







THE CITY OF
FLORENCE
ALABAMA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2008

Our Mission

The mission of the city government of the City of Florence, Alabama, is to enhance the quality of life of the citizens of the city by:

-  continuing to improve the governmental services presently provided to the citizens,**
-  anticipating the requirements of the citizens in the area of municipal government,**
-  meeting those requirements in a timely manner and at the lowest possible cost commensurate with the appropriate quality,**
-  making Florence, in every way, as attractive as possible to present and to future citizens.**

CITY OF FLORENCE, ALABAMA

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INTRODUCTORY SECTION

CITY OF FLORENCE, ALABAMA

CITY OFFICIALS

As of September 30, 2008

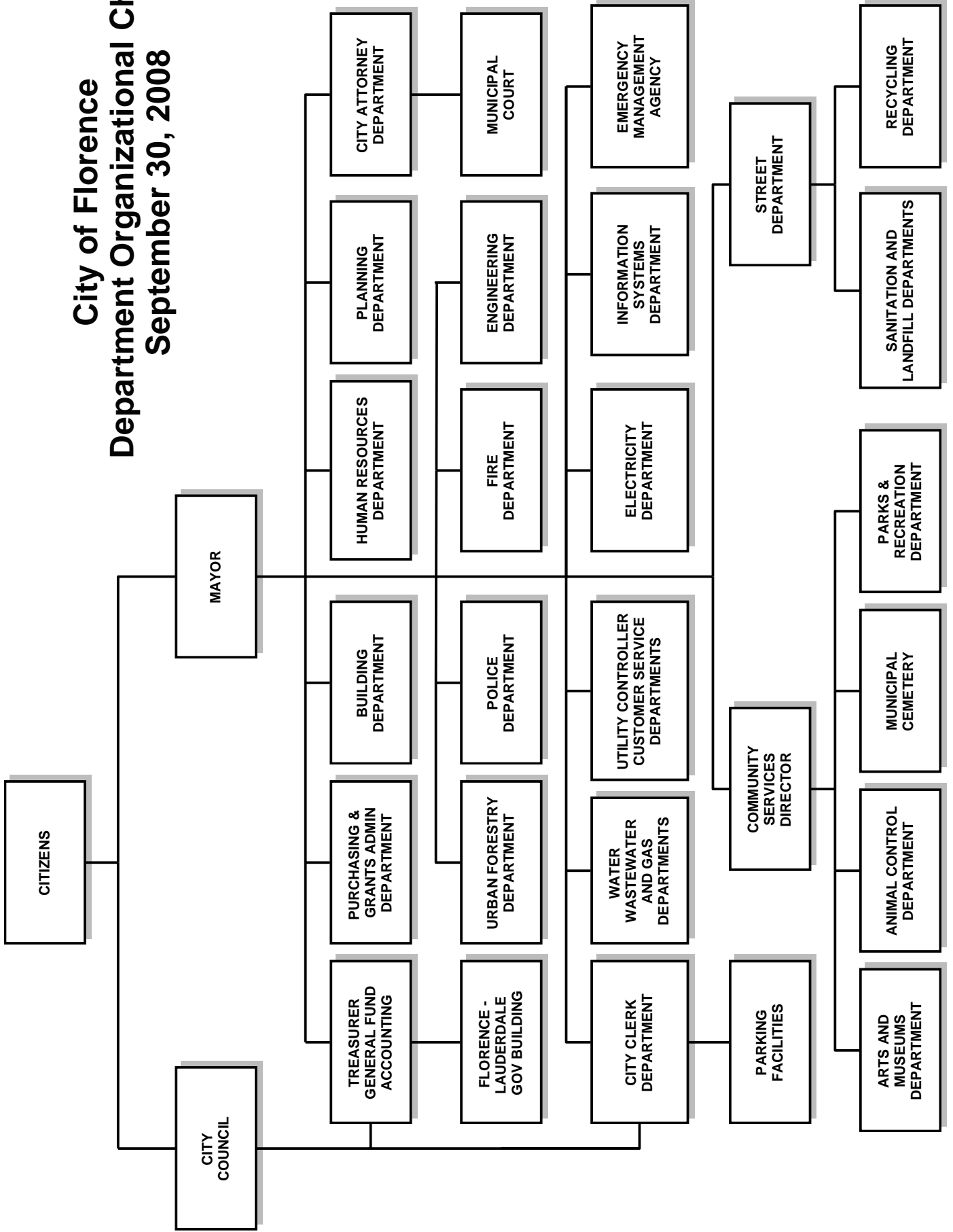
Elected Officials

Mayor	Bobby E. Irons
Council Member—District 1	Sam Pendleton, Jr.
Council Member—District 2	Scott E. Carrier
Council Member—District 3	Hermon T. Graham
Council Member—District 4	Leland P. Howard, Jr., President
Council Member—District 5	James H. Barnhart
Council Member—District 6	Angie Pickens

Department Heads

Treasurer/Chief Accountant	Dan D. Barger
City Clerk	Robert M. Leyde
Attorney	William T. Musgrove, III
Arts and Museums	Barbara Broach
Building	Gary W. Williamson
Community Services	Michael T. Nix
Engineering	William B. Batson, III
Fire	Charles Cochran
Information Systems	Steve Price
Parks and Recreation	Tina Kitchens
Personnel	Sandra M. Sockwell
Planning	Melissa Bailey
Police	Rick Singleton
Purchasing/Grants Administration	Phillip L. Stevenson
Street, Solid Waste, and Recycling	David Koonce
Urban Forestry	Paul Graham
Controller of Utilities	Vance Young
Electricity	Richard Morrissey
Gas and Water/Wastewater	Michael G. Doyle

City of Florence Department Organizational Chart September 30, 2008



FINANCIAL SECTION



Charles L. Watkins, CPA
M. Buddy Johnsey, III, CPA

Member of
American Institute of CPA's
AICPA Private Companies
Practice Section
Alabama Society of CPA's

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Florence, 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 Florence, Alabama as of and for the year ended September 30, 2008, 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 Florence, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Florence, Alabama Electricity, Gas, and Solid Waste Departments, the Florence-Lauderdale Public Library, and the Florence Library Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Florence, Alabama as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 14 and 15, the City of Florence, Alabama adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures*, as of October 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2009, on our consideration of City of Florence, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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The management's discussion and analysis, budgetary comparison information, and other required supplementary information on pages 3 through 27 and 74 through 80, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Florence, Alabama's basic financial statements. The introductory section, combining nonmajor fund financial statements, and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Florence, Alabama. The combining nonmajor fund financial statements, other supplementary information, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "The Watkins Johnsey Professional Group, P.C." in a cursive script.

The Watkins Johnsey Professional Group, P.C.
March 18, 2009

City of Florence, Alabama Management's Discussion and Analysis September 30, 2008

As management of the City of Florence, Alabama ("City"), we offer readers of the City of Florence, Alabama's financial statements this narrative overview and analysis of the financial activities of the City of Florence, Alabama, for the fiscal year ended September 30, 2008. This management discussion and analysis ("MD&A") is designed to provide an objective and easy to read analysis of the City's financial activities based on currently known facts, decisions, or conditions. It is intended to provide readers with a broad overview of City finances. It is also intended to provide readers with an analysis of the short-term and long-term activities of the City based on information presented in the financial report and fiscal policies that have been adopted by the City. Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget), and identify individual fund issues or concerns.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and the other Required Supplementary Information ("RSI") that is provided in addition to this MD&A.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements consist of the following components:

1. Government-wide financial statements,
2. Fund financial statements,
3. Notes to the financial statements, and
4. Other supplementary information, which is in addition to the basic financial statements themselves.

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers a concise "entity-wide" Statement of Net Assets and Statement of Activities, seeking to give the user of the financial statements a broad overview of the City's financial position and results of operations in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The difference between the assets and liabilities is 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 weakening.

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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

The government-wide financial statements further assist the reader in their evaluation by distinguishing functions of the City into:

Governmental Activities that are principally supported by taxes and intergovernmental revenues, and *Business-Type Activities* that are intended to recover all or a significant portion of their costs through user fees and charges.

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 three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Governmental funds are used to account for most of the City's basic services as reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides.

September 30, 2008 information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. 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 September 30, 2008 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. These reconciliations are located on pages 31 and 33.

Data from the other governmental funds are combined into a single, aggregated presentation. The governmental fund financial statements can be found on pages 30 and 32 of this report. Individual fund data for each of the non-major funds is provided in the form of combining statements in the Supplementary Information portion of this report, beginning on page 81.

Proprietary funds - Proprietary funds are used to report the business-type activities in the government-wide financial statements. The City uses Proprietary funds to account for its Electricity, Gas, Water and Wastewater, and Solid Waste departments. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 34-36 of this report.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The basis of accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary fund financial statements can be found on pages 37-38 of this report.

Internal Service funds - Internal Service funds are used by the City for the administration of its self-insured Employee Group Health Insurance, General Liability Insurance, and Workers' Compensation Insurance. The internal service fund financial statements can be found on pages 83-85 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for 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 41-73 of this report.

Supplementary Information

Combining statements of the Non-major Governmental Funds and Internal Service Funds have been provided on pages 81-85. Required supplementary information can be found on pages 74-80 of this report. Other Supplementary Schedules follow, starting on page 81.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded its liabilities at the close of the most recent fiscal year by \$264,556,019 (net assets). Of this amount, \$43,622,185 is unrestricted net assets. The City's net assets include \$98,960,282 from Governmental Activities and \$165,595,737 from Business-Type Activities. This is shown on page 28.

By far the largest portion of the City's net assets (80.9%) reflect its investment in capital assets (e. g. land, buildings, machinery and equipment, vehicles, City infrastructure, etc.), net of any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (2.59%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$43,622,185) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental Activities

The Governmental Activities of the City include General Government, Public Safety, Public Works, and Culture and Recreation. Sales taxes, property taxes and franchise taxes, as well as business licenses and Municipal Court fines, fund most of these governmental activities.

Governmental revenues are those available for the City to use to pay for the governmental activities. The following table shows the City's governmental revenues, at the fund financial statement level:

	<u>Revenues – Governmental Funds</u>				Percent Change
	Fiscal Year 2008		Fiscal Year 2007		
Taxes					
Sales, Use, and Lodging Taxes	\$ 27,407,712	53.91%	\$ 27,036,220	53.09%	1.37%
Property Taxes and Equivalent	10,601,421	20.85%	10,072,733	19.78%	5.25%
Motor Fuel	1,083,828	2.13%	1,057,608	2.08%	2.48%
Alcoholic Beverages	1,016,719	2.00%	952,087	1.87%	6.79%
Other	302,962	0.60%	449,275	0.88%	-32.57%
Licenses and Permits	2,884,578	5.67%	2,890,631	5.68%	-0.21%
Court Fines and Forfeitures	1,475,204	2.90%	1,368,390	2.69%	7.81%
Charges for Services	1,602,897	3.15%	1,465,815	2.88%	9.35%
Intergovernmental	3,254,188	6.40%	3,170,097	6.23%	2.65%
Interest Revenues	764,090	1.50%	1,529,901	3.00%	-50.06%
Other	444,999	0.88%	930,677	1.83%	-52.19%
Total	<u>\$ 50,838,598</u>	<u>100.00%</u>	<u>\$ 50,923,434</u>	<u>100.00%</u>	<u>-0.17%</u>

Sales and Use taxes are the largest revenue source for the City comprising 53.91% of total governmental revenues. Sales and Use Tax revenues increased from fiscal year September 30, 2007 to September 30, 2008 by \$371,492 or 1.37%. Property taxes are the second largest revenue source for the City comprising 20.85% of governmental revenues. For the year ended September 30, 2008, taxes of real property inside the City limits produced revenues of \$3,902,961 while personal property taxes for the period were \$592,620. Payment in lieu of property taxes paid by Florence Utilities, Florence Housing Authority, and the Tennessee Valley Authority produced \$6,105,840.

The following shows the City's expenditures, at the fund financial statement level, related to those functions typically associated with governments. In the following table, General Government includes the following departments: City Council, Mayor, Urban Forestry, Purchasing, Legal, Planning, Building, Engineering, and other General Administration departments. Public Safety encompasses the Police, Fire, Municipal Court, Jail, and Animal Control departments. Public Works is made up of the Street and Cemetery departments, Municipal Lighting, and the City's parking deck facility. Culture and Recreation contains the City's parks, community recreation centers, and museums.

Expenditures – Governmental Funds

	<u>Fiscal Year 2008</u>		<u>Fiscal Year 2007</u>		Percent Change
Current Operating					
General Administration	\$ 5,407,446	8.61%	\$ 5,042,140	8.01%	7.25%
Public Safety	15,730,921	25.06%	15,230,233	24.20%	3.29%
Public Works	4,683,527	7.46%	4,648,864	7.39%	0.75%
Culture and Recreation	5,340,832	8.51%	4,720,895	7.50%	13.13%
Other	1,553,287	2.47%	1,417,755	2.25%	9.56%
Education	8,130,781	12.95%	7,764,769	12.34%	4.71%
Capital Outlay and Improvements	15,857,432	25.26%	18,806,139	29.89%	-15.68%
Debt Service					
Principal Payments	3,895,000	6.20%	3,240,000	5.15%	20.22%
Interest and Fiscal Charges	2,181,138	3.47%	2,051,114	3.26%	6.34%
Total	<u>\$ 62,780,364</u>	<u>100.00%</u>	<u>\$ 62,921,909</u>	<u>100.00%</u>	<u>-0.22%</u>

Analysis of the Governmental Funds

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$13,785,856. In the General Fund, the fund balance is \$11,630,661.

The General Fund's fund balance is approximately 24.69% of the fiscal year's final operating budgeted expenditures. This balance is set aside for unforeseen future emergencies such as natural disasters, decrease in economic conditions, emergency capital outlay requirements and other similar conditions. During fiscal year 2004, the City Council adopted legislation establishing a minimum fund balance for the General Fund at 15% of the total operating budget. The current fund balance exceeds the required minimum by \$4,586,282 or 65.11%.

Changes in Fund Balance – Governmental Funds

Governmental Funds

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balance-Beginning	\$ 11,355,957	\$ 14,371,665	\$ 25,727,622
Fund Balance-Ending	11,630,661	2,155,195	13,785,856
Net Change in Fund Balances	<u>\$ 274,704</u>	<u>\$ (12,216,470)</u>	<u>\$ (11,941,766)</u>

Net Assets – Governmental Activities

Governmental Activities

Net Assets

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Variance</u>	
			<u>Dollars</u>	<u>Percent</u>
Current Assets	\$ 30,946,473	\$ 45,517,759	\$ (14,571,286)	-32.01%
Restricted Assets	277,654	100,000	177,654	177.65%
Other Assets	513,514	581,057	(67,543)	-11.62%
Capital Assets, Net	127,842,974	118,419,508	9,423,466	7.96%
Total Assets	<u>\$ 159,580,615</u>	<u>\$ 164,618,324</u>	<u>\$ (5,037,709)</u>	<u>-3.06%</u>
Current Liabilities	\$ 6,012,078	\$ 8,212,589	\$ (2,200,511)	-26.79%
Long-term Liabilities	54,608,255	58,042,282	(3,434,027)	-5.92%
Total Liabilities	<u>\$ 60,620,333</u>	<u>\$ 66,254,871</u>	<u>\$ (5,634,538)</u>	<u>-8.50%</u>
Invested in Capital Assets, Net of Related Debt	\$ 78,772,644	\$ 73,456,917	\$ 5,315,727	7.24%
Restricted	515,888	397,951	117,937	29.64%
Unrestricted	19,671,750	24,508,585	(4,836,835)	-19.74%
Total Net Assets	<u>\$ 98,960,282</u>	<u>\$ 98,363,453</u>	<u>\$ 596,829</u>	<u>0.61%</u>

Changes in Net Assets – Governmental Activities

Governmental Activities Changes in Net Assets

	FY 2008	FY 2007	Variance	
			Dollars	Percent
General Revenues				
Taxes				
Sales, Use, and Lodging	\$ 27,407,712	\$ 27,036,220	\$ 371,492	1.37%
Property	10,601,421	10,072,733	528,688	5.25%
Motor Fuel	1,083,828	1,057,608	26,220	2.48%
Other	302,962	449,275	(146,313)	-32.57%
Alcoholic Beverages	1,016,719	952,086	64,633	6.79%
Interest Revenues	1,055,420	2,124,987	(1,069,567)	-50.33%
Gain (Loss) on Disposal of Assets	11,629	(16,829)	28,458	-169.10%
Total General Revenues	<u>\$ 41,479,691</u>	<u>\$ 41,676,080</u>	<u>\$ (196,389)</u>	<u>-0.47%</u>
Program Revenues				
Charges for Services	\$ 7,233,758	\$ 6,914,621	\$ 319,137	4.62%
Operating Grants and Contributions	1,454,548	1,061,548	393,000	37.02%
Capital Grants and Contributions	934,806	1,678,144	(743,338)	-44.30%
Total Program Revenues	<u>\$ 9,623,112</u>	<u>\$ 9,654,313</u>	<u>\$ (31,201)</u>	<u>-0.32%</u>
Total Revenues	<u>\$ 51,102,803</u>	<u>\$ 51,330,393</u>	<u>\$ (227,590)</u>	<u>-0.44%</u>
Governmental Expenses				
General Administration	\$ 5,873,337	\$ 5,113,319	\$ 760,018	14.86%
Public Safety	17,227,089	16,234,646	992,443	6.11%
Public Works	5,022,016	4,778,708	243,308	5.09%
Public Ways and Facilities	3,759,643	3,611,065	148,578	4.11%
Culture and Recreation	6,693,078	5,662,081	1,030,997	18.21%
Other	1,553,287	1,417,755	135,532	9.56%
Education—Funding for School District	8,130,781	7,764,769	366,012	4.71%
Interest and Fiscal Charges	2,246,743	2,108,532	138,211	6.55%
Total Expenses	<u>\$ 50,505,974</u>	<u>\$ 46,690,875</u>	<u>\$ 3,815,099</u>	<u>8.17%</u>
Change in Net Assets	\$ 596,829	\$ 4,639,518	\$ (4,042,689)	-87.14%
Total Net Assets - Beginning	<u>98,363,453</u>	<u>93,723,935</u>	<u>4,639,518</u>	<u>4.95%</u>
Total Net Assets - Ending	<u>\$ 98,960,282</u>	<u>\$ 98,363,453</u>	<u>\$ 596,829</u>	<u>0.61%</u>

Business-Type Activities

The Business-Type Activities of the City are those that the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's Electricity, Gas, Water and Wastewater, and Solid Waste departments are reported here.

