchased to limit the exposure to catastrophic loss for health insurance and workers' compensation insurance claims.

G. GASB Accounting Pronouncements

The City adopted GASB Statement No. 42, *Impairment of Capital Assets and Insurance Recoveries*, in fiscal 2006. This statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and provides consistency in accounting for insurance recoveries. The adoption of GASB Statement No. 42 did not have a material effect on the City's financial statements.

The City adopted GASB Statement No. 44, *Economic Condition Reporting: the Statistical Section*, in fiscal 2006. This statement updates the statistical section that accompanies the basic financial statements. The adoption of GASB Statement No. 44 did not have a material effect on the City's financial statements.

The City adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34*, required for fiscal periods beginning after June 15, 2005, in fiscal 2006. This statement clarifies the definition of "legally enforceable" in determining and reporting restricted net assets.

The City adopted GASB Statement No. 47, *Accounting for Termination Benefits*, required for fiscal periods beginning after June 15, 2005, in fiscal 2006. This statement provides accounting and reporting guidance for benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The adoption of GASB Statement No. 47 did not have a material effect on the City's financial statements.

The City plans to adopt GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, required for fiscal periods beginning after December 15, 2005, in fiscal 2007. This statement establishes financial reporting standards for the plans which administer other post employment benefits such as medical and life insurance.

The City plans to adopt GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, required for fiscal periods beginning after December 15, 2006, in fiscal 2008. This statement addresses how governments should account for and report their costs and obligations related to post employment healthcare and other non-pension benefits.

Management is in the process of determining the effects that the adoption of these statements will have on the City's basic financial statements.

SUPPLEMENTAL INFORMATION

**CITY OF DECATUR
GENERAL FUND
BALANCE SHEET
September 30, 2006**

ASSETS

Cash & cash equivalents	\$ 16,552,818
Cash with fiscal agent	60,402
Investments, at cost	405,331
Receivables (net of allowances):	
Accounts	2,231,758
Taxes	2,868,377
Accrued interest	868
Due from other funds	3,196,658
Due from component units	780
Due from other governmental entities	406,575
Deposits	65,339
Inventories	20,298
	<hr/>
Total assets	\$ 25,809,204
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 1,269,286
Accrued liabilities	1,098,606
Due to other governmental entities	77,996
Deferred revenue	2,181,747
Other	288,006
	<hr/>
Total liabilities	4,915,641
	<hr/>

FUND BALANCE

Reserved for inventories	20,298
Unreserved	
Designated for Special purposes	8,331,935
Designated for Future capital needs	232,004
Designated for Landfill	1,063,609
Designated for other purposes	1,380
Undesignated	11,244,337
	<hr/>
Total fund balance	20,893,563
	<hr/>
Total liabilities and fund balance	\$ 25,809,204
	<hr/> <hr/>

**CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET & ACTUAL
For the Year Ended September 30, 2006**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and payments in lieu of taxes	\$ 32,571,239	\$ 33,115,212	\$ 34,617,299	\$ 1,502,087
Licenses and permits	5,260,874	5,260,874	5,506,691	245,817
Fines and forfeitures	970,310	970,310	862,514	(107,796)
Revenues from money and property	672,946	672,946	1,319,688	646,742
Charges for services	2,999,068	3,021,968	3,178,711	156,743
Intergovernmental	5,362,592	5,362,592	5,252,277	(110,315)
Other revenues	456,123	456,123	285,641	(170,482)
Total revenues	48,293,152	48,860,025	51,022,821	2,162,796
EXPENDITURES				
Current				
General government	3,513,601	3,620,701	8,166,434	(4,545,733)
Public safety	17,908,439	18,071,167	17,654,904	416,263
Public works	6,837,008	6,847,829	6,453,216	394,613
Public services	7,889,661	7,956,200	8,327,629	(371,429)
Intergovernmental assistance	4,329,137	4,612,600	4,079,899	532,701
Community services contracts	2,502,577	2,502,577	2,555,873	(53,296)
Debt service:				
Principal	2,915,162	2,285,162	2,285,162	-
Interest and fiscal charges	1,928,560	1,936,417	1,936,371	46
Debt issuance costs	-	-	26,160	(26,160)
Total expenditures	47,624,145	47,832,653	51,485,648	(3,652,995)
Excess of revenues over expenditures	669,007	1,027,372	(462,827)	(1,490,199)
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	-	-	4,775,000	4,775,000
Operating transfers in	51,357	51,357	65,018	13,661
Operating transfers out	(1,263,554)	(3,358,081)	(3,238,647)	119,434
Total other financing sources (uses)	(1,212,197)	(3,306,724)	1,601,371	4,908,095
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(543,190)	(2,279,352)	1,138,544	3,417,896
Fund balance, beginning	19,755,019	19,755,019	19,755,019	-
Fund balance, ending	\$ 19,211,829	\$ 17,475,667	\$ 20,893,563	\$ 3,417,896

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2006

Page 1 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and payments in lieu of taxes				
Sales and use	\$ 23,867,120	\$ 24,411,093	\$ 25,699,285	\$ 1,288,192
Ad valorem	2,333,771	2,333,771	2,448,339	114,568
Other	6,370,348	6,370,348	6,469,675	99,327
Total	32,571,239	33,115,212	34,617,299	1,502,087
Licenses and permits				
Motor Vehicle	172,691	172,691	175,757	3,066
Business Licenses and Permits	4,376,701	4,376,701	4,625,061	248,360
Building Permits and Inspection Fees	711,482	711,482	705,873	(5,609)
Total	5,260,874	5,260,874	5,506,691	245,817
Fines and forfeitures				
	970,310	970,310	862,514	(107,796)
Revenues from money and property				
Interest	672,946	672,946	1,217,119	544,173
Other	-	-	102,569	102,569
Total	672,946	672,946	1,319,688	646,742
Charges for current services				
Recreation	366,540	389,440	338,545	(50,895)
Animal shelter	18,058	18,058	15,319	(2,739)
General government	317,129	317,129	412,819	95,690
Public safety	168,596	168,596	144,873	(23,723)
Public works	2,105,096	2,105,096	2,207,478	102,382
Cemetery	21,950	21,950	56,675	34,725
Old bank	1,380	1,380	1,202	(178)
Youth services	319	319	1,800	1,481
Total	2,999,068	3,021,968	3,178,711	156,743
Intergovernmental				
Tax equivalents	4,934,294	4,934,294	4,479,547	(454,747)
State Shared Taxes	428,298	428,298	772,730	344,432
Total	5,362,592	5,362,592	5,252,277	(110,315)
Other revenues				
	456,123	456,123	285,641	(170,482)
TOTAL REVENUES	48,293,152	48,860,025	51,022,821	2,162,796
EXPENDITURES				
Current Expenditures				
General Government				
Mayor and Council				
Personal services	235,805	235,805	233,230	2,575
Operating expenses	41,150	41,150	37,259	3,891
Capital outlay	-	-	4,750,000	(4,750,000)
Total	276,955	276,955	5,020,489	(4,743,534)

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2006

Page 2 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Legal Services				
Personal services	320,448	320,448	316,044	4,404
Operating expenses	60,280	84,680	68,645	16,035
Total	380,728	405,128	384,689	20,439
Municipal Court				
Personal services	378,127	378,127	379,305	(1,178)
Operating expenses	60,450	60,450	35,042	25,408
Total	438,577	438,577	414,347	24,230
City Clerk				
Personal services	366,064	366,064	310,312	55,752
Operating expenses	125,062	125,062	36,354	88,708
Total	491,126	491,126	346,666	144,460
Revenue department				
Personal services	228,470	228,470	217,928	10,542
Operating expenses	67,750	67,750	51,050	16,700
Total	296,220	296,220	268,978	27,242
Finance department				
Personal services	513,314	513,314	500,926	12,388
Operating expenses	48,820	48,820	29,742	19,078
Total	562,134	562,134	530,668	31,466
Public building				
Personal services	100,756	100,756	109,473	(8,717)
Operating expenses	437,224	493,824	511,723	(17,899)
Total	537,980	594,580	621,196	(26,616)
Community development				
Personal services	430,131	430,131	442,326	(12,195)
Operating expenses	99,750	125,850	137,075	(11,225)
Total	529,881	555,981	579,401	(23,420)
Total general government	3,513,601	3,620,701	8,166,434	(4,545,733)