Financial Highlights – Electricity, Gas, and Water Departments (Florence Utilities)

- The individual enterprise funds experienced the following changes in net assets: Electricity increased \$.9 million or 1%; Gas increased \$.4 million or 1%; Water and Wastewater increased \$3.9 million or 7%.
- The individual enterprise funds experienced the following changes in net utility plant: Electricity increased \$2.4 million or 3.6%; Gas decreased \$.6 million or 2%; Water and Wastewater increased \$1.3 million or 1%.
- The individual enterprise funds experienced the following changes in operating revenues: Electricity increased \$6.0 million or 6%; Gas decreased \$2.0 million or 7%; Water and Wastewater increased \$.9 million or 6%.
- The individual enterprise funds experienced the following changes in operating expenses: Electricity increased \$6.6 million or 7%; Gas decreased \$.3 million or 1%; Water and Wastewater decreased \$.4 million or 3%.
- The individual enterprise funds experienced the following changes in nonoperating revenues: Electricity decreased about \$265,100 or 40%; Gas increased about \$58,200 or 33%; Water and Wastewater decreased about \$.1 million or 18%.
- The individual enterprise funds experienced the following changes in nonoperating expenses: Electricity decreased \$23,000 or 5%; Gas increased about \$100 or .05%; Water and Wastewater decreased \$39,000 or 2%.

Electricity Department

The Electricity Department's net assets increased from last year by \$932,076 or about 1%. The summaries below focus on the Electricity Department's net assets and changes in net assets during the years presented.

Electricity Department Net Assets

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Current Assets	\$ 22,840,747	\$ 23,918,806	\$ (1,078,059)	-4.51%
Capital Assets, Net	68,509,408	66,114,645	2,394,763	3.62%
Other Noncurrent Assets	5,930,820	5,748,859	181,961	3.17%
Total Assets	<u>\$ 97,280,975</u>	<u>\$ 95,782,310</u>	<u>\$ 1,498,665</u>	<u>1.56%</u>
Current Liabilities	\$ 20,632,561	\$ 19,821,456	\$ 811,105	4.09%
Noncurrent Liabilities	12,121,736	12,366,252	(244,516)	-1.98%
Total Liabilities	<u>\$ 32,754,297</u>	<u>\$ 32,187,708</u>	<u>\$ 566,589</u>	<u>1.76%</u>
Invested in Capital Assets, Net of Related Debt	\$ 61,024,408	\$ 58,129,645	\$ 2,894,763	4.98%
Restricted	1,065,391	1,049,442	15,949	1.52%
Unrestricted	2,436,879	4,415,515	(1,978,636)	-44.81%
Total Net Assets	<u>\$ 64,526,678</u>	<u>\$ 63,594,602</u>	<u>\$ 932,076</u>	<u>1.47%</u>

Changes in the Electricity Department's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets for the years presented.

As the following table indicates, operating revenues increased approximately \$6.0 million or about 6% from FY 2007. During FY 2008, TVA had four rate increases to its distributors under its fuel cost adjustment provisions – one effective July 2007, one effective October 2007, one effective January 2008, and the last effective April 2008. Florence Utilities passed these rate increases along to our customers. Our corresponding rate increases were revenue neutral for us. In FY 2008, we experienced approximately a 2% increase in kWh sold over that for FY 2007. The Electricity Department experienced a decrease in nonoperating revenues of \$265,101 or about 40% primarily due to decreased interest revenues caused by decreasing interest rates and decreasing cash balances. The Electricity Department experienced a decrease in nonoperating expenses by \$22,862 or about 5%, primarily interest expense.

Electricity Department
Statements of Revenues, Expenses, and Changes in Fund Net Assets

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Operating Revenues	<u>\$ 102,385,890</u>	<u>\$ 96,379,642</u>	<u>\$ 6,006,248</u>	<u>6.23%</u>
Operating Expenses				
Cost of Sales	\$ 81,854,275	\$ 77,106,081	\$ 4,748,194	6.16%
Operations	7,700,062	7,266,566	433,496	5.97%
Maintenance	4,804,702	3,557,491	1,247,211	35.06%
Depreciation	4,285,339	4,090,647	194,692	4.76%
Taxes and Tax Equivalents	2,772,283	2,805,650	(33,367)	-1.19%
Total Operating Expenses	<u>\$ 101,416,661</u>	<u>\$ 94,826,435</u>	<u>\$ 6,590,226</u>	<u>6.95%</u>
Operating Income	<u>\$ 969,229</u>	<u>\$ 1,553,207</u>	<u>\$ (583,978)</u>	<u>-37.60%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 391,638	\$ 656,739	\$ (265,101)	-40.37%
Nonoperating Expenses	(428,791)	(451,653)	22,862	-5.06%
Total Nonoperating Revenues (Exp)	<u>\$ (37,153)</u>	<u>\$ 205,086</u>	<u>\$ (242,239)</u>	<u>-118.12%</u>
Change in Net Assets	\$ 932,076	\$ 1,758,293	\$ (826,217)	-46.99%
Total Net Assets - Beginning	<u>63,594,602</u>	<u>61,836,309</u>	<u>1,758,293</u>	<u>2.84%</u>
Total Net Assets - Ending	<u>\$ 64,526,678</u>	<u>\$ 63,594,602</u>	<u>\$ 932,076</u>	<u>1.47%</u>

Gas Department

The Gas Department's net assets increased from last year by \$423,906 or about 1%. The summaries below focus on the Gas Department's net assets and changes in net assets during the years presented.

Gas Department Net Assets

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Current Assets	\$ 11,313,048	\$ 9,749,616	\$ 1,563,432	16.04%
Capital Assets, Net	32,801,187	33,377,926	(576,739)	-1.73%
Other Noncurrent Assets	596,107	604,394	(8,287)	-1.37%
Total Assets	<u>\$ 44,710,342</u>	<u>\$ 43,731,936</u>	<u>\$ 978,406</u>	<u>2.24%</u>
Current Liabilities	\$ 2,450,397	\$ 1,618,375	\$ 832,022	51.41%
Noncurrent Liabilities	3,507,965	3,785,487	(277,522)	-7.33%
Total Liabilities	<u>\$ 5,958,362</u>	<u>\$ 5,403,862</u>	<u>\$ 554,500</u>	<u>10.26%</u>
Invested in Capital Assets, Net of Related Debt	\$ 29,266,187	\$ 29,567,926	\$ (301,739)	-1.02%
Restricted	520,048	522,410	(2,362)	-0.45%
Unrestricted	8,965,745	8,237,738	728,007	8.84%
Total Net Assets	<u>\$ 38,751,980</u>	<u>\$ 38,328,074</u>	<u>\$ 423,906</u>	<u>1.11%</u>

Changes in the Gas Department's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets for the years presented.

As the following table indicates, operating revenues decreased approximately \$2.0 million or about 7% from FY 2007. The Gas Department had eight changes to rates in FY 2008 – effective August 2007, September 2007, November 2007, December 2007, February 2008, April 2008, May 2008, and June 2008. These rate changes (five decreases and three increases) reflected the uncertainty of the natural gas market. The Gas Department experienced an approximate 9% increase in overall sales volume in FY 2008 over FY 2007. This was due to one of our large customers returning to purchasing natural gas from us instead of utilizing transportation services from us. Cost of sales decreased by \$.4 million or about 2% due to decreased gas prices. The Gas Department experienced an increase in nonoperating revenues of \$58,156 primarily due to increased interest revenues caused by increased cash available for investment. The Gas Department experienced an increase in nonoperating expenses of \$108 or .05%.

Gas Department
Statements of Revenues, Expenses, and Changes in Fund Net Assets

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Operating Revenues	\$ 26,059,359	\$ 28,042,810	\$ (1,983,451)	-7.07%
Operating Expenses				
Cost of Sales	\$ 18,314,767	\$ 18,714,185	\$ (399,418)	-2.13%
Operations	2,789,078	2,578,323	210,755	8.17%
Maintenance	1,532,673	1,622,847	(90,174)	-5.56%
Depreciation and Amortization	1,441,674	1,424,989	16,685	1.17%
Taxes and Tax Equivalents	1,594,102	1,607,915	(13,813)	-0.86%
Total Operating Expenses	<u>\$ 25,672,294</u>	<u>\$ 25,948,259</u>	<u>\$ (275,965)</u>	<u>-1.06%</u>
Operating Income	<u>\$ 387,065</u>	<u>\$ 2,094,551</u>	<u>\$ (1,707,486)</u>	<u>-81.52%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 233,837	\$ 175,681	\$ 58,156	33.10%
Nonoperating Expenses	(196,996)	(196,888)	(108)	0.05%
Total Nonoperating Revenues (Exp)	<u>\$ 36,841</u>	<u>\$ (21,207)</u>	<u>\$ 58,048</u>	<u>-273.72%</u>
Change in Net Assets	\$ 423,906	\$ 2,073,344	\$ (1,649,438)	-79.55%
Total Net Assets - Beginning	<u>38,328,074</u>	<u>36,254,730</u>	<u>2,073,344</u>	<u>5.72%</u>
Total Net Assets - Ending	<u><u>\$ 38,751,980</u></u>	<u><u>\$ 38,328,074</u></u>	<u><u>\$ 423,906</u></u>	<u><u>1.11%</u></u>

Water and Wastewater Department

The Water and Wastewater Department's net assets increased from last year by \$3,861,329 or about 7%. The summaries below focus on the Water and Wastewater Department's net assets and changes in net assets during the years presented.

Water and Wastewater Department Net Assets

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Current Assets	\$ 12,116,545	\$ 10,741,879	\$ 1,374,666	12.80%
Capital Assets, Net	95,418,690	94,087,222	1,331,468	1.42%
Other Noncurrent Assets	5,229,691	5,145,082	84,609	1.64%
Total Assets	<u>\$ 112,764,926</u>	<u>\$ 109,974,183</u>	<u>\$ 2,790,743</u>	<u>2.54%</u>
Current Liabilities	\$ 6,360,774	\$ 5,470,348	\$ 890,426	16.28%
Noncurrent Liabilities	49,290,359	51,251,371	(1,961,012)	-3.83%
Total Liabilities	<u>\$ 55,651,133</u>	<u>\$ 56,721,719</u>	<u>\$ (1,070,586)</u>	<u>-1.89%</u>
Invested in Capital Assets, Net of Related Debt	\$ 42,460,483	\$ 39,301,366	\$ 3,159,117	8.04%
Restricted	4,740,778	4,610,179	130,599	2.83%
Unrestricted	9,912,532	9,340,919	571,613	6.12%
Total Net Assets	<u>\$ 57,113,793</u>	<u>\$ 53,252,464</u>	<u>\$ 3,861,329</u>	<u>7.25%</u>

Changes in the Water and Wastewater Department's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets for the years presented.

As the following table indicates, operating revenues increased approximately \$.9 million or about 6% from FY 2007 revenues. Increased operating revenues were largely due to the weather during FY 2008 being conducive to good sales and a rate increase effective July 1, 2007. Operating expenses decreased by \$.4 million or about 3% due to expensing of abandoned projects in FY 2007. The Department wrote off construction in progress projects which we felt would not be completed. We expensed \$599,530 from these projects in FY 2007. The Water and Wastewater Department experienced a decrease in nonoperating revenues of \$86,149 or 18% due to declining interest income. The Water and Wastewater Department experienced a decrease in nonoperating expenses of \$39,052, or 2% primarily due to decreasing interest expense. The Department received donated sewer assets valued at \$564,000 during FY 2008.

Water and Wastewater Department
Statements of Revenues, Expenses, and Changes in Fund Net Assets

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Operating Revenues	\$ 17,082,284	\$ 16,137,765	\$ 944,519	5.85%
Operating Expenses				
Water Treatment and Pumping	\$ 2,435,237	\$ 2,475,556	\$ (40,319)	-1.63%
Sewage Disposal	1,907,465	1,791,393	116,072	6.48%
Transmission and Distribution	1,134,527	1,109,578	24,949	2.25%
Accounting and Collections	1,055,769	1,011,142	44,627	4.41%
Administrative and General	1,514,320	2,175,903	(661,583)	-30.40%
Depreciation	2,580,700	2,505,331	75,369	3.01%
Taxes and Tax Equivalents	1,441,897	1,375,226	66,671	4.85%
Total Operating Expenses	\$ 12,069,915	\$ 12,444,129	\$ (374,214)	-3.01%
Operating Income	\$ 5,012,369	\$ 3,693,636	\$ 1,318,733	35.70%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 382,157	\$ 468,306	\$ (86,149)	-18.40%
Nonoperating Expenses	(2,097,697)	(2,136,749)	39,052	-1.83%
Total Nonoperating Revenues (Exp)	\$ (1,715,540)	\$ (1,668,443)	\$ (47,097)	2.82%
Income Before Capital Contributions	\$ 3,296,829	\$ 2,025,193	\$ 1,271,636	62.79%
Capital Contributions				
Donated Capital Assets	564,500	-	564,500	
Change in Net Assets	\$ 3,861,329	\$ 2,025,193	\$ 1,836,136	
Total Net Assets - Beginning	53,252,464	51,227,271	2,025,193	3.95%
Total Net Assets - Ending	\$ 57,113,793	\$ 53,252,464	\$ 3,861,329	7.25%

Solid Waste Fund – Sanitation and Recycling Departments

On October 1, 2001, the City combined its recycling operations with its sanitation operations and established the Solid Waste Fund. This Fund provides the services of waste collection, disposal, recycling, and operates a Municipal Solid Waste Subtitle D landfill. Revenue for the Solid Waste Fund is derived from a fee for service from residential and commercial customers. A tipping fee is charged for industrial landfill use. These fees were last adjusted during fiscal year 2002. In addition, recycling operations receives revenue from the sale of recyclables.

- The Solid Waste Fund had operating income of \$27,287 and non-operating income of \$209,129 for the fiscal year ended September 30, 2008.
- Total net assets were \$5,503,114. This is an increase of \$236,416 or 4.49% over the prior year.
- Of the Fund's \$2,139,621 in liabilities, \$1,932,495 was non-current and designated accrued landfill closure and post-closure care costs of \$1,803,876 and accrued compensated absences of \$101,619. Reserves for these costs represent 38.08% of the Fund's current assets.
- The Solid Waste Fund's operating revenues increased \$86,688 or 2.11% from the prior year while operating expenses increased \$299,232 or 7.73%.
- Non-operating revenues decreased by \$23,939 or 10.27%.
- Total assets of the Fund exceeded its liabilities at the close of the fiscal year by \$5,503,114. Of this amount, \$2,935,146 is unrestricted net assets and may be used to meet the ongoing obligations of providing an effective solid waste disposal system for the citizens and industries of Florence.

The Solid Waste Fund's Net Assets increased from last year by \$236,416 or 4.49%. The table below focuses on the changes in net assets for the fiscal year:

	Solid Waste Fund		Net Assets	
	FY2008	FY 2007	Variance	
			Dollars	Percent
Current Assets	\$ 5,074,767	\$ 4,707,429	\$ 367,338	7.80%
Capital Assets, Net	2,567,968	2,613,375	(45,407)	-1.74%
Total Assets	\$ 7,642,735	\$ 7,320,804	\$ 321,931	4.40%
Current Liabilities	\$ 207,126	\$ 197,947	\$ 9,179	4.64%
Noncurrent Liabilities	1,932,495	1,856,159	76,336	4.11%
Total Liabilities	\$ 2,139,621	\$ 2,054,106	\$ 85,515	4.16%
Net Assets				
Invested in Capital Assets	\$ 2,567,968	\$ 2,613,375	\$ (45,407)	-1.74%
Unrestricted	2,935,146	2,653,323	281,823	10.62%
Total Net Assets	\$ 5,503,114	\$ 5,266,698	\$ 236,416	4.49%

As the following table indicates, Solid Waste Fund operating revenues increased \$86,688 or 2.11% from the prior year while operating expenses increased \$299,232 or 7.73%.

Solid Waste Fund
Statements of Revenues, Expenses, and Changes in Fund Net Assets

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Operating Revenues				
Garbage Service Fees	\$ 3,099,095	\$ 3,069,471	\$ 29,624	0.97%
Landfill Fees	484,525	494,809	(10,284)	-2.08%
Recycling Revenue and Fees	607,604	544,482	63,122	11.59%
Other Operating Revenues	8,532	4,306	4,226	98.14%
Total Operating Revenues	\$ 4,199,756	\$ 4,113,068	\$ 86,688	2.11%
Operating Expenses				
Sanitation	\$ 3,568,460	\$ 3,317,309	\$ 251,151	7.57%
Recycling	604,009	555,928	48,081	8.65%
Total Operating Expenses	\$ 4,172,469	\$ 3,873,237	\$ 299,232	7.73%
Operating Income	\$ 27,287	\$ 239,831	\$ (212,544)	-88.62%
Nonoperating Revenues	209,129	233,068	(23,939)	-10.27%
Change in Net Assets	\$ 236,416	\$ 472,899	\$ (236,483)	-50.01%
Total Net Assets-Beginning	5,266,698	4,793,799	472,899	9.86%
Total Net Assets-Ending	\$ 5,503,114	\$ 5,266,698	\$ 236,416	4.49%

BUDGETARY HIGHLIGHTS

It is also beneficial to compare actual performance to that expected or budgeted for the fiscal period.

Governmental Funds

Budgetary Comparison Schedule - The City adopts an annual appropriated budget for its general fund. The City council adopted the General Fund's budget on September 18, 2007. This budget was revised for changes in expenditures on two occasions during the fiscal year on January 3, 2008 and February 18, 2008. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget, as shown on pages 74-76.

In summary, General Fund total revenues exclusive of budgetary fund balance were \$47,390,724 compared to the final budget of \$47,010,370. Revenues exceeded budget by \$380,354. Total expenditures and appropriations for the period were \$47,116,020 compared to the final budget of \$46,962,524.

Collectively the departments of the General Fund completed the fiscal year \$28,020 under budget. Department operating budgets and actual performance can be seen on pages 74-76 of this report.

**General Fund
Budgetary Comparison Schedule**

	Original Budget	Final Budget	Actual	Variance With Final Budget	
				Dollars	Percent
Budgetary Fund Balance-Beginning Resources (Inflows)	\$ 11,355,957	\$ 11,355,957	\$ 11,355,957	\$ -	-
Taxes	39,634,060	39,634,060	39,775,297	141,237	0.36%
Licenses and Permits	2,992,000	2,992,000	2,884,578	(107,422)	-3.59%
Fines and Forfeitures	1,105,500	1,105,500	1,475,204	369,704	33.44%
Charges for Services	1,457,525	1,457,525	1,602,897	145,372	9.97%
Intergovernmental	915,810	915,810	904,472	(11,338)	-1.24%
Other	600,475	600,475	438,995	(161,480)	-26.89%
Transfers From Other Funds	305,000	305,000	309,281	4,281	1.40%
Amounts Available for Appropriation	<u>\$ 58,366,327</u>	<u>\$ 58,366,327</u>	<u>\$ 58,746,681</u>	<u>\$ 380,354</u>	<u>0.65%</u>
Charges to Appropriations (Outflows)					
General Administration	\$ 4,718,926	\$ 4,718,926	\$ 4,474,316	\$ 244,610	5.18%
Public Safety	15,467,086	15,476,911	15,369,656	107,255	0.69%
Public Works	4,371,281	4,371,281	4,534,415	(163,134)	-3.73%
Cultural and Recreation	5,117,394	5,152,194	5,312,905	(160,711)	-3.12%
Non-Departmental	17,243,212	17,243,212	17,424,728	(181,516)	-1.05%
Total Charges to Appropriations	<u>\$ 46,917,899</u>	<u>\$ 46,962,524</u>	<u>\$ 47,116,020</u>	<u>\$ (153,496)</u>	<u>-0.33%</u>
Budgetary Fund Balance Ending	<u>\$ 11,448,428</u>	<u>\$ 11,403,803</u>	<u>\$ 11,630,661</u>	<u>\$ 226,858</u>	<u>1.99%</u>

Business-Type Activities

As required, the City Council adopts a budget for each enterprise fund comprising the Florence Utilities. The FY 2008 original budgets for the Gas, and Water and Wastewater Departments were adopted on July 17, 2007. The original budget for the Electricity Department was adopted on August 21, 2007. The Electricity Department's budget was amended on September 18, 2007, and March 18, 2008. The Gas Department's budget was amended on September 18, 2007, and May 20, 2008. The Water and Wastewater Department's budget was amended on September 18, 2007, and June 3, 2008. A budget comparison statement is prepared monthly for each department for internal use and is distributed to elected officials and the appropriate management personnel. A budget comparison report is included for the Electricity Department, Gas Department, and the Water and Wastewater Department in the Required Supplementary Information Section of this annual report. The following is a summarized report and brief explanation of highlights.

Electricity Department

Electricity Department Schedule of Revenues, Expenses, and Changes in Fund Net Assets Budget and Actual (GAAP Budgetary Basis)

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 102,646,000	\$ 102,385,890	\$ (260,110)	-0.25%
Operating Expenses	100,935,300	101,416,661	481,361	0.48%
Operating Income	\$ 1,710,700	\$ 969,229	\$ (741,471)	-43.34%
Nonoperating Revenues (Expenses)	(3,800)	(37,153)	(33,353)	877.71%
Change in Net Assets	\$ 1,706,900	\$ 932,076	\$ (774,824)	-45.39%

As the above budget report shows, the Electricity Department fell short of the budgeted Change in Net Assets by \$774,824. This represents less than .8% of budgeted operating revenues. As you can see on the budget schedule in the required supplementary information, sales revenues for large commercial customers and the associated cost of sales were lower than expected and several expenses varied from the budget.

Gas Department

Gas Department Schedule of Revenues, Expenses, and Changes in Fund Net Assets Budget and Actual (GAAP Budgetary Basis)

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 25,668,600	\$ 26,059,359	\$ 390,759	1.52%
Operating Expenses	25,200,800	25,672,294	471,494	1.87%
Operating Income	\$ 467,800	\$ 387,065	\$ (80,735)	-17.26%
Nonoperating Revenues (Expenses)	33,200	36,841	3,641	10.97%
Change in Net Assets	\$ 501,000	\$ 423,906	\$ (77,094)	-15.39%

The Gas Department fell short of the budgeted Change in Net Assets by \$77,094. This represents less than .3% of budgeted operating revenues. As you can see on the budget schedule in the required supplementary information, the gas sales revenues exceeded expectations due to increased rates and a better than expected sales environment. The cost of sales was more than expected due to higher than expected gas sales and the corresponding cost of gas sold.

Water and Wastewater Department

**Water and Wastewater Department
Schedule of Revenues, Expenses, and Changes in Fund Net Assets
Budget and Actual (GAAP Budgetary Basis)**

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 16,984,450	\$ 17,082,284	\$ 97,834	0.58%
Operating Expenses	12,047,570	12,069,915	22,345	0.19%
Operating Income	\$ 4,936,880	\$ 5,012,369	\$ 75,489	1.53%
Nonoperating Revenues (Expenses)	(1,919,868)	(1,715,540)	204,328	-10.64%
Capital Contributions				
Donated Capital Assets	564,500	564,500	-	0.00%
Change in Net Assets	\$ 3,581,512	\$ 3,861,329	\$ 279,817	7.81%

The Water and Wastewater Department exceeded the budgeted Change in Net Assets by \$279,817. This represents about 1.6% of final budgeted operating revenues. This was caused primarily by capitalizing interest expense on projects financed from debt for financial reporting but was budgeted as an expense.

Solid Waste Fund – Sanitation and Recycling Departments

**Solid Waste Fund
Schedule of Revenues, Expenses, and Changes in Fund Net Assets—
Budget and Actual (GAAP Budgetary Basis)**

	Original Budget	Final Budget	Actual	Variance	
				Dollars	Percent
Operating Revenues					
Garbage Service Fees	\$ 2,980,000	\$ 2,980,000	\$ 3,099,095	\$ 119,095	4.00%
Landfill Fees	550,000	550,000	484,525	(65,475)	-11.90%
Recycling Revenue and Fees	500,000	500,000	607,604	107,604	21.52%
Other Operating Revenues	3,000	3,000	8,532	5,532	184.40%
Total Operating Revenues	\$ 4,033,000	\$ 4,033,000	\$ 4,199,756	\$ 166,756	4.13%
Operating Expenses					
Sanitation	\$ 3,449,689	\$ 3,449,689	\$ 3,568,460	\$ 118,771	3.44%
Recycling	572,577	572,577	604,009	31,432	5.49%
Total Operating Expenses	\$ 4,022,266	\$ 4,022,266	\$ 4,172,469	\$ 150,203	3.73%
Operating Income	\$ 10,734	\$ 10,734	\$ 27,287	\$ 16,553	154.21%
Nonoperating Revenues	160,000	160,000	209,129	49,129	30.71%
Change in Net Assets	\$ 170,734	\$ 170,734	\$ 236,416	\$ 65,682	38.47%

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of FY 2008, capital assets comprised the majority of each fund's assets. The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of September 30, 2008 amounted to \$327,140,227.

Governmental Activities

	Governmental Activities				
	<u>Capital Assets, Net</u>				
	FY 2008	FY 2007	Variance		
		Dollars	Percent		
Land	\$ 6,704,973	\$ 6,704,973	\$ -	0.00%	
Construction in Progress	12,826,220	16,150,001	(3,323,781)	-20.58%	
Land Improvements	23,165,030	15,246,169	7,918,861	51.94%	
Accumulated Depreciation	(5,061,638)	(4,432,409)	(629,229)	-14.20%	
Buildings	37,341,386	36,698,448	642,938	1.75%	
Accumulated Depreciation	(12,640,801)	(11,760,750)	(880,051)	-7.48%	
Equipment and Vehicles	19,241,427	18,277,696	963,731	5.27%	
Accumulated Depreciation	(14,906,461)	(13,422,051)	(1,484,410)	-11.06%	
Infrastructure	141,367,457	131,076,828	10,290,629	7.85%	
Accumulated Depreciation	(80,194,619)	(76,119,397)	(4,075,222)	-5.35%	
Net Capital Assets	<u>\$ 127,842,974</u>	<u>\$ 118,419,508</u>	<u>\$ 9,423,466</u>	<u>7.96%</u>	

Major capital additions for the fiscal year include expenditures for vehicles and capital equipment of \$1,253,138, paving and street construction totaling \$6,476,706, other infrastructure improvements including the completion of various storm drainage projects totaling \$858,448, land improvements of \$7,918,861, park development of \$1,178,583, recreation center and pool construction totaling \$1,776,892, and building renovations and additions of \$642,938. Of this year's capital additions, \$7,883,039 was capitalized from the prior year's construction in progress. In addition, at September 30, 2008, \$12,826,220 of capital projects was recorded as construction in progress. Projects not yet completed include the construction of a major sports complex, a Police firing range and training center, and various other projects. The Police facility is being funded from current sales tax revenue set aside for capital projects.

Business-Type Activities

At the end of FY 2008, capital assets comprised the majority of each fund's assets. The following are summaries highlighting each fund's changes in capital assets.

Electricity Department

Electricity Department Capital Assets, Net

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 132,960,599	\$ 126,295,202	\$ 6,665,397	5.28%
Construction in Progress	1,849,618	3,193,920	(1,344,302)	-42.09%
Less: Accumulated Depreciation	(66,300,809)	(63,374,477)	(2,926,332)	4.62%
Net Utility Plant	<u>\$ 68,509,408</u>	<u>\$ 66,114,645</u>	<u>\$ 2,394,763</u>	<u>3.62%</u>

As the above table shows, the Electricity Department experienced a 3.62% increase in net utility plant. The department plans to finance capital expenditures in FY 2009 through cash generated from operations.

Gas Department

Gas Department Capital Assets, Net

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 50,452,090	\$ 49,821,739	\$ 630,351	1.27%
Acquisition Adjustment (net of amortization)	243,431	254,092	(10,661)	-4.20%
Construction in Progress	65,456	8,005	57,451	717.69%
Less: Accumulated Depreciation	(17,959,790)	(16,705,910)	(1,253,880)	7.51%
Net Utility Plant	<u>\$ 32,801,187</u>	<u>\$ 33,377,926</u>	<u>\$ (576,739)</u>	<u>-1.73%</u>

As the above table shows, the Gas Department decreased net utility plant by 1.73%. The department plans to finance capital expenditures in FY 2009 through cash generated from operations.

Water and Wastewater Department

Water and Wastewater Department Capital Assets, Net

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 131,681,314	\$ 128,125,341	\$ 3,555,973	2.78%
Construction in Progress	1,202,578	919,922	282,656	30.73%
Less: Accumulated Depreciation	(37,465,202)	(34,958,041)	(2,507,161)	7.17%
Net Utility Plant	<u>\$ 95,418,690</u>	<u>\$ 94,087,222</u>	<u>\$ 1,331,468</u>	<u>1.42%</u>

As the previous table shows, the Water and Wastewater Department increased net utility plant by 1.42%. In FY 2008, the Department made capital improvements, particularly in the wastewater area. The department plans to finance additional capital expenditures with cash generated from operations and the remaining balance of the 2007 SRF Warrant.

Solid Waste Fund – Sanitation and Recycling Departments

At the end of fiscal year 2008, net capital assets comprised 33.60% of the Fund's total assets. Capital assets are maintained in five distinct asset categories: land, land improvements, buildings, equipment, vehicles, and construction in progress. Capital assets are recorded at cost and depreciated over their useful life using the straight-line method of depreciation.

The following table will provide further detail of the Fund's capital assets:

Solid Waste Fund Capital Assets, Net

	FY 2008	FY 2007	Variance	
			Dollars	Percent
Land	\$ 204,353	\$ 204,353	\$ -	0.00%
Land Improvements	3,565,418	3,565,418	-	0.00%
Accumulated Depreciation	(2,789,912)	(2,602,276)	187,636	7.21%
Buildings	870,231	665,931	204,300	30.68%
Accumulated Depreciation	(386,733)	(370,255)	16,478	4.45%
Equipment	3,543,536	3,570,085	(26,549)	-0.74%
Accumulated Depreciation	(3,096,615)	(3,133,037)	(36,422)	-1.16%
Vehicles	2,207,524	2,102,413	105,111	5.00%
Accumulated Depreciation	(1,549,834)	(1,587,354)	(37,520)	-2.36%
Construction in Progress	-	198,097	(198,097)	-100.00%
Net Capital Assets	<u>\$ 2,567,968</u>	<u>\$ 2,613,375</u>	<u>\$ (45,407)</u>	<u>-1.74%</u>

At the close of fiscal year 2008, the Solid Waste Fund had no debt other than routine operating liabilities (\$207,126), accrued liability for employee annual and sick leave (\$101,619), and a reserve for landfill closure and post-closure care expenses (\$1,830,876). The Solid Waste Fund had cash reserves greater than these liabilities at the fiscal year end.

LONG-TERM DEBT

Governmental Activities

At the end of the current fiscal year, the Governmental Activities of the City had total long-term debt of \$54,608,255. Of this amount, \$49,607,423 comprises debt serviced by revenues from governmental activities. Of the \$49,607,423, \$9,180,000 is general obligation school warrants serviced by sales tax pledged to the Board of Education.

The City currently has an A+ credit rating from Standard & Poor's and an A2 rating from Moody's Investors Services. These ratings were reaffirmed by the rating agencies during fiscal year 2005. Management does not foresee these credit ratings changing in the coming fiscal year.

The City has under construction at the close of this fiscal year, two major capital projects, which include constructing a sports complex providing athletic accommodations for baseball, softball, football, soccer, and other family oriented activities and various storm drainage correction projects. To provide funding for these projects, in October 2003, the City issued 20-year, \$20,000,000 General Obligation Warrants designated as Series 2003-B. These projects are nearing completion and comprise the majority of the amount recorded as construction in progress. In addition to the 2003-B funding, an additional \$4,500,000 of short term financing for the sports complex has been provided using excess reserves from the City's self-insured Worker's Compensation Fund and the Liability Insurance Fund. This interfund financing will be repaid over five years from current sales tax revenue traditionally set aside for capital projects.

In August 2007, to provide for a major citywide paving program, the City issued General Obligation Warrants Series 2007 in the amount of \$7,000,000. Although management will evaluate refunding the 1998-B General Obligation Warrant issue during 2009, we do not foresee the City incurring additional general obligation debt in the coming fiscal year.

In addition to the outstanding general obligation debt, \$2,457,343 has been accrued for employee compensated absences (unused annual leave/sick leave).

Business-Type Activities

Electricity Department

The Electricity Department has two warrant issues, as described in the financial statement notes that have not been defeased at year-end. The Electric Revenue Warrants, Series 1999 interest rates range from 4.10% to 5.25%. The issue is insured by Financial Security Assurance, Inc. It was issued with an underlying A1 and A+ by Moody's and Standard & Poor's, respectively. This issue requires that the Electricity Department's Annual Net Income (as defined in the indenture) be at least 1.25 times the maximum Annual Debt Service Requirement. For FY 2008, the Electricity Department exceeded that requirement at about 8.75 times.

The other issue outstanding is a line of credit warrant with CB&S Bank, the Electric Taxable Revenue Warrant, Series 2008, issued April 2008. At year-end, there was no outstanding balance on it. The Department did not utilize this line of credit during FY 2008. This line of credit is available until January 2013. This warrant has an interest rate of 4.99%.

Gas Department

The Gas Department has two outstanding warrant issues at year-end as described in the financial statement notes. The Natural Gas Revenue Warrant, Series 1998 interest rates range from 3.60% to 4.90%. The issue is insured by AMBAC. It was issued with an underlying A1 rating from Moody's. This issue requires that the Gas Department's Annual Net Income (as defined in the indenture) be at least 1.25 times the maximum Annual Debt Service Requirement. For FY 2008, the Gas Department exceeded that requirement at about 7.57 times.

The other issue outstanding is a line of credit warrant with CB&S Bank, the Natural Gas Taxable Revenue Warrant, Series 2008, issued April 2008. At year-end, there was no outstanding balance on it. The Department did not utilize this line of credit during FY 2008. This line of credit is available until July 2012. This warrant has an interest rate of 4.99%.

At the beginning of the fiscal year, the department had another line of credit warrant issue outstanding with Bank Independent, the Natural Gas Revenue Taxable Warrants, Series 2003, issued April 2003. The warrant did not officially expire until July 2008. However, the bank was informed in April 2008, in connection with the issuance of the new line of credit, that there would be no more draws on it. At year-end, there was no outstanding balance on it. The Department did not utilize this line of credit during FY 2008. This warrant had an interest rate of 4.99%.