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2006

Page 3 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Safety				
Fire				
Personal services	6,748,609	6,748,609	6,653,451	95,158
Operating expenses	667,650	667,650	619,134	48,516
Total	7,416,259	7,416,259	7,272,585	143,674
Inspection				
Personal services	682,070	686,132	622,659	63,473
Operating expenses	83,300	83,300	68,494	14,806
Total	765,370	769,432	691,153	78,279
Police				
Personal services	8,422,910	8,402,576	8,266,748	135,828
Operating expenses	1,303,900	1,482,900	1,424,418	58,482
Total	9,726,810	9,885,476	9,691,166	194,310
Total public safety	17,908,439	18,071,167	17,654,904	416,263
Public Works				
Director				
Personal services	331,587	335,102	259,338	75,764
Operating expenses	89,350	94,011	100,560	(6,549)
Total	420,937	429,113	359,898	69,215
Streets				
Personal services	1,804,157	1,809,157	1,689,485	119,672
Operating expenses	961,244	1,045,344	969,951	75,393
Total	2,765,401	2,854,501	2,659,436	195,065
Engineering				
Personal services	181,104	181,104	181,321	(217)
Operating expenses	234,550	121,137	70,457	50,680
Total	415,654	302,241	251,778	50,463
Sanitation				
Personal services	1,410,859	1,508,080	1,443,926	64,154
Operating expenses	1,624,157	1,753,894	1,738,178	15,716
Total	3,035,016	3,261,974	3,182,104	79,870
Total public works	6,637,008	6,847,829	6,453,216	394,613

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2006

Page 4 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Services				
Animal Shelter				
Personal services	277,317	277,317	276,393	924
Operating expenses	79,867	80,867	65,304	15,563
Total	357,184	358,184	341,697	16,487
Park and recreation				
Personal services	2,928,412	2,969,061	2,762,763	206,298
Operating expenses	2,492,875	2,513,792	3,242,774	(728,982)
Capital outlay	-	(10,241)	-	(10,241)
Total	5,421,287	5,472,612	6,005,537	(532,925)
Landscape and beautification				
Personal services	603,944	603,944	562,014	41,930
Operating expenses	499,719	509,719	460,618	49,101
Total	1,103,663	1,113,663	1,022,632	91,031
Cemetary				
Personal services	94,021	94,021	99,523	(5,502)
Operating expenses	78,698	72,912	88,883	(15,971)
Total	172,719	166,933	188,406	(21,473)
Business development board				
Personal services	41,808	41,808	41,528	280
Operating expenses	61,635	61,635	46,147	15,488
Total	103,443	103,443	87,675	15,768
Youth services				
Personal services	185,816	185,816	184,550	1,266
Operating expenses	258,479	268,479	252,113	16,366
Total	444,295	454,295	436,663	17,632
Culture				
Cultural Facilities	161,000	161,000	149,410	11,590
Old Bank	110,540	110,540	95,609	14,931
Historic Preservation Commission	15,530	15,530	-	15,530
Total	287,070	287,070	245,019	42,051
Total public services	7,889,661	7,956,200	8,327,629	(371,429)

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2006

Page 5 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Intergovernmental assistance</i>				
Garage				
Personal services	488,514	489,714	399,806	89,908
Operating expenses	61,350	62,350	58,162	4,188
Total	549,864	552,064	457,968	94,096
Purchasing				
Personal services	125,922	125,922	124,760	1,162
Operating expenses	38,100	38,100	14,106	23,994
Total	164,022	164,022	138,866	25,156
Information services				
Personal services	442,595	445,995	443,611	2,384
Operating expenses	387,387	413,387	357,915	55,472
Total	829,982	859,382	801,526	57,856
Miscellaneous				
Workman's compensation	650,000	750,000	659,737	90,263
Insurance	250,000	250,000	208,208	41,792
Other	1,432,570	1,583,933	1,454,444	129,489
Total	2,332,570	2,583,933	2,322,389	261,544
Planning department				
Personal services	288,839	288,839	281,662	7,177
Operating expenses	73,450	73,950	16,034	57,916
Total	362,289	362,789	297,696	65,093
Safety				
Personal services	33,437	33,437	31,639	1,798
Operating expenses	56,973	56,973	29,815	27,158
Total	90,410	90,410	61,454	28,956
Total Intergovernmental assistance	4,329,137	4,612,600	4,079,899	532,701

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2006

Page 6 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Community Service Contracts				
Wheeler Basin Regional Library Board	360,000	360,000	360,000	-
Morgan County Emergency Management Dist.	594,149	594,149	594,149	-
Decatur-Morgan County Emergency Mgt. Agency	28,100	28,100	28,100	-
NARCOG:				-
Regional Planning	21,153	21,153	21,153	-
Senior Aid Program	1,000	1,000	1,000	-
Transport Planning	24,865	24,865	24,865	-
NCA Mental Health Board	20,350	20,350	20,350	-
NCA Mental Health Board - Facets	17,000	17,000	17,000	-
Economic Development Association	80,000	80,000	80,000	-
NCA Mental Retardation Center, Inc.	13,200	13,200	13,200	-
Tennessee Valley Rehabilitation Center, Inc.	10,000	10,000	10,000	-
Morgan County Health Department	150,000	150,000	150,000	-
Morgan County Commission	150,000	150,000	150,000	-
Agency of North Alabama:			-	-
Meals on Wheels	20,000	20,000	20,000	-
Foster Grandparents	15,000	15,000	15,000	-
Carnegie Library	50,000	50,000	50,000	-
Princess Theatre	70,000	70,000	70,000	-
Decatur-Morgan County Seniors' Council, Inc.	62,000	62,000	62,000	-
Decatur Convention and Visitors' Bureau	522,000	522,000	585,381	(63,381)
Chamber of Commerce:	-	-	-	-
BRAC	10,000	10,000	10,000	-
Beautification Board	20,000	20,000	20,000	-
Community Business Development Board	30,000	30,000	30,000	-
Cornerstone	40,000	40,000	40,000	-
Morgan County Rescue Squad	10,000	10,000	10,000	-
Main Street of Decatur	35,000	35,000	24,915	10,085
Hospice of the Valley	5,500	5,500	5,500	-
American Red Cross	5,500	5,500	5,500	-
Pryor Field Airport Authority	30,000	30,000	30,000	-
ARC of Morgan County	7,160	7,160	7,160	-
Volunteer Center	11,000	11,000	11,000	-
PACT	5,000	5,000	5,000	-
System of Services	9,600	9,600	9,600	-
Free Health Clinic	50,000	50,000	50,000	-
Hospice of the Valley Capital Campaign	25,000	25,000	25,000	-
Total Community Services Contract	2,502,577	2,502,577	2,555,873	(53,296)
Debt Service Expenditures	4,843,722	4,221,579	4,247,693	(26,114)
TOTAL EXPENDITURES	47,624,145	47,832,653	51,485,648	(3,652,995)
Excess (deficiency) of revenues over expenditures	669,007	1,027,372	(462,827)	(1,490,199)

**CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2006**

Page 7 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	-	-	4,775,000	4,775,000
Operating transfers in	51,357	51,357	65,018	13,661
Operating transfers out	(1,263,554)	(3,358,081)	(3,238,647)	119,434
Total other financing sources (uses)	(1,212,197)	(3,306,724)	1,601,371	4,908,095
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(543,190)	(2,279,352)	1,138,544	3,417,896
Fund balance, beginning	19,755,019	19,755,019	19,755,019	-
Fund balance, ending	\$ 19,211,829	\$ 17,475,667	\$ 20,893,563	\$ 3,417,896

CITY OF DECATUR
 NON-MAJOR GOVERNMENTAL FUNDS (by fund type)
 COMBINING BALANCE SHEET
 September 30, 2006

	Special Revenue Funds										Total				
	7 Cent Gas Tax	4 & 5 Cent Gas Tax	Community Development	Personnel Board	Municipal Court	Heritage Trust	Contractors	Docket Fees	Drug Seizure	Room Occupancy		Perpetual Care	Capital Improvements Fund	2006 GO Warrants-Capital Projects Fund	Public Port & Infrastructure Warrants Fund
ASSETS															
Cash & investments, at cost	\$ 386,948	\$ 285,832	\$ -	\$ 150,093	\$ 75,641	\$ 677,523	\$ 658,823	\$ 33,627	\$ 96,929	\$ 96,907	\$ 704,596	\$ 881,756	\$ 234,836	\$ 825,097	\$ 5,108,608
Receivables (net of allowances)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,338
Accounts	-	-	4,268	-	130	-	-	-	-	32,922	-	20	-	-	462,925
Notes	-	-	462,925	-	-	-	-	-	-	-	-	1,786,411	-	-	1,786,411
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	55,765
Due from component units	-	-	-	-	-	-	-	-	-	-	-	-	-	-	853,970
Due from governmental entities	13,103	29,186	811,450	-	-	-	-	231	-	-	-	-	-	-	-
Total assets	400,051	315,018	1,334,406	150,093	75,771	677,523	658,823	33,627	97,160	129,829	704,596	2,668,187	234,836	825,097	8,305,017
LIABILITIES															
Accounts payable	16,668	-	155,205	5,766	59,271	-	7,027	-	625	96,906	-	670,121	234,836	-	1,246,425
Accrued liabilities	-	-	848	11,986	16,500	-	2,401	-	-	-	-	86,000	-	-	97,735
Due to other funds	-	-	531,502	12,435	-	-	-	-	-	438,066	-	-	3,786,412	-	4,769,415
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	978,924
Other	-	-	-	-	-	-	-	-	-	-	11,306	-	-	-	11,306
Total liabilities	16,668	-	1,666,479	30,187	75,771	-	9,428	-	625	535,972	-	747,427	4,021,248	-	7,103,805
FUND BALANCES															
Reserved for:	-	-	342,680	-	-	-	-	-	-	5,200	-	-	1,344,805	-	1,692,685
Encumbrances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	704,596
Perpetual care	-	-	-	-	-	-	-	-	-	704,596	-	-	-	-	825,097
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	-	825,097	-
Capital improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved & undesignated	383,383	315,018	(674,753)	119,906	-	677,523	649,395	33,627	96,535	(411,343)	-	1,920,760	(5,131,217)	-	(2,021,166)
Total fund balance (deficit)	383,383	315,018	(332,073)	119,906	-	677,523	649,395	33,627	96,535	(406,143)	704,596	1,920,760	(3,786,412)	825,097	1,201,212
Total liabilities and fund balance	\$ 400,051	\$ 315,018	\$ 1,334,406	\$ 150,093	\$ 75,771	\$ 677,523	\$ 658,823	\$ 33,627	\$ 97,160	\$ 129,829	\$ 704,596	\$ 2,668,187	\$ 234,836	\$ 825,097	\$ 8,305,017

CITY OF DECATUR
 NON-MAJOR GOVERNMENTAL FUNDS (by fund type)
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 For the Year Ended September 30, 2006

	Special Revenue Funds										Capital Projects Funds			Debt Service Funds		Total Nonmajor Governmental Funds
	7 Cent Gas Tax	4 & 5 Cent Gas Tax	Community Development	Personnel Board	Municipal Court	Heritage Trust	Corrections	Docket Fees	Drug Seizure	Room Occupancy	Perpetual Care	Capital Improvements Fund	GO Warrants-Fall Capital Projects Fund	Public Port & Infrastructure Warrants Fund		
REVENUE																
Other taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines & forfeitures	18,921	8,529	-	-	-	-	330,403	17,034	-	359,018	-	-	-	-	-	359,018
Revenues from money & property	147,726	329,796	1,047,084	-	-	317,853	-	-	26,079	25,140	71,536	154,724	-	-	-	320,037
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	134,483	-	-	-	2,848,216
Gifts & donations	-	-	-	-	-	-	-	-	-	-	-	10,000	-	-	-	10,000
Other revenues	-	-	198,532	1,045	-	-	-	-	1,766	2,299	-	-	-	-	-	203,642
Total revenues	166,647	338,325	1,245,616	1,045	-	317,853	366,380	17,034	33,055	386,457	71,536	299,207	-	845,195	-	4,088,350
EXPENDITURES																
Current:																
General government	-	-	-	-	-	-	167,930	4,210	-	-	-	41,550	-	-	-	213,690
Public safety	-	-	-	-	-	-	177,094	-	28,406	-	-	101,750	468,954	-	-	777,204
Public works	50,505	63,840	-	-	-	-	-	-	-	-	-	433,284	-	-	-	678,331
Community development	-	-	2,028,470	-	-	-	-	-	1,614,005	-	-	1,408,110	2,827,016	-	-	5,848,151
Personnel board	-	-	-	498,382	-	-	-	-	-	-	-	-	-	-	-	2,028,470
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	498,382
Principal interest and fiscal charges	-	-	-	-	-	-	-	-	106,919	-	-	-	-	-	-	780,000
Debt issuance costs	-	-	-	-	-	-	-	-	-	-	-	4,909	46,545	-	-	158,889
Total expenditures	50,505	63,840	2,028,470	498,382	-	-	345,024	4,210	29,406	1,720,924	-	1,887,520	3,777,799	828,970	-	11,035,080
Excess (deficiency) of revenues over expenditures	116,142	274,485	(782,854)	(487,347)	-	317,853	21,356	12,824	3,649	(1,334,467)	71,536	(1,388,313)	(3,777,799)	16,225	-	(6,946,710)
OTHER FINANCING SOURCES (USES)																
Long-term debt issued	-	-	-	-	-	-	-	-	-	-	-	505,000	-	-	-	505,000
Transfers in	-	-	264,536	585,000	-	-	-	-	-	-	-	2,062,484	-	-	-	2,912,030
Transfers (out)	-	-	-	-	-	-	(13,250)	-	-	-	(31,885)	(324,702)	(8,613)	(12)	-	(378,462)
Total other financing sources (uses)	-	-	264,536	585,000	-	-	(13,250)	-	-	-	(31,885)	2,242,792	(8,613)	(12)	-	3,038,568
Net change in fund balance	116,142	274,485	(518,318)	87,653	-	317,853	8,106	12,824	3,649	(1,334,467)	39,651	854,479	(3,786,412)	16,213	-	(3,806,142)
Fund balance (deficit), beginning	267,241	40,533	186,245	32,253	-	389,670	641,289	20,803	92,886	928,324	684,945	1,066,281	-	-	-	806,864
Fund balance (deficit), ending	383,383	315,018	(332,073)	119,906	-	677,523	649,395	33,627	96,535	(406,143)	704,596	1,920,760	(3,786,412)	825,097	-	1,201,212

CITY OF DECATUR
7 CENT GAS TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 147,497	\$ 147,497	\$ 147,726	\$ 229
Revenues from money and property	6,052	6,052	18,921	12,869
Total revenues	153,549	153,549	166,647	13,098
Expenditures				
Operating expenses	21,049	21,049	50,505	(29,456)
Capital outlay	132,500	132,500	-	132,500
Total expenditures	153,549	153,549	50,505	103,044
Net change in fund balance	-	-	116,142	116,142
Fund balance, beginning	267,241	267,241	267,241	-
Fund balance, ending	\$ 267,241	\$ 267,241	\$ 383,383	\$ 116,142

CITY OF DECATUR
 4 & 5 CENT GAS TAX FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 For the Year Ended September 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 330,145	\$ 330,145	\$ 329,796	\$ (349)
Revenues from money and property	1,072	1,072	8,529	7,457
Total revenues	331,217	331,217	338,325	7,108
Expenditures				
Operating expenses	331,217	331,217	63,840	267,377
Total expenditures	331,217	331,217	63,840	267,377
Net change in fund balance	-	-	274,485	274,485
Fund balance, beginning	40,533	40,533	40,533	-
Fund balance, ending	\$ 40,533	\$ 40,533	\$ 315,018	\$ 274,485

CITY OF DECATUR
PERSONNEL BOARD FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other	\$ -	\$ -	\$ 1,045	\$ 1,045
Total revenues	-	-	1,045	1,045
Expenditures				
Personal services	385,781	385,781	367,243	18,538
Operating expenses	199,219	199,219	131,149	68,070
Total expenditures	585,000	585,000	498,392	86,608
Excess (deficiency) of revenues over expenditures	(585,000)	(585,000)	(497,347)	87,653
Other financing sources				
Operating transfers in	585,000	585,000	585,000	-
Total other financing sources (uses)	585,000	585,000	585,000	-
Net change in fund balance	-	-	87,653	87,653
Fund balance, beginning	32,253	32,253	32,253	-
Fund balance, ending	\$ 32,253	\$ 32,253	\$ 119,906	\$ 87,653

CITY OF DECATUR
 HERITAGE TRUST FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL
 For the Year Ended September 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 289,573	\$ 289,573	\$ 317,853	\$ 28,280
Total revenues	289,573	289,573	317,853	28,280
Expenditures				
Personal services	-	-	-	-
Operating expenses	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balance	289,573	289,573	317,853	28,280
Fund balance, beginning	359,670	359,670	359,670	-
Fund balance, ending	\$ 649,243	\$ 649,243	\$ 677,523	\$ 28,280

**CITY OF DECATUR
CORRECTIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2006**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 363,933	\$ 363,933	\$ 330,403	\$ (33,530)
Revenues from money and property	19,136	19,136	35,977	16,841
Total revenues	383,069	383,069	366,380	(16,689)
Expenditures				
Personal services	158,520	158,520	167,930	(9,410)
Operating expenses	24,792	24,792	177,094	(152,302)
Total expenditures	183,312	183,312	345,024	(161,712)
Excess (deficiency) of revenues over expenditures	199,757	199,757	21,356	(178,401)
Other financing uses				
Operating transfers (out)	-	-	(13,250)	(13,250)
Total other financing uses	-	-	(13,250)	(13,250)
Net change in fund balance	199,757	199,757	8,106	(191,651)
Fund balance, beginning	641,289	641,289	641,289	-
Fund balance, ending	\$ 841,046	\$ 841,046	\$ 649,395	\$ (191,651)

CITY OF DECATUR
DOCKET FEE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 19,635	\$ 19,635	\$ 17,034	\$ (2,601)
Total revenues	19,635	19,635	17,034	(2,601)
Expenditures				
Operating expenses	19,635	19,635	4,210	15,425
Total expenditures	19,635	19,635	4,210	15,425
Net change in fund balance	-	-	12,824	12,824
Fund balance, beginning	20,803	20,803	20,803	-
Fund balance, ending	<u>\$ 20,803</u>	<u>\$ 20,803</u>	<u>\$ 33,627</u>	<u>\$ 12,824</u>