Water and Wastewater Department

The Water and Wastewater Department has seven warrant issues outstanding that have not been defeased. These issues are (1) Water and Sewer Revenue Warrants, Series 1995, interest rates ranging from 3.5% to 5.625% (2) Water and Sewer Revenue Warrants, SRF Series 1998, interest rate 3.75%, (3) Water and Sewer Revenue Warrants, SRF Series 1999, interest rate 3.5%, (4) Water and Sewer Revenue Warrants, SRF Series 1999B, interest rate 3.5%, (5) Water and Sewer Revenue Warrants, SRF Series 2000, interest rate 3.85%, (6) Water and Sewer Revenue Warrants, SRF Series 2006, interest rate 3.25%, and (7) Water and Sewer Revenue Warrants, SRF Series 2007, interest rate 3.5%. The SRF warrants are issued through a federally funded (EPA) loan program to states for wastewater improvements. In Alabama, this program is administered by ADEM. The SRF series warrants are financing massive renovations of portions of our wastewater system. At year-end, approximately \$.2 million remains available of the 2006 issue and approximately \$8.2 million remains available of the 2007 issue. The 1995 Series is insured by AMBAC. The department received an A rating from Moody's at its issue.

The 1995 issue requires that the Water and Wastewater Department's Annual Net Income (as defined in the indenture) be at least 1.25 times the maximum Annual Debt Service Requirement. For FY 2008, the Water and Wastewater Department exceeded that requirement at about 1.50 times

Solid Waste Fund – Solid Waste and Recycling Departments

At the close of fiscal year 2008, the Solid Waste Fund had no debt other than routine operating liabilities (\$207,126), accrued liability for employee annual and sick leave (\$101,619), and a reserve for landfill closure and post-closure care expenses (\$1,830,876). The Solid Waste Fund had cash reserves greater than these liabilities at the fiscal year end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Governmental Activities

The City of Florence General Fund budget appropriates money used to provide a broad range of governmental activities involving protective and convenience-related services. As stated earlier in this MD&A, these activities include general government, public safety, public works, and cultural and recreational services. The City Council adopted the General Fund's fiscal year 2008–2009 budget on October 21, 2008.

The fiscal year 2008–2009 budget is conservative with revenue projections and proposed expenditures. Revenue is budgeted at \$47,841,807, an increase of \$831,437 or 1.77% compared to the previous fiscal year's final budget and an increase of \$451,083 or .95% from the prior year's actual revenue. Conservatively projecting no growth in sales tax revenue the 2008 – 2009 sales tax budget is level with that of the prior year. Of the total increase in budgeted revenue, \$474,000 or 57% results from property taxes. The previous year was a re-appraisal year for real property. This was the last year in a five-year re-appraisal cycle. In the future, property values will be adjusted annually. Expenditures including appropriations are budgeted at \$47,784,181, an increase of \$821,651 or 1.75% over the prior year's final budget and an increase of \$821,657 or 1.75% compared to last year's actual expenditures. Rising energy costs, motor fuel and utility cost comprise the majority of all expenditure increase.

Contingent on attaining expected revenue within the first one-half of the 2008 – 2009 fiscal year, effective April 6, 2009, the budget contains the implementation of a ten-step employee pay scale, extending the pay scale beyond its current five steps. The budget does not contain a general wage increase for City employees. Other expenditures were held in-line with the prior year's budget. With revenue in excess of expenditures, the 2008 – 2009 General Fund budget yields a surplus budget of \$57,626.

Business-Type Activities

Electricity, Gas, Water and Wastewater Departments

The geographic area served by Florence Utilities is facing an uncertain economic environment, notwithstanding increased unemployment rates. The Florence MSA's unemployment rate for September 2008 was 5.3% as compared to 3.9% for September 2007. The State of Alabama's unemployment rates were 5.3% for September 2008, and 3.5% for September 2007. In addition to the economic environment, the weather is an important factor in determining utility sales. Although it is impossible to predict the weather in the upcoming year, kWh sales for FY 2009 through September for electricity have decreased over the same number through the same time last year by 7%. Dth sales to commercial and industrial customers for the period through September as compared to sales for the same period in the previous fiscal year are up approximately 104%. However, that sales increase is accounted for by sales to a customer who was a transportation only customer in the same period in FY 2008. Excluding sales to that customer, sales to commercial and industrial customers are comparable to last year.

FY 2009 sales revenues from water and wastewater operations through September have increased 1% over the same period in FY 2008.

The City Council adopted the Gas Department's and the Water and Wastewater Department's FY 2009 budgets on June 17, 2008. The City Council adopted the Electricity Department's FY 2009 budget on August 5, 2008.

The City's power contract with TVA provides for a fuel cost adjustment (FCA), revised quarterly, on sales to its distributors. In FY 2009, the FCA has resulted in rate increases to our customers effective July 2008 and October 2008. Florence Utilities anticipates passing any rate increases or decreases on to its customers. Effective November 2008, Florence Utilities increased its customer charges resulting in an anticipated 3% total increase in sales revenues.

The Gas Department's rate ordinance allows for gas increases/decreases without further City Council action. The volatility of natural gas makes this ability for quick rate action important for the Department's financial health. Effective July 2008, we implemented rate increases.

The City has entered into a Consent Order with the Alabama Department of Environmental Management that will require the City to correct 13 known Sanitary Sewer Overflows within the sewer collection system. The Department anticipates borrowing the majority of the required funds from the State Revolving Fund. The City Council approved a rate ordinance providing for water and wastewater rate increases effective July 2007, July 2008, July 2009, and July 2010 to fund the financing of these repairs.

Solid Waste Fund – Solid Waste and Recycling Departments

The City Council adopted the Fund's fiscal year 2008 budget on September 18, 2007. There are no rate changes in the foreseeable future. The fiscal year 2008 budget has expected combined revenues of \$4,193,000 and expenses of \$4,022,266. A surplus of \$170,734 is expected. During fiscal years 2004 and 2005, a new disposal cell was constructed at a cost of approximately \$1,235,070. This new cell should service solid waste disposal for the next 4-5 years. The construction of an additional cell is planned which would provide another 5-7 years of service. With these additional cells, the landfill is expected to reach capacity and close in the year 2018. At this time, management does not anticipate any long-term borrowing to fund this expansion. Service fees were increased in fiscal year 2002 to provide the required funding for this expansion.

REQUESTS FOR INFORMATION

Governmental and Business-Type Activities

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. Dan D. Barger, City Treasurer, P. O. Box 98, Florence, Alabama 35631-0098, or Mr. Vance Young, Controller of Utilities, P. O. Box 877, Florence, Alabama 35631-0877.

Component Units

The Florence-Lauderdale Public Library and the Florence Library Foundation, Inc. are included in this report as Discretely Presented Component Units of the City. The City appropriated \$526,000 to the Library in this fiscal year. These appropriations are approximately 45.7% of the Library's total revenues. The financial statements of the Florence-Lauderdale Public Library and the Florence Library Foundation, Inc. are incorporated into this report and can be found on pages 39-40. Questions concerning any of the information presented or requests for additional information should be addressed to Florence-Lauderdale Public Library, 350 North Wood Avenue, Florence, Alabama 35630.



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**CITY OF FLORENCE, ALABAMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 12,815,199	\$ 24,909,289	\$ 37,724,488	\$ 2,460,061
Investments	12,800,000		12,800,000	
Receivables (net)	3,727,234	15,658,725	19,385,959	
Accrued interest receivable	59,167	64,453	123,620	
Loan receivables (net)	1,067,846		1,067,846	
Pledge receivable			—	75,000
Internal balances	299,828	(299,828)	—	
Inventories	177,199	3,765,004	3,942,203	
Prepaid expenses		7,465,586	7,465,586	
Restricted assets:				
Cash and investments	277,654	6,326,256	6,603,910	
Conservation loans receivables		4,191,597	4,191,597	
Capital assets (net)	127,842,974	199,297,253	327,140,227	776,545
Other:				
Unamortized debt issuance costs	513,514	720,815	1,234,329	
Total assets	\$ 159,580,615	\$ 262,099,150	\$ 421,679,765	\$ 3,311,606
LIABILITIES				
Accounts payable and accrued expenses	\$ 6,012,078	\$ 17,638,157	\$ 23,650,235	\$ 50,447
Customer deposits		5,542,461	5,542,461	
Deferred revenues		147,550	147,550	
Liabilities payable from restricted assets:				
Accrued interest		725,315	725,315	
Advances for conservation loans		4,288,383	4,288,383	
Long-term liabilities:				
Portion due or payable within one year:				
Warrants and notes payable	4,006,938	4,725,669	8,732,607	
Compensated absences	982,937	989,656	1,972,593	7,203
Promise to give				5,000
Portion due or payable after one year:				
Warrants and notes payable	45,600,485	59,130,862	104,731,347	
Compensated absences	1,474,406	1,484,484	2,958,890	
Promise to give				70,000
Claims reserve	2,543,489		2,543,489	
Accrued landfill closure and postclosure care costs		1,830,876	1,830,876	
Total liabilities	\$ 60,620,333	\$ 96,503,413	\$ 157,123,746	\$ 132,650
NET ASSETS				
Invested in capital assets, net of related debt	\$ 78,772,644	\$ 135,319,046	\$ 214,091,690	\$ 776,545
Restricted for:				
Debt service	127,654	6,326,256	6,453,910	
Other purposes-expendable	150,000		150,000	8,529
Other purposes-nonexpendable	238,234		238,234	2,000,000
Unrestricted	19,671,750	23,950,435	43,622,185	393,882
Total net assets	\$ 98,960,282	\$ 165,595,737	\$ 264,556,019	\$ 3,178,956

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



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**CITY OF FLORENCE, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General administration	\$ 5,873,337	\$ 4,087,968	\$	\$	\$ (1,785,369)		\$ (1,785,369)	
Public safety	17,227,089	1,612,722	582,540		(15,031,827)		(15,031,827)	
Public works	5,022,016	67,770	862,008		(4,092,238)		(4,092,238)	
Public ways and facilities	3,759,643			909,536	(2,850,107)		(2,850,107)	
Culture and recreation	6,693,078	1,465,298	10,000	25,270	(5,192,510)		(5,192,510)	
Other	1,553,287				(1,553,287)		(1,553,287)	
Education—funding for school district	8,130,781				(8,130,781)		(8,130,781)	
Interest and fiscal charges	2,246,743				(2,246,743)		(2,246,743)	
Total governmental activities	<u>\$ 50,505,974</u>	<u>\$ 7,233,758</u>	<u>\$ 1,454,548</u>	<u>\$ 934,806</u>	<u>\$ (40,882,862)</u>		<u>\$ (40,882,862)</u>	
Business-type activities:								
Electricity	\$ 102,284,664	\$ 102,510,323	\$	\$	\$	\$ 225,659	\$ 225,659	
Gas	26,113,218	26,072,802				(40,416)	(40,416)	
Water and wastewater	14,263,584	17,082,284				2,818,700	2,818,700	
Solid waste	4,406,932	4,199,756				(207,176)	(207,176)	
Total business-type activities	<u>\$ 147,068,398</u>	<u>\$ 149,865,165</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,796,767</u>	<u>\$ 2,796,767</u>	
Total primary government	<u>\$ 197,574,372</u>	<u>\$ 157,098,923</u>	<u>\$ 1,454,548</u>	<u>\$ 934,806</u>	<u>\$ (40,882,862)</u>	<u>\$ 2,796,767</u>	<u>\$ (38,086,095)</u>	
Component units:								
All	<u>\$ 1,221,652</u>	<u>\$ 59,882</u>	<u>\$ 1,092,789</u>	<u>\$ —</u>				<u>\$ (68,981)</u>
General revenues:								
Taxes:								
Sales, use, and lodging					\$ 27,407,712	\$	\$ 27,407,712	\$
Property					10,601,421		10,601,421	
Motor fuel					1,083,828		1,083,828	
Alcoholic beverages					1,016,719		1,016,719	
Other					302,962		302,962	
Contributions						564,500	564,500	
Interest revenues					1,055,420	1,023,406	2,078,826	112,908
Gain (loss) on disposal of capital assets					11,629	41,286	52,915	
Total general revenues					<u>\$ 41,479,691</u>	<u>\$ 1,629,192</u>	<u>\$ 43,108,883</u>	<u>\$ 112,908</u>
Change in net assets					\$ 596,829	\$ 4,425,959	\$ 5,022,788	\$ 43,927
Net assets—beginning					98,363,453	161,169,778	259,533,231	3,135,029
Net assets—ending					<u>\$ 98,960,282</u>	<u>\$ 165,595,737</u>	<u>\$ 264,556,019</u>	<u>\$ 3,178,956</u>

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

**CITY OF FLORENCE, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,168,869	\$ 8,213,425	\$ 11,382,294
Investments	8,000,000		8,000,000
Receivables (net)	3,476,422	247,171	3,723,593
Accrued interest receivable	35,077	5,626	40,703
Loan receivables (net)	428,465	639,381	1,067,846
Interfund receivables	543,203	635,775	1,178,978
Inventories	177,199		177,199
Restricted cash and investments		127,654	127,654
Total assets	<u>\$ 15,829,235</u>	<u>\$ 9,869,032</u>	<u>\$ 25,698,267</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued expenses	\$ 2,585,376	\$ 3,190,358	\$ 5,775,734
Compensated absences	982,937		982,937
Interfund payables	630,261	4,523,479	5,153,740
Total liabilities	<u>\$ 4,198,574</u>	<u>\$ 7,713,837</u>	<u>\$ 11,912,411</u>
Fund balances			
Reserved for:			
Other purposes-nonexpendable	\$	\$ 238,234	\$ 238,234
Debt service		127,654	127,654
Unreserved, reported in:			
General fund	11,630,661		11,630,661
Special revenue funds		3,734,999	3,734,999
Capital projects funds		(1,945,692)	(1,945,692)
Total fund balances	<u>\$ 11,630,661</u>	<u>\$ 2,155,195</u>	<u>\$ 13,785,856</u>
Total liabilities and fund balances	<u>\$ 15,829,235</u>	<u>\$ 9,869,032</u>	<u>\$ 25,698,267</u>

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

CITY OF FLORENCE, ALABAMA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Total fund balances—governmental funds		\$ 13,785,856
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 as assets in the funds.		
Governmental capital assets	\$ 240,646,493	
Accumulated depreciation	<u>(112,803,519)</u>	127,842,974
Debt issuance costs are reported as a current expenditure in the governmental funds. However, in the statement of activities, debt issuance costs are deferred and amortized over the life of the debt and are included as deferred charges in the statement of net assets.		
Unamortized debt issuance costs		513,514
Long-term liabilities, including warrants payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Governmental warrants payable	\$ (49,530,000)	
Unamortized debt discount (premium)	(77,423)	
Compensated absences	<u>(1,474,406)</u>	(51,081,829)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		
		<u>7,899,767</u>
Net assets of governmental activities		<u>\$ 98,960,282</u>

CITY OF FLORENCE, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 39,775,297	\$ 637,345	\$ 40,412,642
Licenses and permits	2,884,578		2,884,578
Fines and forfeitures	1,475,204		1,475,204
Charges for services	1,602,897		1,602,897
Intergovernmental	904,472	2,349,716	3,254,188
Interest revenues	403,504	360,586	764,090
Other	35,491	409,508	444,999
Total revenues	<u>\$ 47,081,443</u>	<u>\$ 3,757,155</u>	<u>\$ 50,838,598</u>
EXPENDITURES			
Current operating:			
General administration	\$ 4,474,316	\$ 933,130	\$ 5,407,446
Public safety	15,369,656	361,265	15,730,921
Public works	4,534,415	149,112	4,683,527
Culture and recreation	5,312,905	27,927	5,340,832
Other	1,223,651	329,636	1,553,287
Education—funding for school district	6,930,643	1,200,138	8,130,781
Capital outlay and improvements		15,857,432	15,857,432
Debt service:			
Principal payments		3,895,000	3,895,000
Interest and fiscal charges		2,181,138	2,181,138
Total expenditures	<u>\$ 37,845,586</u>	<u>\$ 24,934,778</u>	<u>\$ 62,780,364</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 9,235,857</u>	<u>\$ (21,177,623)</u>	<u>\$ (11,941,766)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 309,281	\$ 13,469,760	\$ 13,779,041
Transfers out	(9,270,434)	(4,508,607)	(13,779,041)
Total other financing sources (uses)	<u>\$ (8,961,153)</u>	<u>\$ 8,961,153</u>	<u>\$ —</u>
Net change in fund balances	<u>\$ 274,704</u>	<u>\$ (12,216,470)</u>	<u>\$ (11,941,766)</u>
Fund balances—beginning	11,355,957	14,371,665	25,727,622
Fund balances—ending	<u>\$ 11,630,661</u>	<u>\$ 2,155,195</u>	<u>\$ 13,785,856</u>

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

**CITY OF FLORENCE, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Total net change in fund balances—governmental funds		\$ (11,941,766)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	\$ 16,781,785	
Current year depreciation expense	<u>(7,331,194)</u>	9,450,591
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.		
		(27,125)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred on the statement of net assets and are amortized over the life of the debt. The net effect of these differences in the treatment of long-term debt and related items are detailed below:		
Repayments of debt principal	\$ 3,895,000	
Amortization of current year debt discount	(3,752)	
Amortization of current year debt premium	5,690	
Amortization of current year debt issuance costs	<u>(67,543)</u>	3,829,395
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences		(82,436)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.		
		<u>(631,830)</u>
Change in net assets of governmental activities		<u><u>\$ 596,829</u></u>