**CITY OF DECATUR
DRUG SEIZURE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2006**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Fines and forfeitures	\$ 55,827	\$ 55,827	\$ -	\$ (55,827)
Intergovernmental	289,573	289,573	26,079	(263,494)
Revenues from money and property	1,000	1,000	5,210	4,210
Other	-	-	1,766	1,766
Total revenues	346,400	346,400	33,055	(313,345)
Expenditures				
Operating expenses	65,000	65,000	29,406	35,594
Capital outlay	11,410	11,410	-	11,410
Total expenditures	76,410	76,410	29,406	47,004
Net change in fund balance	269,990	269,990	3,649	(266,341)
Fund balance, beginning	92,886	92,886	92,886	-
Fund balance, ending	\$ 362,876	\$ 362,876	\$ 96,535	\$ (266,341)

CITY OF DECATUR
ROOM OCCUPANCY TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and Payments in lieu of taxes	\$ 357,654	\$ 357,654	\$ 359,018	\$ 1,364
Revenues from money and property	29,891	29,891	25,140	(4,751)
Other	-	-	2,299	2,299
Total revenues	387,545	387,545	386,457	(1,088)
Expenditures				
Operating expenses	106,919	106,919	106,919	-
Capital outlay	1,732,293	1,732,293	1,614,005	118,288
Total expenditures	1,839,212	1,839,212	1,720,924	118,288
Excess (deficiency) of revenues over expenditures	(1,451,667)	(1,451,667)	(1,334,467)	117,200
Other financing sources				
Operating transfers in	572,300	-	-	-
Total other financing sources	572,300	-	-	-
Net change in fund balance	(879,367)	(1,451,667)	(1,334,467)	117,200
Fund balance, beginning	928,324	928,324	928,324	-
Fund balance, ending	\$ 48,957	\$ (523,343)	\$ (406,143)	\$ 117,200

**CITY OF DECATUR
NON-MAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
September 30, 2006**

	Enterprise Funds		
	Point Mallard	Sanitary Landfill	Total Nonmajor Enterprise Funds
ASSETS			
Current assets			
Cash & investments, at cost	\$ 112,144	\$ 10,960,584	\$11,072,728
Receivables (net of allowance)			
Accounts	7,336	432,844	440,180
Inventories, at cost	15,568	13,611	29,179
Total current assets	135,048	11,407,039	11,542,087
Noncurrent assets			
Capital assets:			
Land	173,940	1,241,799	1,415,739
Buildings	6,546,871	899,112	7,445,983
Improvements other than buildings	6,484,161	8,243,056	14,727,217
Furniture & equipment	1,109,628	3,306,687	4,416,315
Less accumulated depreciation	(7,272,567)	(9,005,257)	(16,277,824)
Total capital assets (net of accumulated depreciation)	7,042,033	4,685,397	11,727,430
Total noncurrent assets	7,042,033	4,685,397	11,727,430
Total assets	7,177,081	16,092,436	23,269,517
LIABILITIES			
Current liabilities			
Accounts payable	99,385	179,810	279,195
Accrued liabilities	29,836	10,478	40,314
Compensated absences	7,939	11,508	19,447
Deferred revenue	-	400	400
Total current liabilities	137,160	202,196	339,356
Noncurrent liabilities			
Landfill closure and post-closure care costs	-	1,851,647	1,851,647
Compensated absences	71,448	103,573	175,021
Total noncurrent liabilities	71,448	1,955,220	2,026,668
Total liabilities	208,608	2,157,416	2,366,024
NET ASSETS			
Invested in capital assets, net of related debt	7,042,033	4,685,397	11,727,430
Unrestricted	(73,560)	9,249,623	9,176,063
Total net assets	\$ 6,968,473	\$ 13,935,020	\$ 20,903,493

**CITY OF DECATUR
NON-MAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006**

	Enterprise Funds		
	Point Mallard	Sanitary Landfill	Total Nonmajor Enterprise Funds
Operating revenue			
Charges for services	\$ -	\$ 4,166,182	\$ 4,166,182
Premiums & fees	2,838,530	-	2,838,530
Total operating revenue	<u>2,838,530</u>	<u>4,166,182</u>	<u>7,004,712</u>
Operating expenses			
Personnel, operations & maintenance	-	2,427,890	2,427,890
Closure and postclosure costs	-	169,206	169,206
Depreciation and amortization	535,323	593,577	1,128,900
Administrative costs	3,121,376	-	3,121,376
Total operating expenses	<u>3,656,699</u>	<u>3,190,673</u>	<u>6,847,372</u>
Operating income (loss)	<u>(818,169)</u>	<u>975,509</u>	<u>157,340</u>
Nonoperating revenue (expenses)			
Interest income	-	521,912	521,912
Interest expense	-	(3,182)	(3,182)
Intergovernmental	-	(33,121)	(33,121)
Gain on disposition of assets	-	1,500	1,500
Miscellaneous revenue	4,657	48,083	52,740
Total nonoperating revenue	<u>4,657</u>	<u>535,192</u>	<u>539,849</u>
Income (loss) before contributions, transfers & special items	<u>(813,512)</u>	<u>1,510,701</u>	<u>697,189</u>
Transfers in	673,182	-	673,182
Transfers (out)	-	(33,121)	(33,121)
Change in net assets	<u>(140,330)</u>	<u>1,477,580</u>	<u>1,337,250</u>
Total net assets, beginning	<u>7,108,803</u>	<u>12,457,440</u>	<u>19,566,243</u>
Total net assets, ending	<u>\$ 6,968,473</u>	<u>\$ 13,935,020</u>	<u>\$ 20,903,493</u>

**CITY OF DECATUR
NON-MAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006**

	Point Mallard	Sanitary Landfill	Total Nonmajor Enterprise Funds
Operating activities			
Receipts from customers and users	\$ 2,848,731	\$ 4,164,639	\$ 7,013,370
Other operating cash receipts	-	48,083	48,083
Payments to suppliers	(2,187,396)	(2,737,372)	(4,924,768)
Payments to employees	(964,400)	(629,228)	(1,593,628)
Payments for interfund services	6,796	37	6,833
Non-operating cash receipts	-	400	400
Net cash provided (used) by operating activities	(296,269)	846,559	550,290
Noncapital financing activities			
Operating transfers in	673,182	-	673,182
Operating transfers (out)	-	(33,121)	(33,121)
Net cash provided (used) by noncapital financing activities	673,182	(33,121)	640,061
Capital and related financing activities			
Acquisition and construction of capital assets	(349,741)	(408,837)	(758,578)
Proceeds from sale of capital assets	-	1,500	1,500
Principal payments on capital leases	-	(45,000)	(45,000)
Interest paid on capital leases	-	(3,182)	(3,182)
Net cash used by capital and related financing activities	(349,741)	(455,519)	(805,260)
Investing activities			
Purchase of investments	-	3,134,781	3,134,781
Interest received	4,657	521,912	526,569
Net cash provided by investing activities	4,657	3,656,693	3,661,350
Net increase in cash and cash equivalents	31,829	4,014,612	4,046,441
Cash and cash equivalents, beginning	80,315	6,945,972	7,026,287
Cash and cash equivalents, ending	\$ 112,144	\$ 10,960,584	\$ 11,072,728
Operating income (loss)	\$ (818,169)	\$ 975,509	\$ 157,340
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	535,323	593,577	1,128,900
Miscellaneous items	-	184,168	184,168
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:			
Change in assets and liabilities:			
Receivables	10,201	(1,543)	8,658
Accounts payable	31,897	(867,651)	(835,754)
Contract retainages	-	(48,378)	(48,378)
Inventory	(3,732)	(5,298)	(9,030)
Due to (from) other funds	5,441	37	5,478
Accrued liabilities	(58,585)	15,738	(42,847)
Deferred revenue	-	400	400
Other items	1,355	-	1,355
Net cash provided (used) by operating activities	\$ (296,269)	\$ 846,559	\$ 550,290



**Independent Auditor's Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control Over Compliance in Accordance with
OMB Circular A-133**

The Honorable Mayor and Members
of the City Council
City of Decatur, Alabama

Compliance

We have audited the compliance of the City of Decatur, Alabama (the City) 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, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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'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's compliance with those requirements.

In our opinion, the City 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, 2006. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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Internal Control Over Compliance

The management of the City 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'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Decatur, Alabama as of and for the year ended September 30, 2006, and have issued our report thereon dated February 2, 2007.

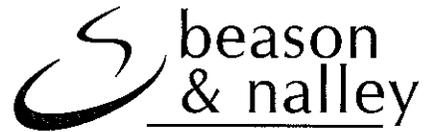
Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "Beason-Held". The signature is written in a cursive style with a large initial "B".

Huntsville, Alabama

February 2, 2007



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Mayor and Members
of the City Council
City of Decatur, Alabama

We have audited the financial statements of the City of Decatur, Alabama (the City) as of and for the year ended September 30, 2006, and have issued our report thereon dated February 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the 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 responses as item 06-1.