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

**CITY OF FLORENCE, ALABAMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

	Business-type Activities—Enterprise Funds					Governmental Activities
	Electricity	Gas	Water and Wastewater	Solid Waste	Total	Internal Service Funds
	June 30, 2008	June 30, 2008	June 30, 2008	September 30, 2008		Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 3,997,229	\$ 8,157,521	\$ 8,079,386	\$ 4,675,153	\$ 24,909,289	\$ 1,432,905
Investments					—	4,800,000
Receivables (net)	10,692,947	1,769,648	2,854,924	341,206	15,658,725	3,641
Accrued interest receivable		6,752	43,086	14,615	64,453	18,464
Interfund receivables					—	4,002,940
Inventories	1,768,833	1,367,530	584,848	43,793	3,765,004	
Prepaid expenses	6,381,738	11,597	554,301		6,947,636	
Total current assets	\$ 22,840,747	\$ 11,313,048	\$ 12,116,545	\$ 5,074,767	\$ 51,345,107	\$ 10,257,950
Noncurrent assets:						
Restricted cash and investments:						
Cash and investments	1,065,391	520,048	4,740,817		6,326,256	150,000
Receivables from customers for conservation loans	4,191,597				4,191,597	
Capital assets:						
Utility plant in service (at cost)	132,960,599	50,452,090	131,681,314	10,391,062	325,485,065	
Acquisition adjustment (net of amortization)		243,431			243,431	
Construction in progress	1,849,618	65,456	1,202,578		3,117,652	
Less: accumulated depreciation	66,300,809	17,959,790	37,465,202	7,823,094	129,548,895	
Prepaid purchased power-TVA DEU program	517,950				517,950	
Unamortized debt discount and costs	155,882	76,059	488,874		720,815	
Total noncurrent assets	\$ 74,440,228	\$ 33,397,294	\$ 100,648,381	\$ 2,567,968	\$ 211,053,871	\$ 150,000
Total assets	\$ 97,280,975	\$ 44,710,342	\$ 112,764,926	\$ 7,642,735	\$ 262,398,978	\$ 10,407,950

	Business-type Activities—Enterprise Funds					Governmental
	Electricity	Gas	Water and Wastewater	Solid Waste	Total	Activities
	June 30, 2008	June 30, 2008	June 30, 2008	September 30, 2008		Internal Service Funds
LIABILITIES						
Current liabilities:						
Accounts payable and accrued expenses	\$ 13,980,257	\$ 1,968,276	\$ 1,561,232	\$ 128,392	\$ 17,638,157	\$ 236,344
Deferred interest income-TVA DEU program	29,600				29,600	
Compensated absences—payable within one year	539,320	185,470	197,120	67,746	989,656	
Customer deposits	5,531,473			10,988	5,542,461	
Interfund payables					—	28,178
Total current liabilities	\$ 20,080,650	\$ 2,153,746	\$ 1,758,352	\$ 207,126	\$ 24,199,874	\$ 264,522
Liabilities payable from restricted assets:						
Revenue warrants—payable within one year	\$ 519,642	\$ 282,831	\$ 3,923,196		\$ 4,725,669	\$
Accrued interest	32,269	13,820	679,226		725,315	
Advances from TVA for conservation loans	4,288,383				4,288,383	
Total liabilities payable from restricted assets	\$ 4,840,294	\$ 296,651	\$ 4,602,422	\$ —	\$ 9,739,367	\$ —
Noncurrent liabilities:						
Revenue warrants—payable after one year	\$ 6,906,423	\$ 3,229,759	\$ 48,994,680		\$ 59,130,862	\$
Compensated absences—payable after one year	808,980	278,206	295,679	101,619	1,484,484	
Deferred interest income-TVA DEU program	117,950				117,950	
Accrued landfill closure and postclosure care costs				1,830,876	1,830,876	
Claims reserve					—	2,543,489
Total noncurrent liabilities	\$ 7,833,353	\$ 3,507,965	\$ 49,290,359	\$ 1,932,495	\$ 62,564,172	\$ 2,543,489
Total liabilities	\$ 32,754,297	\$ 5,958,362	\$ 55,651,133	\$ 2,139,621	\$ 96,503,413	\$ 2,808,011
NET ASSETS						
Invested in capital assets, net of related debt	\$ 61,024,408	\$ 29,266,187	\$ 42,460,483	\$ 2,567,968	\$ 135,319,046	\$
Restricted for debt service	1,065,391	520,048	4,740,817		6,326,256	
Restricted for other purposes-expendable					—	150,000
Unrestricted	2,436,879	8,965,745	9,912,493	2,935,146	24,250,263	7,449,939
Total net assets	\$ 64,526,678	\$ 38,751,980	\$ 57,113,793	\$ 5,503,114	\$ 165,895,565	\$ 7,599,939
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(299,828)	
Net assets of business-type activities					\$ 165,595,737	

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



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CITY OF FLORENCE, ALABAMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED

	Business-type Activities—Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Electricity	Gas	Water and Wastewater	Solid Waste		
	June 30, 2008	June 30, 2008	June 30, 2008	September 30, 2008		
Operating revenues						
User charges	\$ 101,728,760	\$ 26,045,316	\$ 16,828,253	\$ 4,191,224	\$ 148,793,553	\$ 791,484
Other	657,130	14,043	254,031	8,532	933,736	
Total operating revenues	\$ 102,385,890	\$ 26,059,359	\$ 17,082,284	\$ 4,199,756	\$ 149,727,289	\$ 791,484
Operating expenses						
Cost of sales	\$ 81,854,275	\$ 18,314,767	\$	\$	\$ 100,169,042	\$
Operations, maintenance, and administration	12,504,764	4,321,751	8,047,318	3,464,826	28,338,659	286,664
Depreciation	4,285,339	1,431,013	2,580,700	590,981	8,888,033	
Amortization		10,661			10,661	
Taxes and tax equivalents	2,772,283	1,594,102	1,441,897	116,662	5,924,944	
Insurance premiums and claims (net of refunds)					—	2,455,748
Total operating expenses	\$ 101,416,661	\$ 25,672,294	\$ 12,069,915	\$ 4,172,469	\$ 143,331,339	\$ 2,742,412
Operating income	\$ 969,229	\$ 387,065	\$ 5,012,369	\$ 27,287	\$ 6,395,950	\$ (1,950,928)
Nonoperating revenues (expenses)						
Interest revenues	\$ 267,205	\$ 220,394	\$ 382,157	\$ 153,650	\$ 1,023,406	\$ 291,330
Gain (loss) on disposal of capital assets		(10,980)	(3,213)	55,479	41,286	
Merchandising revenues (net of costs)	124,433				124,433	
Miscellaneous nonoperating income		13,443			13,443	
Interest expense	(409,691)	(176,423)	(2,036,651)		(2,622,765)	
Amortization of debt discount and costs	(19,100)	(9,593)	(57,833)		(86,526)	
Total nonoperating revenues (expenses)	\$ (37,153)	\$ 36,841	\$ (1,715,540)	\$ 209,129	\$ (1,506,723)	\$ 291,330
Income before capital contributions:	\$ 932,076	\$ 423,906	\$ 3,296,829	\$ 236,416	\$ 4,889,227	\$ (1,659,598)
Capital contributions—donated capital assets			564,500		564,500	
Change in net assets	\$ 932,076	\$ 423,906	\$ 3,861,329	\$ 236,416	\$ 5,453,727	\$ (1,659,598)
Net assets—beginning	63,594,602	38,328,074	53,252,464	5,266,698		9,259,537
Net assets—ending	\$ 64,526,678	\$ 38,751,980	\$ 57,113,793	\$ 5,503,114		\$ 7,599,939
					(1,027,768)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					\$ 4,425,959	
Change in net assets of business-type activities						

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

**CITY OF FLORENCE, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED**

	Business-type Activities—Enterprise Funds					Governmental Activities
	Electricity	Gas	Water and Wastewater	Solid Waste	Total	Internal Service Funds
	June 30, 2008	June 30, 2008	June 30, 2008	September 30, 2008		Funds
Cash flows from operating activities						
Receipts from customers and users	\$ 101,426,679	\$ 25,369,398	\$ 15,556,075	\$ 4,186,274	\$ 146,538,426	\$ 795,079
Receipts from interfund services provided	2,263,642				2,263,642	
Payments to suppliers	(84,847,930)	(17,671,721)	(2,484,921)	(909,427)	(105,913,999)	(2,182,922)
Payments to employees for services and benefits—exclusive of capitalized costs	(9,304,136)	(2,851,726)	(3,469,372)	(2,326,469)	(17,951,703)	(25,878)
Payments for interfund services used	(3,136,033)	(2,324,018)	(2,646,970)	(268,794)	(8,375,815)	
Net cash from operating activities	\$ 6,402,222	\$ 2,521,933	\$ 6,954,812	\$ 681,584	\$ 16,560,551	\$ (1,413,721)
Cash flows from noncapital financing activities						
Increase in receivables from customers for conservation loans	\$ (307,855)				\$ (307,855)	
Increase in advances from TVA for conservation loans	283,428				283,428	
Deferred TVA DEU program (net)	100,000				100,000	
Payment of debt issuance costs on noncapital debt	(1,500)	(1,500)			(3,000)	
Net cash from noncapital financing activities	\$ 74,073	\$ (1,500)	\$ —	\$ —	\$ 72,573	\$ —
Cash flows from capital and related financing activities						
Purchase and construction of capital assets (net)	\$ (6,587,540)	\$ (841,316)	\$ (3,350,881)	\$ (545,574)	\$ (11,325,311)	
Removal costs of retirements of capital assets	(351,886)	(35,799)			(387,685)	
Salvage value of retirements of capital assets	38,517				38,517	
Proceeds from sale of capital assets		1,200		55,479	56,679	
Proceeds from capital debt			1,942,351		1,942,351	
Principal paid on capital debt	(500,000)	(275,000)	(3,770,000)		(4,545,000)	
Interest paid on capital debt	(411,733)	(177,385)	(2,051,699)		(2,640,817)	
Net cash from capital and related financing activities	\$ (7,812,642)	\$ (1,328,300)	\$ (7,230,229)	\$ (490,095)	\$ (16,861,266)	\$ —
Cash flows from investing activities						
Interest on investments	\$ 280,871	\$ 221,542	\$ 408,616	\$ 163,410	\$ 1,074,439	\$ 369,913
Due to (from) other funds					—	(3,924,762)
Net cash from investing activities	\$ 280,871	\$ 221,542	\$ 408,616	\$ 163,410	\$ 1,074,439	\$ (3,554,849)
Net increase (decrease) in cash and cash equivalents	\$ (1,055,476)	\$ 1,413,675	\$ 133,199	\$ 354,899	\$ 846,297	\$ (4,968,570)
Cash and cash equivalents—beginning of the year	6,118,096	7,263,894	12,687,004	4,320,254	30,389,248	11,351,475
Cash and cash equivalents—end of the year	\$ 5,062,620	\$ 8,677,569	\$ 12,820,203	\$ 4,675,153	\$ 31,235,545	\$ 6,382,905

	Business-type Activities—Enterprise Funds					Governmental
	Electricity	Gas	Water and Wastewater	Solid Waste	Total	Internal Service Funds
	June 30, 2008	June 30, 2008	June 30, 2008	September 30, 2008		
Classified as:						
Current assets	\$ 3,997,229	\$ 8,157,521	\$ 8,079,386	\$ 4,675,153	\$ 24,909,289	\$ 6,232,905
Restricted assets	—	—	—	—	—	150,000
Totals	\$ 3,997,229	\$ 8,157,521	\$ 8,079,386	\$ 4,675,153	\$ 24,909,289	\$ 6,382,905
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income	\$ 969,229	\$ 387,065	\$ 5,012,369	\$ 27,287	\$ 6,395,950	\$ (1,950,928)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	\$ 4,506,147	\$ 1,431,013	\$ 2,580,700	\$ 590,981	\$ 9,108,841	\$
Amortization		10,661			10,661	
Landfill closure and postclosure care costs				71,059	71,059	
Income from merchandising revenues (net of costs)	124,433				124,433	
Miscellaneous nonoperating income		13,443			13,443	
Changes in assets and liabilities						
Receivables (net)	(1,083,645)	(730,136)	(1,178,505)	(13,482)	(3,005,768)	125,793
Inventories	(68,166)	581,546	(64,408)	(8,718)	440,254	
Prepaid expenses	1,144,779	47	(155,650)		989,176	
Accounts payables and accrued expenses	809,445	828,294	760,306	14,457	2,412,502	411,414
Total adjustments	\$ 5,432,993	\$ 2,134,868	\$ 1,942,443	\$ 654,297	\$ 10,164,601	\$ 537,207
Net cash from operating activities	\$ 6,402,222	\$ 2,521,933	\$ 6,954,812	\$ 681,584	\$ 16,560,551	\$ (1,413,721)
Noncash capital and related financing activities:						
Donated capital assets	\$	\$	\$ 564,500	\$	\$ 564,500	\$

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

**CITY OF FLORENCE, ALABAMA
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2008**

	<u>Postretirement Benefits Plan</u>
ASSETS	
Receivables	
Employer	\$ 241,527
Total assets	<u>\$ 241,527</u>
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	<u><u>\$ 241,527</u></u>

**CITY OF FLORENCE, ALABAMA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Postretirement Benefits Plan
ADDITIONS	
Contributions	
Employer	\$ 241,527
NET INCREASE	\$ 241,527
 NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	
Beginning of year	—
End of year	\$ 241,527

**CITY OF FLORENCE, ALABAMA
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS**

	<u>Florence- Lauderdale Public Library September 30, 2008</u>	<u>Florence Library Foundation, Inc. June 30, 2008</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 233,435	\$ 2,226,626	\$ 2,460,061
Pledge receivable		75,000	75,000
Capital assets (net)	776,545		776,545
Total assets	<u>\$ 1,009,980</u>	<u>\$ 2,301,626</u>	<u>\$ 3,311,606</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 50,447	\$	\$ 50,447
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	7,203		7,203
Promise to give	5,000		5,000
Portion due or payable after one year:			
Promise to give	70,000		70,000
Total liabilities	<u>\$ 132,650</u>	<u>\$ —</u>	<u>\$ 132,650</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 776,545	\$	\$ 776,545
Restricted for:			
Other purposes-expendable	6,100	2,429	8,529
Other purposes-nonexpendable		2,000,000	2,000,000
Unrestricted	94,685	299,197	393,882
Total net assets	<u>\$ 877,330</u>	<u>\$ 2,301,626</u>	<u>\$ 3,178,956</u>

**CITY OF FLORENCE, ALABAMA
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Florence- Lauderdale Public Library</u>	<u>Florence Library Foundation, Inc.</u>	<u>Total</u>
Component units:							
<u>September 30, 2008</u>							
Florence-Lauderdale Public Library	\$ 1,068,657	\$ 59,882	\$ 1,092,789	\$	\$ 84,014	\$	\$ 84,014
<u>June 30, 2008</u>							
Florence Library Foundation, Inc.	<u>152,995</u>					<u>(152,995)</u>	<u>(152,995)</u>
Total component units	<u>\$ 1,221,652</u>	<u>\$ 59,882</u>	<u>\$ 1,092,789</u>	<u>\$ —</u>	<u>\$ 84,014</u>	<u>\$ (152,995)</u>	<u>\$ (68,981)</u>
General revenues:							
Interest revenues					<u>1,806</u>	<u>111,102</u>	<u>112,908</u>
Change in net assets					<u>\$ 85,820</u>	<u>\$ (41,893)</u>	<u>\$ 43,927</u>
Net assets—beginning					<u>791,510</u>	<u>2,343,519</u>	<u>3,135,029</u>
Net assets—ending					<u>\$ 877,330</u>	<u>\$ 2,301,626</u>	<u>\$ 3,178,956</u>

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



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**CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

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

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

Based upon the foregoing criteria and information, the City considers the Florence-Lauderdale Public Library (the "Library") and the Florence Library Foundation, Inc. (the "Foundation") to be discretely presented component units for financial reporting purposes. The Library board is appointed by the City Council and the City makes annual appropriations of revenues to the Library, as well as provides the Library's physical facility. The City essentially appoints a voting majority of the members of the Foundation board and the economic resources held by the Foundation are significant to the City. The financial information of the Foundation is presented on its fiscal year that ends on June 30. Complete financial statements for each of the individual component units may be obtained from their administrative offices.

Florence-Lauderdale Public Library
350 North Wood Avenue
Florence, Alabama 35630

Florence Library Foundation, Inc.
P. O. Box 1609
Florence, Alabama 35631

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related Organizations

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

Beautification Board, Civil Service Board, Historical Board, Housing and Construction Codes Appeals Board, Housing Authority, Florence-Lauderdale Public Library Board, Park and Recreation Board, Planning Commission, Tree Commission, and Zoning Adjustments.

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

Agri-Business Center and Farmers Market Board, Animal Control Board, Health Care Authority, Industrial Development Board, Lauderdale County Regional Library System Board, Florence-Lauderdale County Port Authority, ALA-TENN Railroad Authority, Riverbend Center for Mental Health, Scope 310 Board, Shoals Economic Development Authority, and Florence/Lauderdale Tourism Board.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

Government-wide financial statements consist of a statement of net assets and a statement of activities. These financial statements report all of the non-fiduciary activities of the primary government and its component units. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges from services and are usually intended by management to be financially self-sustaining. When appropriate, surplus or deficits of the internal service funds are allocated back to City departments at the government-wide statement of activities to avoid duplication of revenues and expenses. This creates a reconciling item between the business-type activities column and the proprietary fund statements at the fund level as reflected on the bottom of each fund-level statement.

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

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property and sales taxes, grants, entitlements, and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this 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 affected.

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

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

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds—Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The City reports the following major governmental fund:

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

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

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

Enterprise Funds—Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City reports the following major enterprise funds:

Electricity—This fund accounts for the operations of electric distribution to residential and commercial users within its service area.