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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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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 for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Beason-Held & Valley, Inc.

Huntsville, Alabama

February 2, 2007

City of Decatur, Alabama
Schedule of Expenditures of Federal Awards
September 30, 2006

Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant or Pass-Through Grantor's Number	Grant Expenditures
<u>U.S. Department of Agriculture</u>			
Passed Through Alabama Department of Education			
Summer Food Service Program	10.559	AGQ-000	\$ <u>89,685</u>
<u>U.S. Department of Energy</u>			
Passed Through Alabama Department of Economic and Community Affairs, Science, Technology and Energy Division:			
Solid Waste Recycling	81.041	1EX-SEP06-06	<u>9,887</u>
<u>U.S. Department of Homeland Security</u>			
Passed Through Alabama Department of Homeland Security:			
SHSGP Equipment Grant	97.004	EDE2	<u>44,372</u>
Passed Through Emergency Preparedness and Response Directorate's Assistance:			
Firefighters Grant Program	97.044	EMW-2005-FG-07736	<u>27,575</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant	14.218	B02MC0-10011	4,074
	14.218	B03MC0-10011	39,098
	14.218	B04MC0-10011	282,192
	14.218	B05MC0-10011	132,224
EDI-SP Ingalls Harbor Park	14.246	B-06-SP-AL-0017	495,000
EDI Delano	14	B-05-SP-AL-0690	45,515
HUD EDI – Technical Center	14.246	B-03-SP-AL-0016	<u>4,788</u>
			<u>1,002,891</u>
<u>U.S. Department of the Interior</u>			
Passed Through Alabama Department of Economic and Community Affairs:			
Delano Waterplay System Grant	15.916	04-LW-845	<u>30,571</u>
Passed Through Alabama Historical Commission:			
Historic Preservation/CLG	15.904	AL-05-025	<u>6,490</u>

City of Decatur, Alabama
Schedule of Expenditures of Federal Awards
 September 30, 2006

U.S. Department of Justice

Direct Program:

Bulletproof Vest Partnership Grant Program	16.607	2005BUBX05026143	7,200
Cops in School	16.710	2002SHWX0162	95,596
COPS Law Enforcement Technology	16	2006CKWX0027	77,812
Secure Our Schools	16	2005CKWX0501	278,826
Organized Crime – OCDEF	16		15,997
Decatur/Morgan County Justice – JAG 2005	16	2005-DJ-BX-0469	19,419
Decatur/Morgan County Justice – JAG 2006	16	2006-DJ-BX-0198	20,623
			515,473

U.S. Department of Transportation

Passed Through North Alabama Highway Safety

Office:

Underage Drinking	20.605	05-AH-LO-003	1,077
Click-it-or-Ticket Program	20.605	06-DT-163-006	6,243
			7,320

Passed Through Alabama Department of Transportation:

Bike Path Grant	20	STPTE-TE01 (910)	126
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Executive Office of the President

The City of Huntsville, AL

Madison/Morgan County HIDTA	07.999	I3PGCP596	14,994
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Total Federal Awards

\$ 1,749,384

City of Decatur, Alabama
Notes to Schedule of Expenditures of Federal Awards
September 30, 2006

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Decatur, Alabama and is 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*. Therefore, amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general-purpose financial statements.

Note 2 - Entity Definition

For the purposes of this schedule, the entity is defined as the City of Decatur; therefore, this schedule does not include the grant activities of the City's component units described in the notes to the general-purpose financial statements.

City of Decatur, Alabama
Schedule of Findings and Questioned Costs
 For the year ended September 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? yes ✓ no
 Reportable condition(s) identified not
 Considered to be material weaknesses? ✓ yes none reported

Noncompliance material to financial statements
 noted? yes ✓ no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? yes ✓ no
 Reportable condition(s) identified not
 considered to be material weaknesses? yes ✓ none reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.246	Economic Development Initiative – Special Programs

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

Auditee qualified as low-risk auditee? ✓ Yes No

Section II - Financial Statement Findings

06-1 New World Financials Access Control

During the implementation of the New World financial software, IT support employees were granted unrestricted access to the financial programs. This has resulted in vulnerability for unauthorized use. We observed that the IT support personnel have access to all programs which allows for posting and other data manipulation.

Without proper access controls, data can be retrieved and used by unauthorized individuals, data can be lost or changed, and programs can be tampered with or destroyed.

We recommend that access to employees be given on an as needed basis in order to perform their job duties. A review of all New World access should be performed to ensure that segregation of duties is obtained and that access is proper based on job function.

Section III - Federal Award Findings and Questioned Costs

06-1 None noted.

Financial Statement Findings

05-1 New World Financials Access Control

During the implementation of the New World financial software, IT support employees were granted unrestricted access to the financial programs. This has resulted in vulnerability for unauthorized use. We observed that the IT support personnel have access to all programs which allows for posting and other data manipulation.

Without proper access controls, data can be retrieved and used by unauthorized individuals, data can be lost or changed, and programs can be tampered with or destroyed.

We would suggest that access to employees be given on an as needed basis in order to perform their job duties. We recommend a review of all New World access be performed to ensure that segregation of duties is obtained and that access is proper based on job function.

Management's Response: The mainframe server and the New World applications are in use by all departments of the City. The IT staff providing support for these systems is limited to the Director of IT Information and one senior staff member who are on call twenty-four hours a day, seven days a week. Management believes that the unrestricted access granted to these individuals is necessary to provide adequate support and further believe that additional staff required to provide further segregation would not be cost beneficial to the City. In the instance financial information is altered in any way, appropriate disciplinary actions will be taken.

05-2 Purchase Order Approval Process

Purchase orders are not always approved prior to purchases being made. This could result in the City being obligated for purchases which violate budget guidelines or are for personal use. Therefore, we recommend that proper monitoring of the approval process be implemented to ensure that all purchase orders are appropriately approved by the department head and purchasing department prior to any obligations being made by City employees.

Management's Response: Management has conducted city-wide meetings with directors and invoice processors to discuss and communicate the purchase order process. All purchases require an approved purchase order prior to the purchase unless it is considered an emergency purchase. In this case, a request for payment is allowed. Management has also appropriately communicated the authorized PO approvers. We believe that this comment has been appropriately addressed and the process is continuously improving.

Federal Award Findings and Questioned Costs

05-1 Reasonable Costs

U.S. Department of Housing and Urban Development:
Community Development Block Grant, CFDA # 14.218

Criteria/Specific Requirement: Reasonable Costs

Condition: There was not proper evidence of review of submitted reimbursement expenses by individual other than employee submitting the request.

Cause/Effect: All requests for reimbursement under the grant should be reviewed by someone other than the individual making the request in order to determine whether or not an expenditure is a reasonable cost under the grant program.

Recommendation: The City should ensure that each transaction is adequately reviewed by someone other than the individual from whom the request is made.

Management's Response: The City of Decatur's Community Development Director was the employee in question with the above finding. The Director is responsible for reviewing all Department expenditures which include any reimbursement expenses that she may have incurred. All reimbursement expenses incurred by the Director have been reviewed by the Mayor and/or City Chief Financial Officer prior to April 1, 2006.

Statistical Section

This part of the City of Decatur's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	B-1
Revenue Capacity These schedules contain information to help the reader assess the city's most significant local revenue source, the sales tax.	C-1
Debt Capacity These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.	D-1
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.	E-1
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the city's finance report relates to the services the city provides and the activities it performs.	F-1

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

City of Decatur
Net Assets by Component,
Last Four Fiscal Years (Unaudited)
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 21,175,447	\$ 17,000,702	\$ 22,478,756	\$ 24,602,623
Restricted	(1,549,012)	3,035,459	1,368,157	(2,385,360)
Unrestricted	18,583,958	24,372,544	23,391,527	24,343,072
Total governmental activities net assets	<u>38,210,393</u>	<u>44,408,705</u>	<u>47,238,440</u>	<u>46,560,335</u>
Business-type activities				
Invested in capital assets, net of related debt	156,968,021	158,026,539	162,954,372	163,020,598
Restricted	6,933,863	5,651,405	4,825,400	4,980,645
Unrestricted	23,821,201	26,485,303	28,132,562	33,733,133
Total business-type activities net assets	<u>187,723,085</u>	<u>190,163,247</u>	<u>195,912,334</u>	<u>201,734,376</u>
Primary government				
Invested in capital assets, net of related debt	178,143,468	175,027,241	185,433,128	187,623,221
Restricted	5,384,851	8,686,864	6,193,557	2,595,285
Unrestricted	42,405,159	50,857,847	51,524,089	58,076,205
Total primary government net assets	<u>\$ 225,933,478</u>	<u>\$ 234,571,952</u>	<u>\$ 243,150,774</u>	<u>\$ 248,294,711</u>

The City began to report accrual information when it implemented GASB 34 in fiscal year 2003.

City of Decatur
Changes in Net Assets, Last Four Fiscal Years (Unaudited)
(accrual basis of accounting)

Expenses	Fiscal Year			
	2003	2004	2005	2006
Governmental activities:				
General Government	\$ 3,757,380	\$ 4,130,141	\$ 4,106,422	\$ 9,456,769
Public safety	16,785,797	18,393,540	18,735,909	18,468,401
Public works	7,622,959	8,022,796	7,864,825	7,066,626
Public services	4,900,781	6,535,471	7,496,941	9,425,623
Intergovernmental assistance	16,172,276	17,231,600	17,335,424	18,146,194
Community service contracts	2,191,438	2,358,965	2,425,783	2,555,873
Community development	1,171,444	1,138,744	720,867	1,633,891
Personnel board	457,214	469,260	530,389	498,392
Interest on long-term debt	3,021,996	2,591,239	2,877,155	2,680,090
Unallocated depreciation	3,358,051	3,365,134	3,457,256	3,395,762
Total governmental activities expense	59,439,336	64,236,890	65,550,971	73,327,621
Business-type activities:				
Municipal Utilities Board (a)	144,486,670	116,534,857	116,460,704	134,770,313
Point Mallard	2,790,091	3,388,884	3,276,086	3,652,042
Sanitary Landfill	3,255,403	3,188,082	3,011,682	3,177,301
Total business-type activities expenses	150,532,164	123,111,823	122,748,472	141,599,656
Total primary government expenses	209,971,500	187,348,713	188,299,443	214,927,277
Program Revenues				
Governmental activities:				
Charges for services:				
General government	4,151,954	4,413,236	4,682,502	5,012,310
Public safety	2,025,104	2,467,035	2,482,336	2,247,078
Public works	1,833,725	2,143,766	1,991,888	2,248,765
Public services	588,478	594,366	570,640	569,054
Intergovernmental assistance	5,623,692	5,530,185	5,655,455	7,692,435
Operating grants and contributions	856,207	1,232,546	473,856	685,272
Capital grants and contributions	5,633,564	1,573,144	2,068,497	2,273,151
Total governmental activities program revenues	20,712,724	17,954,278	17,925,174	20,728,065
Business-type activities				
Charges for services:				
Municipal Utilities Board (a)	144,515,069	117,445,093	117,869,302	136,117,615
Point Mallard	1,695,243	2,254,948	2,615,778	2,838,530
Sanitary Landfill	3,326,670	3,657,950	3,840,554	4,166,182
Capital grants and contributions	1,573,760	1,201,659	1,674,920	1,663,669
Total business-type activities program revenues	151,110,742	124,559,650	126,000,554	144,785,996
Total primary government program revenues	171,823,466	142,513,928	143,925,728	165,514,061

City of Decatur
Changes in Net Assets, Last Four Fiscal Years (Unaudited), continued
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Net (Expense)/Revenue				
Governmental activities	(38,726,612)	(46,282,612)	(47,625,797)	(52,599,556)
Business-type activities	578,578	1,447,827	3,252,082	3,186,248
Total primary government net expense	<u>(38,148,034)</u>	<u>(44,834,785)</u>	<u>(44,373,715)</u>	<u>(49,413,308)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities				
Taxes				
Sales & use taxes	29,817,226	30,980,345	31,822,887	34,171,298
Property taxes	7,625,178	8,128,683	8,506,525	8,927,164
Alcoholic beverage taxes			1,899,066	1,959,620
Gasoline taxes			1,324,890	881,061
Automobile taxes			1,280,830	1,345,890
Lodging taxes			1,101,824	1,139,526
Rental taxes			1,101,615	1,099,616
Other taxes	8,309,236	8,940,282	2,019,036	1,554,270
Interest on investments	475,938	560,181	829,131	1,416,270
Other	1,358,172	1,587,883	1,874,267	278,875
Transfers	(2,665,404)	(571,380)	(1,304,539)	(640,061)
Total governmental activities	<u>44,920,346</u>	<u>49,625,994</u>	<u>50,455,532</u>	<u>52,133,529</u>
Business-type activities:				
Interest on investments	571,861	420,955	1,017,206	1,995,733
Transfers	2,665,404	571,380	1,304,539	640,061
Total business-type activities	<u>3,237,265</u>	<u>992,335</u>	<u>2,321,745</u>	<u>2,635,794</u>
Total primary government	<u>48,157,611</u>	<u>50,618,329</u>	<u>52,777,277</u>	<u>54,769,323</u>
Change in Net Assets				
Governmental activities	6,193,734	3,343,382	2,829,735	(466,027)
Business-type activities	3,815,843	2,440,162	5,573,827	5,822,042
Total primary government	<u>\$ 10,009,577</u>	<u>\$ 5,783,544</u>	<u>\$ 8,403,562</u>	<u>\$ 5,356,015</u>

Notes:

(a) In 2003, the Municipal Utilities Board reported on a 15-month basis due to a change in fiscal years to coincide with the remainder of the City.

**City of Decatur
Fund Balances, Governmental Funds,
Last Four Fiscal Years (Unaudited)**

	Fiscal Year			
	2003	2004	2005	2006
General Fund				
Reserved	\$ 305,034	\$ 42,261	\$ 37,677	\$ 20,298
Unreserved	20,864,514	20,935,192	19,717,342	20,873,265
Total general fund	21,169,548	20,977,453	19,755,019	20,893,563
All Other Governmental Funds				
Reserved	1,588,403	1,453,824	2,352,645	3,222,378
Unreserved, reported in:				
Special purposes		2,040,204		
Special revenue funds	218,490	1,037,247	2,439,265	1,430,568
Capital projects funds (a)	(2,381,294)	2,238,036	559,273	(3,210,457)
Total all other governmental funds	\$ (574,401)	\$ 6,769,311	\$ 5,351,183	\$ 1,442,489

Note:

(a) Funds expended in advance of November 2003 bond issue resulted in a negative fund balance in the capital projects fund.

**City of Decatur
Changes in Fund Balances, Governmental Funds,
Last Four Fiscal Years (Unaudited)**

	Fiscal Year			
	2003	2004	2005	2006
Revenues				
Sales & use taxes	\$ 29,817,226	\$ 30,980,345	\$ 31,822,887	\$ 34,171,298
Property taxes	7,625,178	8,128,683	8,506,525	8,927,164
Other taxes	7,413,359	7,815,865	7,846,184	7,979,983
Licenses & permits	4,326,519	5,104,988	5,260,874	5,506,691
Fines & forfeitures	1,038,611	1,279,018	1,353,878	1,209,951
Revenues from money & property	497,656	709,263	997,734	1,638,407
Charges for services	2,752,786	2,635,734	2,853,277	3,178,711
Intergovernmental	8,429,566	9,530,118	8,548,765	8,683,754
Gifts & donations	-	-	928,267	10,000
Other revenues	937,826	946,523	-	489,283
Total revenues	62,838,727	67,130,537	68,118,391	71,795,242
Expenditures				
General Government	3,223,379	3,417,204	3,324,352	8,400,847
Public safety	16,744,547	17,750,748	18,031,194	18,432,108
Public works	8,696,689	7,767,477	7,580,606	7,132,047
Public services	5,482,307	6,032,400	7,169,487	14,176,760
Intergovernmental assistance	16,098,611	17,102,980	17,131,023	17,857,678
Community service contracts	2,191,438	2,358,965	2,425,783	2,555,873
Community development	1,171,444	2,114,283	1,503,289	2,028,470
Personnel board	457,214	469,260	530,389	498,392
Debt Service	-	-	-	-
Principal	5,346,671	6,321,257	5,674,464	5,390,162
Interest and fiscal charges	2,664,575	2,795,990	2,839,686	2,653,381
Debt issuance costs	313,276	365,635	-	79,613
Capital projects construction and outlay	4,350,143	9,308,953	4,257,550	**
Total expenditures	66,740,294	75,805,152	70,467,823	79,205,331
Excess (deficiency) of revenues over expenditures	(3,901,567)	(8,674,615)	(2,349,432)	(7,410,089)
Other Financing Sources (Uses)				
Long-term debt issued	18,600,000	19,900,000	-	5,280,000
Premium on debt issue	-	21,888	-	-
Discount on debt issue	-	0	-	-
Capital lease proceeds	1,305,963	39,351	-	-
Payment to escrow agent	(16,304,212)	(3,600,000)	-	-
Transfers in	20,684,103	7,845,603	3,112,376	2,977,048
Transfers (out)	(21,383,775)	(8,380,610)	(3,403,506)	(3,617,109)
Total other financing sources (uses)	2,902,079	15,826,232	(291,130)	4,639,939
Net change in fund balance	\$ (999,488)	\$ 7,151,617	\$ (2,640,562)	\$ (2,770,150)
Debt service as a percentage of noncapital expenditures	16.5%	17.1%	13.9%	11.4%

** Capital outlay and construction are included in the expenditure function categories

**City of Decatur
Assessed Value and Estimated Actual Value of Taxable Property,
Last Four Fiscal Years (Unaudited)**

Fiscal Year	Residential Property	Commercial and Industrial Property	Public Utility Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Taxable Assessed Value as a Percentage of Actual Taxable Value
2003	\$ 149,888,620	\$ 382,311,100	\$ 12,879,520	\$ 1,673,087	\$ 543,406,153	18.6 Mills	\$ 3,451,700,346	15.74%
2004	157,351,760	400,216,780	13,313,320	1,790,882	569,090,978	18.6 Mills	3,617,188,351	15.73%
2005	163,761,540	418,926,480	12,852,320	1,856,982	593,683,358	18.6 Mills	3,773,231,885	15.73%
2006	174,696,180	444,945,640	11,698,340	1,937,464	629,402,696	18.6 Mills	4,008,747,002	15.70%

Source: Morgan County Revenue Commissioner

Total Direct Tax Rate is \$.0186 per \$1,000 of taxable assessed value.