Gas—This fund accounts for the operations of natural gas distribution to residential and commercial users within its service area.

Water and wastewater—This fund accounts for the operations of water treatment and distribution and wastewater treatment services to residential and commercial users within its service area.

Solid waste—This fund accounts for the operations of solid waste collection and disposal, recycling services, and sanitary landfill operations within its service area.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from providing services in connection with the primary activity of the fund's ongoing operations. The principal operating revenues of the enterprise funds and the internal service funds are charges to customers for services and benefit fees. Operating expenses include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The City has elected to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 that do not conflict with GASB Statements in accounting and reporting for its enterprise funds.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Funds—Internal service funds account for the financing of services provided to other departments of the City on a cost-reimbursement basis. The City's internal service fund accounts for the risk management (self-insurance) programs for employee group health insurance, general liability insurance, and workers' compensation insurance.

Fiduciary Funds—Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is divided into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. These funds are used to account for assets held by the City under a trust agreement for a specified purpose and are therefore not available to support the City's own programs. Agency funds are custodial in nature and do not involve measurement of results of operations.

Discretely Presented Component Unit—Foundation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with GAAP.

The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Foundation has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets. The Foundation has also adopted SFAS No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

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

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

For purposes of the statement of cash flows and for presentation on the statement of net assets/balance sheet, investments with an original maturity of three (3) months or less are considered to be cash equivalents. Special funds created under trust indentures are reported as restricted assets and are considered cash equivalents in the statement of cash flows.

Fair Value of Financial Instruments—Discretely Presented Component Unit—Foundation

The financial instruments, which consist primarily of cash and a promise to give, approximate their fair values.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “Interfund receivables/payables”. Interfund balances are eliminated on the statement of net assets, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as “Internal balances”.

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

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

Contributions and Restrictions—Discretely Presented Component Unit—Foundation

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received, if any, that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services, Materials, and Facilities—Discretely Presented Component Unit—Foundation

The Foundation receives minimal amounts of donated services, materials, and facilities. No amounts have been recognized in the statement of activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

Inventories

Inventories are valued at the lower of average cost or market using the first-in, first-out method and are expensed when used. Inventories consist of materials and supplies held for consumption or construction projects.

Prepaid Expenses

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

Restricted Assets

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

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

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resources set aside in separate escrow accounts whose use is limited to the payment of claims and damages from self-insurance funds are reported as restricted.

Capital Assets

All capital assets are recorded at historical cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at estimated fair market value at the date of donation. The City's capitalization levels are \$5,000 on tangible personal property; \$10,000 for buildings and improvements and land improvements; and, \$100,000 on infrastructure. The City's infrastructure consists of streets, bridges, curbs, sidewalks, traffic signals, and storm sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

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

<u>Description</u>	<u>Years</u>
Governmental Activities	
Buildings and improvements	40
Land improvements	25
Infrastructure	25
Equipment, vehicles, furniture and fixtures	5
Business-type Activities	
Utility plant	5 - 75

The Library's capital assets are recorded at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at the fair market value on the date donated. The Library maintains a capitalization threshold of \$1,000. Repairs and maintenance that do not add to the value of the asset or materially extend an asset's life are not capitalized. All capital assets are depreciated. Depreciation is computed using the straight-line method over the assets' estimated useful lives ranging from five to twelve (5-12) years.

Compensated Absences

The City accrues its liability for earned but unpaid compensated absences costs. The City's annual leave policy provides for a minimum of five (5) days and a maximum of twenty-six (26) days of annual leave to all regular full-time employees, depending on years of service, date of hire, and department employed, and is accrued as a liability at the current rate of pay. The sick leave policy provides that all regular full-time employees earn sick leave at the rate of one and ¼ days (1.25) days per month of employment. Sick leave accumulates automatically without limit. After fifteen (15) years of continuous service, accumulated sick leave is accrued as a liability at a rate of one (1) day out of every five (5) days at the current rate of pay. Upon separation of employment for employees with 15 or more years of service, the City deposits the employee's sick leave accrual into a Post Employment Health Plan (PEHP) account. This monetary benefit is non-taxable to the employee; however, its use is restricted to fund future health insurance premiums. In addition to the sick leave, the City currently contributes \$25 per month per employee into a separate PEHP account. Use of these funds is restricted to allowable medical expenses and can only be accessed after termination of employment. Additionally, the City accrues for unpaid holidays at the employee's current rate of pay.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Full-time employees of the Library are entitled to paid annual and sick leave depending on length of service and other factors. The entire compensated absences liability is reported on the government-wide financial statements and on the governmental fund financial statements since the Library expects the liability to be liquidated with expendable available financial resources.

Long-term Obligations

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

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

Net Assets/Fund Equity

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

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

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific purpose, but only if the restrictions are narrower in scope than the purpose for which the related individual funds were established. Any designations of fund balance represent tentative management plans that are subject to change.

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Income Taxes—Discretely Presented Component Unit—Foundation

The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and did not conduct any unrelated business activity. Therefore, the Foundation has made no provision for federal income taxes in the accompanying financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY PROCESS

Annual budgetary appropriations are adopted and used during the fiscal year as a management control device on a basis consistent with accounting principles generally accepted in the United States of America. At the close of each fiscal year, the unspent balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. The original and final/amended budget amounts are reflected in these financial statements.

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, 2008:

Miscellaneous Grants Fund	\$ 387,275
1995 Capital Sales Tax Fund	657,373
Drug Task Force Grant Fund	112,321
Series 2003-B G.O. Warrants Fund	3,564,351
Series 2007 G.O. Warrants Fund	1,438,390

Except as noted below, the expenditures in excess of appropriations were provided by available fund balance in the funds.

C. DEFICIT FUND EQUITY

As of September 30, 2008, the Miscellaneous Grants Fund had a deficit fund balance of \$10,513, which the City plans to fund through an interfund transfer from the General Fund. In addition, the Series 2003-B G.O. Warrants Fund had a deficit fund balance of \$4,003,917, which the City plans to fund through sales tax revenues traditionally set aside for capital projects over a period of five years.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES

Receivables

Receivables at year-end were as follows:

	Accounts	Taxes	Due from Other Governments	Other	Total Receivables
Governmental Activities					
General Fund	\$ 144,953	\$ 3,043,026	\$ 279,388	\$ 9,055	\$ 3,476,422
Other governmental funds	2,042		245,129		247,171
Internal service funds	3,641				3,641
Total—governmental activities	\$ 150,636	\$ 3,043,026	\$ 524,517	\$ 9,055	\$ 3,727,234
Business-type Activities					
Electricity	\$ 9,291,100	\$ —	\$ 324,515	\$ 1,329,121	\$ 10,944,736
Gas	1,718,210		36,946	191,835	1,946,991
Water and wastewater	1,373,481		9,069	1,554,904	2,937,454
Solid waste	365,195				365,195
Less: allowance for bad debts	535,651				535,651
Total—business-type activities	\$ 12,212,335	\$ —	\$ 370,530	\$ 3,075,860	\$ 15,658,725

Loan receivables consist of amounts due from the Florence-Lauderdale Tourism Board, the University of North Alabama, and various commercial rehabilitation loans. Loans receivable amounted to \$1,067,846 at year-end, net of an allowance for bad debts of \$754,691.

Payables

Payables at year-end were as follows:

	Vendors	Salaries and Benefits	Due to Other Governments	Accrued Interest	Total Payables
Governmental Activities					
General Fund	\$ 585,947	\$ 710,806	\$ 1,238,139	\$ 50,484	\$ 2,585,376
Other governmental funds	1,429,265		1,474,789	286,304	3,190,358
Internal service funds	236,344				236,344
Total—governmental activities	\$ 2,251,556	\$ 710,806	\$ 2,712,928	\$ 336,788	\$ 6,012,078
Business-type Activities					
Electricity	\$ 13,736,521	\$ 216,163	\$ 27,573	\$ -	\$ 13,980,257
Gas	1,636,336	99,325	232,615		1,968,276
Water and wastewater	1,123,657	98,848	338,727		1,561,232
Solid waste	68,865	59,527			128,392
Total—business-type activities	\$ 16,565,379	\$ 473,863	\$ 598,915	\$ -	\$ 17,638,157
Component Unit					
Public Library	\$ 32,903	\$ 17,544	\$ -	\$ -	\$ 50,447

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES (Continued)

Promise to Give—Discretely Presented Component Units

The Library has recorded an unconditional promise to give of \$75,000 to the Foundation, and accordingly, the Foundation has recorded a pledge receivable in the same amount.

NOTE 4—INTERFUND BALANCES

Interfund balances at September 30, 2008 consisted of the following:

		Payables			
		General Fund	Other Governmental	Internal Service	Total
Receivables	General fund	\$ —	\$ 517,965	\$ 25,238	\$ 543,203
	Other governmental	630,261	5,514		635,775
	Internal service		4,000,000	2,940	4,002,940
	Total	<u>\$ 630,261</u>	<u>\$ 4,523,479</u>	<u>\$ 28,178</u>	<u>\$ 5,181,918</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

In the current fiscal year, the City's General Liability Insurance Fund and Workers' Compensation Insurance Fund loaned \$4,000,000 to the Series 2003-B G.O. Warrants Capital Projects Fund to provide financial support for current capital projects. These loans are expected to be repaid ratably over a 5-year period along with interest computed at a market rate.

NOTE 5—INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2008 consisted of the following:

		Transfer from		
		General Fund	Other Governmental	Total
Transfer to	General fund	\$ —	\$ 309,281	\$ 309,281
	Other governmental	9,270,434	4,199,326	13,469,760
	Total	<u>\$ 9,270,434</u>	<u>\$ 4,508,607</u>	<u>\$ 13,779,041</u>

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

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 6—RESTRICTED ASSETS

Governmental Activities

Resources set aside in separate escrow accounts whose use is limited to the payment of claims and damages from self-insurance funds are reported as restricted assets. At year-end, the amounts held for the general liability insurance fund and workers' compensation insurance fund was \$50,000 and \$100,000, respectively, and are considered expendable.

In compliance with the bond financing agreement, certain amounts are required to be deposited monthly into a restricted fund for debt service. These funds are invested in U. S. government securities and are carried at fair market value, as follows:

Series 2003-A Warrant Fund

Short-term U. S. Government Securities (Interest yield rate of 0.87%)	\$ 127,654
Total restricted cash and investments	<u>\$ 127,654</u>

Business-type Activities

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

Electricity Department

Funds created for debt service by the bond financing agreement are as follows:

Series 1999 Warrant Funds

Short-term U. S. Government Securities (Interest yield rate of 1.52%)	\$ 150,353
Accrued interest receivable	158

Series 1999 Debt Service Reserve Fund

Short-term U. S. Government Securities (Interest yield rate of 1.52%)	913,725
Accrued interest receivable	<u>1,155</u>
Total restricted cash and investments	<u>\$ 1,065,391</u>

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 6—RESTRICTED ASSETS (Continued)

Gas Department

Funds created for debt service by the bond financing agreement are as follows:

Series 1998 Warrant Funds		
Short-term U. S. Government Securities (Interest yield rate of 1.52%)	\$	62,640
Accrued interest receivable		56
Series 1998 Debt Service Reserve Fund		
Short-term U. S. Government Securities (Interest yield rate of 1.52%)		456,775
Accrued interest receivable		577
Total restricted cash and investments	\$	520,048

Water and Wastewater Department

Funds created for debt service by the bond financing agreements are as follows:

Series 1995 Warrant Funds		
Short-term U. S. Government Securities (Interest yield rate of 1.52%)	\$	118,603
Accrued interest receivable		96
Series 1995 Debt Service Reserve Fund		
Short-term U. S. Government Securities (Interest yield rate of 1.52%)		1,262,844
Accrued interest receivable		1,583
SRF Series 1998 Warrant Funds		
Short-term U. S. Government Securities (Interest yield rate of 1.03%)		3,301,974
Accrued interest receivable		3,035
SRF Series 2006 Warrant Funds		
Short-term U. S. Government Securities (Interest yield rate of 1.13%)		52,682
Total restricted cash and investments	\$	4,740,817

NOTE 7—STORAGE GAS

Business-type Activities

Gas Department

The Department has purchased a volume of gas storage capacity from certain gas suppliers. This gas is purchased in off demand periods during the year and is sold during peak demand periods. Payment for the gas is made when allotted to the storage facility by the supplier. The Department expenses the gas as it is sold and used by customers. At June 30, 2008, the Department had \$1,112,158 in storage gas that is valued using the weighted average method.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 8—CAPITAL ASSETS

Capital asset activity for the fiscal year is as follows:

	Primary Government			
	Beginning Balance	Additions and Transfers	Retirements and Transfers	
Governmental Activities				
Nondepreciable assets:				
Land	\$ 6,704,973	\$ —	\$ —	\$ 6,704,973
Construction in progress	16,150,001	4,559,258	7,883,039	12,826,220
Depreciable assets:				
Land improvements	15,246,169	7,918,861		23,165,030
Buildings	36,698,448	642,938		37,341,386
Equipment and vehicles	18,277,696	1,253,138	289,407	19,241,427
Infrastructure	131,076,828	10,290,629		141,367,457
Total capital assets	\$ 224,154,115	\$ 24,664,824	\$ 8,172,446	\$ 240,646,493
Less accumulated depreciation:				
Land improvements	\$ 4,432,409	\$ 629,229	\$ —	\$ 5,061,638
Buildings	11,760,750	880,051		12,640,801
Equipment and vehicles	13,422,051	1,746,692	262,282	14,906,461
Infrastructure	76,119,397	4,075,222		80,194,619
Total accumulated depreciation	\$ 105,734,607	\$ 7,331,194	\$ 262,282	\$ 112,803,519
Governmental activities capital assets, net	\$ 118,419,508	\$ 17,333,630	\$ 7,910,164	\$ 127,842,974
Business-type Activities				
<u>Utilities</u>				
Nondepreciable assets:				
Construction in progress:				
Electricity	\$ 3,193,920	\$ —	\$ 1,344,302	\$ 1,849,618
Gas	8,005	65,456	8,005	65,456
Water and wastewater	919,922	282,656		1,202,578
Solid waste	198,097		198,097	—
Depreciable assets:				
Utility plant in service:				
Electricity	126,295,202	7,931,843	1,266,446	132,960,599
Gas	49,821,739	783,865	153,514	50,452,090
Water and wastewater	128,125,341	3,989,513	433,540	131,681,314
Solid waste	10,108,200	743,671	460,809	10,391,062
Acquisition adjustment (net):				
Gas	254,092		10,661	243,431
Total capital assets	\$ 318,924,518	\$ 13,797,004	\$ 3,875,374	\$ 328,846,148
Less accumulated depreciation:				
Electricity	\$ 63,374,477	\$ 4,506,147	\$ 1,579,815	\$ 66,300,809
Gas	16,705,910	1,431,013	177,133	17,959,790
Water and wastewater	34,958,041	2,580,700	73,539	37,465,202
Solid waste	7,692,922	590,981	460,809	7,823,094
Total accumulated depreciation	\$ 122,731,350	\$ 9,108,841	\$ 2,291,296	\$ 129,548,895
Business-type activities capital assets, net	\$ 196,193,168	\$ 4,688,163	\$ 1,584,078	\$ 199,297,253
Depreciation expense was charged to the government functions as follows:				
General administration				\$ 486,717
Public safety				1,212,368
Public works				539,825
Public ways and facilities				3,759,643
Culture and recreation				1,332,641
Total depreciation expense				\$ 7,331,194

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 8—CAPITAL ASSETS (Continued)

	Discretely Presented Component Unit—Library			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Depreciable assets:				
Furniture and fixtures	\$ 113,278	\$ —	\$ —	\$ 113,278
Equipment	441,439	36,791		478,230
Library collection	1,975,205	164,522	78,483	2,061,244
Total capital assets	<u>\$ 2,529,922</u>	<u>\$ 201,313</u>	<u>\$ 78,483</u>	<u>\$ 2,652,752</u>
Less accumulated depreciation:				
Furniture and fixtures	\$ 42,032	\$ 10,795	\$ —	\$ 52,827
Equipment	337,714	45,451		383,165
Library collection	1,378,403	140,295	78,483	1,440,215
Total accumulated depreciation	<u>\$ 1,758,149</u>	<u>\$ 196,541</u>	<u>\$ 78,483</u>	<u>\$ 1,876,207</u>
Governmental activities capital assets, net	<u>\$ 771,773</u>	<u>\$ 4,772</u>	<u>\$ —</u>	<u>\$ 776,545</u>

Depreciation expense was charged to the government function as follows:

Library services	<u>\$ 196,541</u>
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Business-type Activities

Electricity Department

As of June 30, 2008, nondepreciable capital assets included in utility plant in service consisted of land, land rights, and right-of-ways in the amount of \$1,012,336.

Depreciation for the fiscal year totaled \$4,506,147 of which \$4,285,339 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts on the basis of vehicle usage, totaled \$220,808 for the fiscal year.

Gas Department

As of June 30, 2008, nondepreciable capital assets included in utility plant in service consisted of land, land rights, and right-of-ways in the amount of \$320,747.

Depreciation expense charged against income amounted to \$1,431,013 for the fiscal year.

During the 2000 fiscal year, the Department performed improvements to the Gate Station purchased in fiscal year 1998 and in doing so retired approximately one-half of the equipment. The Department was able to obtain information on the costs of the original equipment and based on that information, the Department was able to determine the cost of the retirements, and reclassify the difference between the purchase price of the Gate Station and the cost of the equipment. The Department then reclassified from Measuring and Regulating Equipment to the Gas Plant Acquisition Adjustment account, in the amount of \$355,373 and reclassified from Accumulated Depreciation to Accumulated Amortization of Gas Plant Acquisition Adjustment in the amount of \$15,992. The Department is amortizing the Acquisition Adjustment over a 33-year period. Current year amortization amounted to \$10,661. As of June 30, 2008, accumulated amortization amounted to \$111,942.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 8—CAPITAL ASSETS (Continued)

Water and Wastewater Department

As of June 30, 2008, nondepreciable capital assets included in utility plant in service consisted of land, land rights, and right-of-ways in the amount of \$968,039.