The county assesses public utility property at 30% of appraised value, commercial and industrial property at 20% and residential and historical property at 10%.

Property in Morgan County is assessed annually.

City of Decatur
Direct and Overlapping Property Tax Rates,
Last Four Fiscal Years (Unaudited)
(rate per \$1,000 of assess value)

Fiscal Year	City Direct Rates			Overlapping Rates			
	Basic Rate	General Obligation Debt Service	Total Direct Rate	City Schools	County Schools	Morgan County	State of Alabama
2003	6.0 Mills	12.6 Mills	18.6 Mills	3.6 Mills	5.8 Mills	10.8 Mills	6.5 Mills
2004	6.0 Mills	12.6 Mills	18.6 Mills	3.6 Mills	5.8 Mills	10.8 Mills	6.5 Mills
2005	6.0 Mills	12.6 Mills	18.6 Mills	3.6 Mills	5.8 Mills	10.8 Mills	6.5 Mills
2006	6.0 Mills	12.6 Mills	18.6 Mills	3.6 Mills	5.8 Mills	10.8 Mills	6.5 Mills

Source: Morgan County Revenue Commissioner

Notes: Overlapping rates are those of local and county governments that apply to property owners within the City of Decatur.

City of Decatur
Principal Property Taxpayers,
Last Four Fiscal Years (Unaudited)

Taxpayer	2003			2004			2005			2006		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Nucor Steel	\$ 30,079,240	1	5.52%	\$ 41,185,540	1	7.22%	\$ 67,380,360	1	11.30%	\$ 76,363,820	1	12.09%
Worthington	24,274,260	2	4.46	23,074,080	2	4.04	10,699,380	2	1.8	10,525,220	2	1.67
Bunge Corporation	11,502,820	3	2.11	11,072,020	3	1.94	8,883,200	4	1.49	8,633,700	4	1.37
BellSouth	9,056,200	4	1.66	9,258,400	4	1.62	4,348,720	8	0.73	4,632,580	8	0.73
Goodyear Tire & Rubber Co.	6,228,220	5	1.14	5,945,900	6	1.04	4,483,180	7	0.75	4,864,360	7	0.77
General Electric Appliance	5,509,140	6	1.01	5,081,660	8	0.89	5,182,780	5	0.87	6,282,120	5	1.00
O.C.I. Chemical Corp.	5,357,300	7	0.98	5,319,340	9	0.93	9,214,840	3	1.55	9,300,160	3	1.47
Meow Mix	5,081,980	8	0.93	7,731,400	5	1.35	3,794,280	9	0.64	4,350,360	9	0.69
Hexel Corporation	3,981,440	9	0.73	*	*	*	5,014,740	6	0.84	5,281,800	6	0.84
Falcon Communications	3,907,080	10	0.72	5,114,540	7	0.9	3,090,380	10	0.52	*	*	*
Colonial Realty Limited	*	*	*	3,472,920	10	0.61	*	*	*	*	*	*
Charter Communications	*	*	*	*	*	*	*	*	*	*	*	*
Total	\$ 104,987,680		19.26%	\$ 117,255,800		20.54%	\$ 122,091,860		20.49%	\$ 134,133,620		21.25%

Source: Revenue Commissioner of Morgan County

* Denotes company was not a principal taxpayer for year reported.

**City of Decatur
Property Tax Levies and Collections,
Last Three Fiscal Years (Unaudited)**

Fiscal Year Ended September 30,	Taxes Levied for the Fiscal Year		Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
	Fiscal Year	Interest	Amount	Percentage of Levy		Amount	Percentage of Levy
2004	\$ 13,824,909	\$ 13,542	\$ 13,618,262	98.41%	\$ 6,011	\$ 13,624,273	98.45%
2005	14,304,430	11,531	14,315,961	99.09%			
2006	15,040,466						

Source: Morgan County Revenue Commissioner

** FY 06 revenue collected amounts will not be available until mid-July 2007.

Notes: Property class I, II, and III are levied and collected one year in arrears. Due October 1 and delinquent after December 31.

Collected includes remittance with interest, assessment commissions, collection commissions, and expenses. Expenses include reappraisal, supernumerary, and salary.

Collections in subsequent years include insolvents, bankruptcy, and escapes. Interest is computed on amounts collected beginning January 1 of each year.

At this time, collected amounts were not available prior to 2004. Remitted amounts would not have provided comparative data.

City of Decatur
Taxable Sales by Category,
Current Year and Prior Calendar Year (Unaudited)
(In thousands)

<u>Category Description</u>	<u>Calendar Year</u>	
	<u>2006</u>	<u>2005</u>
Apparel	\$ 60,049	\$ 59,159
Multi-Line Retail	140,837	136,207
Restaurants	86,759	77,867
Grocery Stores	56,265	52,101
Building Maerials	79,993	73,812
Automobile Dealers	227,712	214,032
Household Furnishings	16,706	15,979
All other outlets	319,057	297,844
Total	<u>\$ 987,378</u>	<u>\$ 927,001</u>

Source: City Revenue Department

Notes: City direct sales tax rate is 4%

Information prior to the current year and prior calendar year was not available.

**City of Decatur
 Direct and Overlapping Sales Tax Rate,
 Last Ten Fiscal Years (Unaudited)**

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Morgan County</u>	<u>State of Alabama</u>
1997	3.00%	1.00%	4.00%
1998	3.00%	1.00%	4.00%
1999	3.00%	1.00%	4.00%
2000	3.00%	1.00%	4.00%
2001	3.00%	1.00%	4.00%
2002*	4.00%	1.00%	4.00%
2003	4.00%	1.00%	4.00%
2004	4.00%	1.00%	4.00%
2005	4.00%	1.00%	4.00%
2006	4.00%	1.00%	4.00%

Source: City revenue department

Note: *Sales tax increase became effective 01/01/2002

Note: Tax rates indicated are the general rate.

City of Decatur
Principal Sales Tax Remitters,
Current Year and Prior Year (Unaudited)

Tax Remitter Description	Fiscal Year 2006			Fiscal Year 2005		
	Tax Liability	Rank	Percentage of Total	Tax Liability	Rank	Percentage of Total
Multi-line retailer	\$ 3,467,513	1	10.20%	\$ 3,538,724	1	11.09%
Manufacturer	2,410,858	2	7.09%	2,122,806	2	6.65%
Building materials /hard line	1,085,172	3	3.19%	994,399	3	3.12%
Grocery store	719,608	4	2.12%	497,428	7	1.56%
Building materials /hard line	684,218	5	2.01%	713,414	4	2.24%
Manufacturer	609,641	6	1.79%	*		
Automobile dealer	570,183	7	1.68%	586,306	5	1.84%
Grocery store	510,791	8	1.50%	459,897	9	1.44%
Apparel store	456,211	9	1.34%	471,869	8	1.48%
Apparel store	433,099	10	1.27%	509,379	6	1.60%
Grocery store	*			407,787	10	1.28%
Total	\$ 10,947,294		32.19%	\$ 10,302,009		32.27%

Source: City Revenue Department

Notes: Confidentiality requirements prohibit disclosure of tax remitter business names. Information based on collections.

* Denotes company was not a principal sales tax remitter for year reported.

City of Decatur
 Ratio of Outstanding Debt by Type,
 Last Four Fiscal Years (Unaudited)
 (Thousands of dollars)

Fiscal Year	Governmental Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Warrants	Notes Payable	Capital Leases	Water Revenue Warrants	Wastewater Revenue Warrants	Capital Leases			
2003	\$ 50,615	\$ 2,330	\$ 1,575	\$ 24,285	\$ 28,525	\$ 77	\$ 107,407	0.99%	\$ 1,925
2004	63,005	680	854	23,240	26,590	29	114,398	0	2,038
2005	57,935	630	299	22,140	22,680	45	103,729	0	1,824
2006	57,970	630	154	20,995	21,030	-	100,779	0	1,668

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

Sources: 2000 Census information.
 2006 estimate from the Morgan County Economic Development Association

See Schedule 19 (E-1) for personal income and per capita data

**City of Decatur
Ratio of General Bonded Outstanding,
Last Four Fiscal Years (Unaudited)**

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2003	\$ 52,945,000	1.53%	\$ 982
2004	63,685,000	1.76%	1,181
2005	58,565,000	1.55%	1,086
2006	58,600,000	1.46%	970

Notes: FY 2003 through FY 2005 are based on 2000 U.S. census population information

Sources: Morgan County Economic Development Association for 2006 population estimate

City of Decatur
 Direct and Overlapping Governmental Activities Debt,
 As of September 30, 2006 (Unaudited)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Percent Applicable to City</u>	<u>City's Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes			
City of Decatur general obligation bonds & warrants	\$ 585,600,000	100.00%	\$ 58,600,000
* City of Decatur Board of Education	26,000,000	100.00%	26,000,000
Morgan County	26,810,519	45.55%	12,212,191
Morgan County Board of Education	24,955,000	45.55%	11,367,003

Total direct and overlapping debt

The percentage of overlapping debt applicable to the City is calculated on the basis of the ratio of the estimated 2006 assessed valuation of all taxable property in the City (\$631,340,160) - exclusive of taxable property outside the boundaries of Morgan County - to that of all taxable property in Morgan County (\$1,386,162,760).

*Decatur Board of Education Capital Outlay Warrants funded by property tax.

Sources: Morgan County Revenue Commissioner
 Debt outstanding provided by each governmental unit.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Decatur. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident - and therefore responsible for repaying the debt - of each overlapping government.

City of Decatur
 Legal Debt Margin Information,
 Last Ten Fiscal Years (Unaudited)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 82,816,324	\$ 96,838,868	\$ 103,543,881	\$ 105,103,908	\$ 114,421,896	\$ 100,740,384	\$ 109,015,848	\$ 114,176,372	\$ 119,108,068	\$ 126,268,032
Total net debt applicable to limit	29,345,000	29,130,000	26,815,000	40,305,000	38,220,000	35,420,000	35,465,000	48,370,000	45,485,000	47,845,000
Legal debt margin	53,471,324	67,708,868	76,728,881	64,798,908	76,201,896	65,320,384	73,550,848	65,806,372	73,623,068	78,423,032
Total net debt applicable to the limit as a percentage of debt limit	35.43%	30.08%	25.90%	38.35%	33.40%	35.16%	32.53%	42.36%	38.19%	37.89%
Legal Debt Margin Calculation for Fiscal Year 2006										
Assessed value	\$ 631,340,160									
Debt limit (20% of assessed value)	126,268,032									
Debt applicable to limit:										
General obligation bonds	126,625,000									
Less: School	(10,755,000)									
School capital outlay warrants	(26,000,000)									
Municipal Utilities	(42,025,000)									
Total net debt applicable to limit	47,845,000									
Legal debt margin	\$ 78,423,032									

City of Decatur
Pledged-Revenue Coverage,
Last Four Fiscal Years (Unaudited)

Fiscal Year	Gross Revenues	Less: Operating Expenses	Net Revenue Available for Debt Service	Debt Service	Coverage
2003	\$ 144,971,255	\$ 132,736,841	\$ 12,234,414	\$ 5,789,000	2.11%
2004	117,727,587	107,176,453	10,551,134	5,788,552	1.82%
2005	118,591,409	107,151,729	11,439,680	5,159,606	2.22%
2006	137,591,436	125,146,933	12,444,503	4,774,913	2.61%

City of Decatur
 Demographic and Economic Statistics,
 Last Ten Fiscal Years (Unaudited)

Calendar Year	Population	Personal Income <i>Thousands of dollars</i>	Per Capita Personal Income	Median Age	Graduated	School Enrollment	Unemployment Rate
1997	54,815			35.8	449	8,699	4.8
1998	55,087			36.4	454	8,764	3.7
1999	56,138			37.0	437	8,799	4.0
2000*	53,929	\$ 1,066,284	\$ 19,772	37.0	418	8,947	3.8
2001	54,723			37.0	425	8,841	5.2
2002	54,723			36.3	406	8,839	6.4
2003	55,809			36.3	451	8,840	6.0
2004	56,136			37.5	449	8,806	6.1
2005	56,866			38.1	442	8,815	3.9
2006	60,429	1,351,132	22,359	38.3	483	8,831	3.1

Sources: Morgan County Economic Development Association for 2006 population and personal income, and for all median age and unemployment rate.
 City Planning department for population estimate prior to 2006
 *2000 is Federal Census information
 Decatur City Schools for graduated and school enrollment
 Decatur Morgan County Chamber of Commerce for per capita personal income

Notes: Comparative per capita personal income estimates have not been retained in years prior to 2006.

**City of Decatur
Principal Employers,
Current year (Unaudited)**

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
General Electric	1,390	1	3.68%
Decatur City Schools	1,205	2	3.19%
Decatur General Hospital	1,200	3	3.18%
3M Company	828	4	2.19%
Wayne Farms	813	5	2.15%
City of Decatur	681	7	1.80%
United Launch Alliance	650	6	1.72%
Nucor Steel	630	8	1.67%
Wolverine Tube	525	9	1.39%
Goodyear Tire & Rubber	408	10	1.08%
Total	<u>8,330</u>		<u>22.05%</u>

Source: Morgan County Economic Development Association

City of Decatur
 Full-Time-Equivalent City Government Employees by Function,
 Last Four Fiscal Years (Unaudited)

Function/Program	Full-Time-Equivalent Employees as of September 30			
	2006	2005	2004	2003
General government	43	44	43	42
Public safety	283	266	275	268
Public works	77	74	*	94
Public services	73	73	*	59
Intergovernmental assistance	20	23	23	22
Municipal Utilities Board	160	170	178	177
Point Mallard	12	25	25	23
Sanitary Landfill	13	13	12	12
Total	681	688	709	695

Source: City of Decatur Personnel Board
 Decatur Utilities Personnel Department

* Right of way mowing crew was moved from Street Department to Beautification Department

City of Decatur
 Operating Indicators by Function/Program,
 Last Seven Fiscal Years (Unaudited)

Function/Program	2006	2005	2004	2003	2002	2001	2000
General government							
Building permits issued	5,449	3,969	3,999	4,004	2,815	2,396	3,005
Building inspections conducted	8,365	9,155	7,327	**	**	**	**
Police							
Adult arrests	10,808	11,386	10,431	9,574	9,937	9,732	**
Traffic citations	12,154	12,662	15,963	10,919	13,891	15,386	17,678
Fire							
Inspections	52	37	31	130	112	138	**
Emergency medical responses	3059	3461	3556	3484	3580	3240	**
Fire and/or Hazmat responses	906	889	1014	1094	921	1221	**
Refuse collections							
Recyclables collected in tons	1,509	1,447	1,369	1,408	1,509	1,566	1,569
Garbage and trash collected	43,252	41,990	41,659	49,552 *	**	**	**
Municipal Utilities Board							
Electrical connections	26,105	26,348	26,316	26,034	26,036	26,118	25,899
Water connections	24,532	24,495	24,268	23,820	23,660	23,287	22,998
Wastewater connections	19,895	19,900	19,694	19,372	19,317	19,121	19,001
Gas connections	13,826	13,925	14,578	14,267	13,965	13,267	13,422
Source:	Various city departments						

Notes: ** Indicates information not available.

*Refuse collections in 2003 was largely due to the demolition of a housing project.

City of Decatur
 Capital Asset Statistics by Function/Program,
 Last Seven Fiscal Years (Unaudited)

Function/Program	2006	2005	2004	2003	2002	2001	2000
Police							
Stations	4	3	3	4	6	3	3
Patrol units	122	102	102	82	74	79	82
Fire							
Stations	8	8	8	8	8	8	8
Fire trucks	12	11	11	10	10	10	9
Sanitation							
Garbage collection trucks	19	19	21	22	16	17	16
Other public works							
Paved streets (miles)	333	333	331	329	329	329	326
Unpaved streets (miles)	7	7	7	7	7	7	7
Paved invert drainage channels (miles)	48	48	48	48	48	48	46
Storm drainage conduits (miles)	143	143	142	141	141	141	138
Parks and Recreation							
Number of parks*	26	24	24	32	32	32	31
Acres of Parks	1,278	1,263	1,263	1,263	1,263	1,263	1,186
Golf courses (public & private)	4	4	4	4	4	4	3
Tennis courts	46	34	34	34	34	34	34
Recreations centers	4	4	4	4	4	4	4
Senior citizen centers	2	2	1	1	1	1	1
Ball fields in use	34	32	32	32	32	32	32
Enclosed swimming pool	1	1	1	1	1	1	1
Open air swimming pools	2	3	3	3	3	3	3
Soccer facilities (acres)	62	62	62	35	35	35	35
Ice rinks	1	1	1	1	1	1	-
Campgrounds	1	1	1	1	1	1	1
Municipal Utilities Board							
Water mains (miles)	474	472	405	464	461	451	445
Gas mains (miles)	409	407	405	401	400	394	391
Electric lines (miles)	586	585	581	577	577	575	567
Sanitary sewers (miles)	334	331	327	325	320	312	306
Fire hydrants in service	1,958	1,939	1,901	1,883	1,871	1,840	1,790

Sources: Various city departments and capital assets records

Notes: *City parks were listed with duplicate names. The list was purged in FY 2004.