Depreciation expense charged against income amounted to \$2,580,700 for the fiscal year.

Solid Waste Fund

As of September 30, 2008, nondepreciable capital assets included in utility plant in service consisted of land, land rights, and right-of-ways in the amount of \$204,353.

Depreciation expense charged against income amounted to \$590,981 for the fiscal year.

NOTE 9—TVA POWER AND CONSERVATION PROGRAMS

Business-type Activities

Electricity Department

Conservation Program

The Department has entered into a contract with TVA to jointly establish a home energy conservation program that provides eligible customers with arranged financing for home energy conservation improvements. As a part of this contract, the Department is a fiscal intermediary for the conservation loans provided by the program. The Department had at June 30, 2008, a total of \$4,191,597 of energy conservation loans due from customers participating in the program. These loans are to be repaid in monthly installments by the customer over a 10-year period at an interest rate established by TVA. Under the terms of the contract, as amended, the Department has received advances on these loans in the amount of \$4,288,383 for the year ended June 30, 2008.

Power Programs

The Department participates in the TVA Power Invoice Prepayment Program. This program allows the Department to electronically transfer funds, which are nonrefundable, on a weekly basis to be applied to the monthly TVA power invoice. An early payment credit is computed on a daily basis at a rate established monthly by TVA and is added to the prepayment account. This rate has been slightly higher than the interest rate currently earned on temporary cash investments with local banks. The prepayment balance of \$6,153,721 as of June 30, 2008 is reflected as prepaid expenses.

The Department has entered into two (2) agreements with TVA under the Discounted Energy Units Program. The program entitles the Department to receive a discount of 2.5 cents per kWh on monthly contract volume of 217,500 kWh for a period of 10 years with the discount being applied to the monthly power invoice. The Department recorded the initial contract investments totaling \$1,000,000 together with deferred interest income totaling \$296,000 as deferred assets with an offsetting deferred liability for the interest income portion of the agreement. As of June 30, 2008, the balance of the investments was \$647,550 with \$517,950 reported as noncurrent prepaid purchased power and \$129,600 reported as current. The balance of the deferred interest income was \$147,550 with \$117,950 reported as noncurrent deferred interest income and \$29,600 as current.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS

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

	Primary Government				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Warrants, Series 1998-B	\$ 12,320,000	\$ —	\$ 790,000	\$ 11,530,000	\$ 825,000
General Obligation Warrants, Series 2003-A	3,755,000		1,370,000	2,385,000	1,395,000
Debt discount	(10,317)		(3,752)	(6,565)	(3,752)
General Obligation Warrants, Series 2003-B	20,000,000			20,000,000	—
Debt premium	88,129		5,508	82,621	5,508
General Obligation School Warrants, Series 2004	10,350,000		1,170,000	9,180,000	1,195,000
Debt premium	1,549		182	1,367	182
General Obligation Warrants, Series 2007	7,000,000		565,000	6,435,000	590,000
Compensated absences	2,319,950	1,065,373	927,980	2,457,343	982,937
Total Governmental Activities	\$ 55,824,311	\$ 1,065,373	\$ 4,824,918	\$ 52,064,766	\$ 4,989,875
Business-type Activities					
<u>Electricity</u>					
Electric Revenue Warrants, Series 1999	\$ 7,985,000	\$ —	\$ 500,000	\$ 7,485,000	\$ 525,000
Series 2008				—	—
Debt discount	(64,293)		(5,358)	(58,935)	(5,358)
Compensated absences	1,312,803	560,618	525,121	1,348,300	539,320
<u>Gas</u>					
Natural Gas Revenue Warrants, Series 1998	3,810,000		275,000	3,535,000	285,000
Series 2003	—			—	—
Series 2008				—	—
Debt discount	(24,578)		(2,168)	(22,410)	(2,169)
Compensated absences	454,827	190,780	181,931	463,676	185,470
<u>Water and wastewater</u>					
Water and Sewer Revenue Warrants, Series 1995	4,950,000		995,000	3,955,000	1,055,000
Debt discount	(52,134)		(11,803)	(40,331)	(11,804)
SRF Series 1998	16,875,000		935,000	15,940,000	970,000
SRF Series 1999	16,350,000		920,000	15,430,000	955,000
SRF Series 1999B	4,090,000		230,000	3,860,000	235,000
SRF Series 2000	9,965,000		545,000	9,420,000	570,000
SRF Series 2006	2,555,856	1,272,570	145,000	3,683,426	150,000
SRF Series 2007		669,781		669,781	—
Compensated absences	459,742	216,954	183,897	492,799	197,120
<u>Solid waste</u>					
Compensated absences	160,570	73,023	64,228	169,365	67,746
Total Business-type Activities	\$ 68,827,793	\$ 2,983,726	\$ 5,480,848	\$ 66,330,671	\$ 5,715,325

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS (Continued)

	Discretely Presented Component Unit—Library				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 5,647	\$ 1,556	\$ -	\$ 7,203	\$ 7,203
Promise to give	95,000		20,000	75,000	5,000
Total Governmental Activities	\$ 100,647	\$ 1,556	\$ 20,000	\$ 82,203	\$ 12,203

Compensated Absences Liability

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund; the Electricity, Gas, Water and Wastewater, and Solid Waste enterprise funds; and the Library.

Governmental Activities

On December 22, 1998, the City issued General Obligation Warrants, Series 1998-B in the amount of \$17,650,000 for capital improvements. These warrants bear interest rates of 3.3% to 5.0% and will be fully paid in 2019.

On July 23, 2003, the City issued General Obligation Warrants, Series 2003-A in the amount of \$9,210,000 to refund, on a current basis, the General Obligation Warrants, Series 1994-B. These warrants bear interest rate of 0.75% to 3.0% and will be fully paid in 2010.

On October 9, 2003, the City issued General Obligation Warrants, Series 2003-B in the amount of \$20,000,000 for capital improvements. These warrants bear interest rates of 3.50% to 5.00% and will be fully paid in 2023.

On April 22, 2004, the City issued General Obligation School Warrants, Series 2004 in the amount of \$12,405,000 to advance refund and redeem the City's Series 1995-A warrants on September 1, 2005. These warrants bear interest rates of 2.0% to 3.75% and will be fully paid in 2015.

On August 23, 2007, the City issued General Obligation Warrants, Series 2007 in the amount of \$7,000,000 for capital improvements to various City streets. These warrants bear an interest rate of 4.20% and will be fully paid in 2017.

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

Totals—Governmental Activities			
Year Ending September 30	Principal	Interest	Total Debt Service
2009	\$ 4,005,000	\$ 2,072,115	\$ 6,077,115
2010	3,700,000	1,937,907	5,637,907
2011	3,645,000	1,807,048	5,452,048
2012	3,795,000	1,669,457	5,464,457
2013	3,940,000	1,518,961	5,458,961
2014—2018	16,875,000	5,507,504	22,382,504
2019—2023	13,570,000	2,773,833	16,343,833
	\$ 49,530,000	\$ 17,286,825	\$ 66,816,825

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS (Continued)

Business-type Activities

Electricity Department

On July 8, 1999, the City issued Electric Revenue Warrants, Series 1999 in the amount of \$11,280,000 with interest rates ranging from 4.10% to 5.25% for capital improvements including the construction of electrical substations, construction of administrative offices at the warehouse, and replacement of underground high voltage cable. The net revenues of the system are irrevocably pledged for payment of the principal and interest of the warrants. Principal is payable annually on June 1. Interest is payable semi-annually on each June 1 and December 1.

The City issued Electric Taxable Revenue Warrants, Series 2008, on April 4, 2008 in the amount of \$2,000,000 under a line of credit agreement with CB&S Bank. Proceeds of the loan will be advanced as requested by the Department. The revenues of the system are pledged for payment of the principal and interest of these warrants. Interest is payable semi-annually on each July 1 and January 1 until maturity at a rate of 4.99%. The entire outstanding principal balance of these warrants is due on January 1, 2013. As of June 30, 2008, the Department had no advances outstanding.

All interest costs were expensed for the fiscal year.

Gas Department

On November 1, 1998, the City issued Natural Gas Revenue Warrants, Series 1998 in the amount of \$5,650,000 with interest rates ranging from 3.60% to 4.90% for capital improvements and cast-iron replacement within the system. The net revenues of the system are irrevocably pledged for payment of the principal and interest of the warrants. Principal is payable annually on June 1. Interest is payable semi-annually on each June 1 and December 1.

The City issued Natural Gas System Revenue Taxable Warrants, Series 2003, on April 30, 2003 in the amount of \$3,000,000 to purchase storage gas during off-peak periods. These warrants are issued under a line of credit agreement with Bank Independent. Proceeds of the loan will be advanced as requested by the Department. The revenues of the system are pledged for payment of the principal and interest of these warrants. Interest is payable semi-annually on each July 15 and January 15 until maturity at a rate of 4.99%. As of June 30, 2008, the Department had no advances outstanding. These warrants expired with the issuance of the Natural Gas Taxable Revenue Warrants, Series 2008, on April 4, 2008.

The City issued Natural Gas System Revenue Taxable Warrants, Series 2008, on April 4, 2008 in the amount of \$2,000,000 under a line of credit agreement with CB&S Bank. Proceeds of the loan will be advanced as requested by the Department. The revenues of the system are pledged for payment of the principal and interest of these warrants. Interest is payable semi-annually on each July 1 and January 1 until maturity at a rate of 4.99%. The entire outstanding principal balance of these warrants is due on July 1, 2012. As of June 30, 2008, the Department had no advances outstanding.

All interest costs were expensed for the fiscal year.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS (Continued)

Water and Wastewater Department

The City issued Water and Sewer Revenue Warrants, Series 1995, dated November 1, 1995 in the amount of \$13,470,000 with interest rates ranging from 3.5% to 5.625%. The warrants were issued for capital improvements to the Cypress Creek water treatment facility and to its wastewater system; advance refunding of the Water and Sewer Revenue Bonds, Series 1988, dated December 1, 1988, and advance refunding of the Water Revenue Bonds, Series A, dated May 1, 1988 (the "Killen Bonds"). The net revenues of the system were irrevocably pledged for payment of the principal and interest of these warrants. Principal and interest are payable semi-annually on each June 1 and December 1.

The City issued Water and Sewer Revenue Warrants, SRF Series 1998, dated January 27, 1998 in the amount of \$21,795,000 bearing an interest rate of 3.75%. The warrants were issued for capital improvements to the Cypress Creek wastewater treatment facility and the Sweetwater Creek Interceptor projects. The warrants were issued under the State of Alabama Revolving Fund (SRF) and were administered jointly by the Alabama Water Pollution Control Authority (AWPCA) and the Alabama Department of Environmental Management (ADEM). The revenues of the system were pledged for payment of the principal and interest of these Warrants and were issued in parity with the Series 1995 Revenue Warrants. Interest accrued on the warrants until September 1, 2000 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

The City issued Water and Sewer Revenue Warrants, SRF Series 1999, dated December 23, 1998 in the amount of \$21,250,000 bearing an interest rate of 3.5%. The warrants were issued for capital improvements to the Cypress Creek wastewater treatment facility and the Sweetwater Creek Interceptor projects. The warrants were issued under the SRF and were administered jointly by the AWPCA and ADEM. The revenues of the system were pledged for payment of the principal and interest of these Warrants and were issued in parity with the Series 1995 and 1998 Revenue Warrants. Interest accrued on the warrants until September 1, 2000 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

The City issued Water and Sewer Revenue Warrants, SRF Series 1999B, dated December 23, 1998, on October 19, 1999 in the amount of \$5,310,000 bearing an interest rate of 3.5%. The warrants were issued for capital improvements to the Cypress Creek wastewater treatment facility. The warrants were issued under the SRF and were administered jointly by the AWPCA and ADEM. The revenues of the system were pledged for payment of the principal and interest of these Warrants and were issued in parity with the Series 1995 and 1998 Revenue Warrants. Interest accrued on the warrants until September 1, 2000 and the Department, as a part of the capital project, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS (Continued)

The City issued Water and Sewer Revenue Warrants, SRF Series 2000, dated December 22, 1999 in the amount of \$12,835,000 bearing an interest rate of 3.85%. The warrants were issued for capital improvements to the Cypress Creek wastewater treatment facility and the River Interceptor projects. The warrants were issued under the SRF and were administered jointly by the AWPCA and ADEM. The revenues of the system were pledged for payment of the principal and interest of these Warrants and were issued in parity with the Series 1995 and 1998 Revenue Warrants. Interest accrued on the warrants until September 1, 2000 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

The City issued Water and Sewer Revenue Warrants, SRF Series 2006, dated January 15, 2006 in the amount of \$4,030,000 bearing an interest rate of 3.25%. The warrants were issued for constructing wastewater treatment and related facilities in connection with the sanitary sewer system. The warrants were issued under the SRF and were administered jointly by the AWPCA and ADEM. The revenues of the system were pledged for payment of the principal and interest of these Warrants. Interest accrued on the warrants until August 15, 2007 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually beginning on February 15, 2008. Interest is payable semi-annually on each February 15 and August 15, beginning in August 2007. As of June 30, 2008, the remaining balance of the warrants to be requested from ADEM was \$201,574.

The City issued Water and Sewer Revenue Warrants, SRF Series 2007, dated September 15, 2007 in the amount of \$8,825,000 bearing an interest rate of 3.50%. The warrants were issued for making certain improvements to the sanitary sewer system. The warrants were issued under the SRF and were administered jointly by the AWPCA and ADEM. The revenues of the system were pledged for payment of the principal and interest of these Warrants. Interest in the amount of \$321,062 has been accrued on the warrants until February 1, 2009 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually beginning on August 15, 2009. Interest is payable semi-annually on each February 15 and August 15, beginning in February 2009. As of June 30, 2008, the remaining balance of the warrants to be requested from ADEM was \$8,155,219.

Interest costs totaled \$2,357,713 for the fiscal year, of which \$321,062 was capitalized and \$2,036,651 was expensed.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 10—LONG-TERM OBLIGATIONS (Continued)

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

Year Ending June 30	Business-type Activities Totals—Electricity Department			Totals—Gas Department		
	Principal	Interest	Total	Principal	Interest	Total
			Debt Service			Debt Service
2009	\$ 525,000	\$ 387,233	\$ 912,233	\$ 285,000	\$ 165,835	\$ 450,835
2010	550,000	360,983	910,983	300,000	153,580	453,580
2011	580,000	333,483	913,483	310,000	140,680	450,680
2012	605,000	304,193	909,193	325,000	127,040	452,040
2013	640,000	273,338	913,338	340,000	112,415	452,415
2014—2018	3,720,000	832,841	4,552,841	1,975,000	299,390	2,274,390
2019—2023	865,000	45,413	910,413	—	—	—
2024—2028	—	—	—	—	—	—
2029	—	—	—	—	—	—
Totals	\$ 7,485,000	\$ 2,537,484	\$ 10,022,484	\$ 3,535,000	\$ 998,940	\$ 4,533,940

Year Ending June 30	Totals—Water and Wastewater Department			Totals—Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
			Debt Service			Debt Service
2009	\$ 3,935,000	\$ 2,240,754	\$ 6,175,754	\$ 4,745,000	\$ 2,793,822	\$ 7,538,822
2010	4,410,000	1,919,279	6,329,279	5,260,000	2,433,842	7,693,842
2011	4,595,000	1,876,609	6,471,609	5,485,000	2,350,772	7,835,772
2012	4,160,000	1,683,588	5,843,588	5,090,000	2,114,821	7,204,821
2013	3,675,000	1,535,623	5,210,623	4,655,000	1,921,376	6,576,376
2014—2018	20,535,000	5,541,171	26,076,171	26,230,000	6,673,402	32,903,402
2019—2023	15,655,000	1,789,004	17,444,004	16,520,000	1,834,417	18,354,417
2024—2028	3,745,000	482,413	4,227,413	3,745,000	482,413	4,227,413
2029	605,000	21,175	626,175	605,000	21,175	626,175
Totals	\$ 61,315,000	\$ 17,089,616	\$ 78,404,616	\$ 72,335,000	\$ 20,626,040	\$ 92,961,040

Less: amount of SRF funds available for disbursement	8,356,793	8,356,793
Total long-term debt as reported in the financial statements	\$ 52,958,207	\$ 63,978,207

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 11—CONDUIT DEBT OBLIGATION

Governmental Activities

The City issued General Obligation School Warrants, Series 1998-A in the amount of \$8,700,000 and entered into a cooperation agreement with the Florence City Board of Education whereby the Board received the proceeds for the sale of the warrants and the Board will make the subsequent repayment of the warrants. The outstanding balance of these warrants was \$5,690,000 as of September 30, 2008. In accordance with GASB standards, these warrants are not reported as liabilities in the accompanying financial statements.

NOTE 12—LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

Business-type Activities

Solid Waste Fund

State and federal laws and regulations require the City to place a final cover on its solid waste landfill 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 be paid only 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 amount reported as landfill closure and postclosure care liability at September 30, 2008 of \$1,830,876 represents the cumulative amount reported to date based on the estimated capacity of the landfill used to date. The City will recognize the remaining estimated cost of closure and postclosure care of \$438,124 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in the fiscal year 2008. The City has used 81 percent of the estimated capacity of the landfill as of September 30, 2008, and expects to close the landfill in the year 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 13—PROPERTY TAXES

Property taxes include amounts levied against all real and tangible personal property located within the City. Taxes are levied and collected by the Lauderdale County Revenue Commissioner who remits to the City its portion of the taxes collected, net of collection fees ranging from one to five percent (1-5%), depending on the type of tax collected. State law categorizes all property into four (4) classes:

<u>Class</u>	<u>Description</u>	<u>Assessment Percentage</u>
I	All property of public utilities	30%
II	All other property not otherwise classified	20%
III	Agricultural, forest, single family, owner-occupied residential property, and historic buildings and sites	10%
IV	All private passenger motor vehicles operated for personal and private use and not for hire, rent or compensation	15%

Assessed value is computed using an assessment percentage of its appraised market value. The full tax rate for the City for the year ended September 30, 2008 was 49 mills (\$0.049) of assessed value. Taxes are levied and due on October 1 and become delinquent after December 31 in each year (except motor vehicle taxes, which have varying levy and due dates). After December 31, penalties and interest are assessed. If real property taxes are not paid by May 15 following the due date, State law requires a tax sale.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 14—PENSION AND DEFERRED COMPENSATION PLANS

Governmental Activities and Business-type Activities

Pension Plan

Plan Description—The City of Florence, Alabama Employees' Retirement Plan is a single-employer defined benefit pension plan administered by General American Life Insurance Company of St. Louis (a subsidiary of MetLife) providing retirement benefits to plan members. The latest City of Florence Employees' Retirement Plan Actuarial Valuation Report can be obtained by contacting the manager of the Human Resources/Benefits Department.

Funding Policy—The contribution requirements for plan members is 2.56% of the first \$350 of monthly earnings (excluding overtime pay) plus 5.12% of monthly earnings in excess of \$350. Employer contributions are based on employee contributions using a factor of 2.75. Plan provisions and contribution requirements are established and may be amended by the City Council.

Annual Pension Cost and Net Pension Obligation—The City's annual pension cost and net pension obligation to the Plan for the latest actuarial valuation period were as follows:

Annual required contribution	\$ 3,487,461
Interest on net pension obligation	(68,058)
Adjustment to annual required contribution	<u>(112,514)</u>
Annual pension cost	\$ 3,306,889
Contributions made	<u>3,455,594</u>
Increase (decrease) in net pension obligation	\$ (148,705)
Net pension obligation—beginning of year	<u>(907,437)</u>
Net pension obligation—end of year	<u><u>\$ (1,056,142)</u></u>

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
October 1, 2007	\$ 3,306,889	104.5%	\$ (1,056,142)
October 1, 2006	3,238,203	98.4%	(907,437)
October 1, 2005	3,250,482	94.2%	(958,066)

Funded Status and Funding Progress—As of October 1, 2007, the most recent actuarial valuation date, the plan was 88.1% funded. The actuarial accrued liability for benefits was \$75.3 million and the actuarial value of assets was \$66.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$8.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$25.7 million, and the ratio of the UAAL to the covered payroll was 34.9%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 14—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Actuarial Methods and Assumptions—In the October 1, 2006 actuarial valuation, the entry age normal actuarial cost method with frozen initial liability was used. The actuarial assumptions included (a) 7.5% investment rate of return and (b) projected salary increases of 3.5% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a four-year period. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at October 1, 2006 was sixteen (16) years.

Deferred Compensation Plan

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

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

Discretely Presented Component Unit—Library

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

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

The Employees' Retirement System was established October 1, 1945, under the provisions of Act Number 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the **Code of Alabama 1975**, §§36-27-1 through 36-27-103, as amended, §§ 36-27-1250 through 36-27-139, as amended, and §§ 36-27B-1 through 36-27B-6, as amended. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Library authority to accept or reject various Cost-of-Living-Adjustments (COLAs) granted to retirees.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 14—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

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

Funding Policy—Employees of the Library are required to contribute 5% of their annual covered salary. The Library is required to contribute at an actuarially determined rate. The rate for the year ended September 30, 2008 was 12.34% of annual covered payroll based on the September 30, 2006 actuarial valuation as adjusted for COLAs granted to retirees.

Annual Pension Cost—For the year ended September 30, 2008, the Library's annual pension cost of \$39,042 was equal to the Library's required and actual contributions. The required contribution was determined as part of the September 30, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at September 30, 2006 included: (a) 8.00% investment rate of return, on present and future assets, (b) projected salary increases ranging from 4.61% to 7.75%, and (c) no COLAs. Both (a) and (b) included an inflation component of 4.50%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2006 was for 18 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2008	\$39,042	100%	\$0
September 30, 2007	\$31,385	100%	\$0
September 30, 2006	\$35,216	100%	\$0

Funded Status and Funding Progress—As of September 30, 2007, the most recent actuarial valuation date, the plan was 53.8% funded. The actuarial accrued liability for benefits was \$853,174 and the actuarial value of assets was \$458,731, resulting in an unfunded actuarial accrued liability (UAAL) of \$394,442. The covered payroll (annual payroll of active employees covered by the plan) was \$324,544 and the ratio of the UAAL to the covered payroll was 121.5%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether that actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 15—POSTRETIREMENT BENEFITS PLAN

Plan Description—Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”.

The City maintains a single-employer defined benefit postretirement benefits plan. The plan provides medical, dental, and life insurance benefits to eligible retired City employees. All health care benefits are provided through the City’s self-insurance fund. The plan does not issue a stand-alone financial report.

Membership of the plan consisted of the following at October 1, 2007, the date of the latest actuarial valuation:

Retirees currently receiving benefits	25
Active employees	680
Total	705

Funding Policy—The contribution requirements for plan members and the City are established and may be amended by the City Council. The City pays the entire cost of these benefits. A portion of the annual required contribution is financed on a pay-as-you-go basis. This portion is based on projected payments of benefits on behalf of current participants and is estimated at \$228,450 for the fiscal year. As a result, the initial annual required contribution was reduced to \$241,527, which represents the net assets placed in trust as of September 30, 2008.

Annual OPEB Cost and Net OPEB Obligation—The City’s annual other postemployment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation to the plan:

Annual required contribution	\$ 469,977
Interest on prior year net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost	\$ 469,977
Contributions made	469,977
Increase (decrease) in net OPEB obligation	\$ —
Net OPEB obligation—beginning of year	—
Net OPEB obligation—end of year	\$ —

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 15—POSTRETIREMENT BENEFITS PLAN (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2008	\$ 469,977	100.0%	\$ —
September 30, 2007	N/A	N/A	N/A
September 30, 2006	N/A	N/A	N/A

Because fiscal year 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

Funded Status and Funding Progress—As of October 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$4.2 million and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$26.1 million, and the ratio of the UAAL to the covered payroll was 16.1%.

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

Actuarial Methods and Assumptions—Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the October 1, 2007 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 6.5%, which is based on the historical and expected returns that the City earns on its investments, projected salary increases of 3.5% per year, and an annual healthcare cost trend of 10% initially that is reduced by decrements to an ultimate rate of 5% after seven years. These rates included a 3% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at October 1, 2007 was thirty years.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 16—JOINT OPERATION

In December 2006, the City and Lauderdale County entered into an informal arrangement to jointly acquire a commercial office building whereby each entity would own a 50% undivided interest in the building. Under the arrangement, the City manages the daily operations of the building. The City created a special revenue fund to account for the rents collected and related expenditures of the building. As of September 30, 2008, the fund balance was \$23,311, which will be used in the continuing operations and maintenance of the building. At such time that expenditures exceed revenues, the City will invoice the County for 50% of the shortfall. The City and County have plans to renovate and utilize portions of the building for administration and government services.

NOTE 17—LEASE COMMITMENTS

Business-type Activities

Electricity Department

The Department entered into a "Use Facilities" lease with TVA on April 21, 1983. This lease provides the Department with the use of facilities located in the Wilson Hydro Area. The lease shall continue in effect, for the term of the Power Contract dated July 6, 1966, between TVA and the City and shall include any extension, renewal, or replacement thereof. The Department operates under a five-year rolling Power Contract. Therefore, the future monthly lease payments will always be five years until the Department informs TVA of its intent to cancel the contract. The monthly charge has been recomputed to be \$16,781, effective April 1, 2007. Payments under this lease for the current year amounted to \$201,372. The future minimum annual rental payments for the succeeding five years are as follows:

Fiscal Year	Amount
<u>Ending</u>	
2009	\$ 201,372
2010	201,372
2011	201,372
2012	201,372
2013	201,372
Total	<u><u>\$ 1,006,860</u></u>

NOTE 18—CAPITAL CONTRIBUTION

Business-type Activities

Water and Wastewater Department

In December 2007, the City Council approved the donation agreement between the Department and the private sewer system owned by Clean Springs, LLC, whereby Clean Springs, LLC would donate to the Department the sewer system and an additional parcel of land upon which the Department has agreed to construct a new pumping station to replace an inadequate existing pumping station. Based on an appraisal, the Department recorded capital assets and a capital contribution in the amount of \$564,500.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 19—RISK MANAGEMENT

Governmental Activities and Business-type Activities

The City's risk management activities are recorded into three self-insurance funds. The purpose of these funds is to administer employee group health, property and liability, and workers' compensation insurance programs of the City on a cost-reimbursement basis. These funds account for the risk financing activities of the City but do not constitute a transfer of risk from the City.

The City retains risk of loss on the employee group health, property and liability, and a portion of workers' compensation insurance. For the insured portion of workers' compensation insurance, there have been no reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City has recorded an estimated liability for general liability insurance claims and has recorded an estimated liability for workers' compensation insurance claims. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience. At September 30, 2008, the carrying amounts of unpaid claims liability of the workers' compensation insurance fund was \$1,843,099, which has been computed on a present-value basis using a discount rate of 3.2%. The carrying amount of unpaid claims liability for the general liability insurance fund was \$700,390, which has not been discounted due to the lack of reinsurance.

With the implementation of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the workers' compensation insurance fund and the general liability insurance fund established a liability for both reported and unreported events, which includes estimates of both future payments of loss and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the City for the current fiscal year:

	Workers' Compensation Insurance	General Liability Insurance
Claims liability, October 1, 2007	\$ 1,367,249	\$ 850,722
Provision for (adjustment to) claims	2,030,758	(33,329)
Payment of claims	(1,554,908)	(117,003)
Claims liability, September 30, 2008	\$ 1,843,099	\$ 700,390

At September 30, 2008, assets available to pay claims for the employee group health insurance fund, general liability insurance fund, and workers' compensation insurance fund were \$913,061, \$5,537,015, and \$3,957,874, respectively.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 20—DEPOSITS AND INVESTMENTS

Governmental Activities and Business-type Activities

On April 17, 2007, the City adopted an investment policy to formalize the framework for the City's investment activities. The policy generally limits its investments to non-negotiable certificates of deposit. For the Electricity Department, the policy allows funds to be invested in the TVA Prepaid Power Program and the TVA Discounted Energy Unit Program. Under the terms of bond indentures, certain warrant funds have been established to satisfy continuing debt service requirements. These investments are governed by the bond indenture, held by the paying agent as required under the indenture, and invested in U. S. Government securities.

The custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the City will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. Certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they may be classified as "Investments" on the financial statements.

Discretely Presented Component Unit—Library

Financial instruments that potentially subject the Library to concentrations of credit risk consist primarily of cash and cash equivalents. The Library's cash management policies limit its exposure to concentrations of credit risk by maintaining primary cash accounts at financial institutions whose deposits are insured by the FDIC. At year-end, there were no deposits in excess of FDIC coverage. The amount in excess of FDIC coverage at year-end was \$72,124.

Discretely Presented Component Unit—Foundation

Financial instruments that potentially subject the Foundation to concentrations of credit risk include cash deposits with a commercial bank and a promise to give. The Foundation's cash management policies limit its exposure to concentrations of credit risk by maintaining primary cash accounts at financial institutions whose deposits are insured by the FDIC. The amount in excess of FDIC coverage at year-end was \$2,126,626.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 21—CONTINGENCIES AND COMMITMENTS

Governmental Activities

The City is a defendant in various claims and/or lawsuits. The outcome of these matters is uncertain as of the date of this report. The City management and legal counsel are of the opinion that any settlement resulting from such litigation would not materially affect the financial statements.

Bond arbitrage may be applicable to General Obligation Warrants when the proceeds were not expended within the legislated time period. At the present time, no determination of the amount to be refunded under rules of arbitrage can be ascertained.

The City enters into agreements with contractors for the construction of various capital projects. As of September 30, 2008, open contracts for construction totaled \$11,106,185 of which \$10,261,645 had been recorded as construction in progress.

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

The Public Park Authority of the Shoals, a public corporation created pursuant to State law by the Cities of Florence, Muscle Shoals, Sheffield, and Tuscumbia and the Counties of Colbert and Lauderdale, issued Special Obligation Bonds in the amount of \$17,925,000. These Special Obligation Bonds are to be payable from a new two-cent per gallon gasoline tax levied in Colbert and Lauderdale Counties. While it is anticipated that such gasoline taxes will be sufficient to pay the principal of and interest on these bonds, the Cities of Florence, Muscle Shoals, Sheffield, and Tuscumbia and the Counties of Colbert and Lauderdale have agreed to pay a portion of the debt service on the bonds if the gasoline taxes are insufficient to make such payments. The City's portion of such debt issued by The Public Park Authority of the Shoals is 25.3683%. During the current fiscal year, the City has not been required to remit any amounts for this debt service.

Business-type Activities

The Utility departments are parties to certain legal actions arising in the ordinary course of business. In management's opinion, the City had adequate insurance coverage and/or legal defenses, if needed, and do not believe that they will materially affect operations or financial position.

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

Electricity Department

In prior years, the Department has advanced refunded various debt issues by irrevocably depositing funds into escrow accounts to provide for the retirement of principal and interest of these issues. These funds consist of essentially risk-free investments in U.S. Government securities. A portion of the debt was loaned from the U.S. Department of Agriculture Rural Utilities Service. The outstanding balance of these defeased debt issues at June 30, 2008 was \$130,000.

CITY OF FLORENCE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Continued)

NOTE 21—CONTINGENCIES AND COMMITMENTS (Continued)

The Department enters into agreements with contractors for the construction and expansion of the system and for system maintenance. As of June 30, 2008, open contracts for construction totaled \$12,231 of which \$0 had been recorded as construction in progress. As of June 30, 2008, open contracts for system maintenance totaled \$3,397,260 of which \$742,137 had been recorded as current maintenance expense.

Gas Department

The Department entered into agreements with two energy suppliers to purchase natural gas in the futures market. These agreements allow the Department to purchase gas at current rates for delivery at a future time. If the quantities of gas purchased are not needed for resale during the month for which it was purchased, the Department could transport the gas to its storage facilities, or the agreements allow the suppliers to re-purchase the gas at market price. Thus, management does not believe that the risk of loss from the purchase commitments would materially affect the Department's operations or financial position. As of June 30, 2008, the Department had made purchase commitments amounting to \$3,018,654 for the subsequent fiscal year's gas needs.

Water and Wastewater Department

The Department enters into agreements with contractors for the construction and expansion of the system. As of June 30, 2008, open contracts for construction totaled \$6,061,072 of which \$289,229 had been recorded as construction in progress. As of June 30, 2008, open contracts for system maintenance totaled \$145,636 of which \$48,916 had been recorded as current maintenance expense.

NOTE 22—SUBSEQUENT EVENT

Governmental Activities

Subsequent to year-end, the City anticipates the advance refunding of certain debt obligations to benefit from favorable changes in market interest rates.



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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final	(See Note A)	
Budgetary fund balance—beginning	\$ 11,355,957	\$ 11,355,957	\$ 11,355,957	\$ —
Resources (inflows):				
Taxes:				
Sales, use, and lodging	\$ 27,456,760	\$ 27,456,760	\$ 27,407,712	\$ (49,048)
Property	10,448,800	10,448,800	10,601,421	152,621
Motor fuel	410,000	410,000	446,483	36,483
Tobacco	270,000	270,000	250,639	(19,361)
Alcoholic beverages	948,500	948,500	1,016,719	68,219
Other	100,000	100,000	52,323	(47,677)
Total taxes	<u>\$ 39,634,060</u>	<u>\$ 39,634,060</u>	<u>\$ 39,775,297</u>	<u>\$ 141,237</u>
Licenses and permits:				
Business	\$ 2,881,000	\$ 2,881,000	\$ 2,769,565	\$ (111,435)
Non-business	111,000	111,000	115,013	4,013
Total licenses and permits	<u>\$ 2,992,000</u>	<u>\$ 2,992,000</u>	<u>\$ 2,884,578</u>	<u>\$ (107,422)</u>
Fines and forfeitures	<u>\$ 1,105,500</u>	<u>\$ 1,105,500</u>	<u>\$ 1,475,204</u>	<u>\$ 369,704</u>
Charges for services:				
Cultural and recreational	\$ 1,328,275	\$ 1,328,275	\$ 1,476,198	\$ 147,923
Highways and streets	64,000	64,000	66,924	2,924
Other	65,250	65,250	59,775	(5,475)
Total charges for services	<u>\$ 1,457,525</u>	<u>\$ 1,457,525</u>	<u>\$ 1,602,897</u>	<u>\$ 145,372</u>
Intergovernmental	<u>\$ 915,810</u>	<u>\$ 915,810</u>	<u>\$ 904,472</u>	<u>\$ (11,338)</u>
Other:				
Interest	\$ 540,975	\$ 540,975	\$ 403,504	\$ (137,471)
Other	59,500	59,500	35,491	(24,009)
Total other	<u>\$ 600,475</u>	<u>\$ 600,475</u>	<u>\$ 438,995</u>	<u>\$ (161,480)</u>
Transfers from other funds	<u>\$ 305,000</u>	<u>\$ 305,000</u>	<u>\$ 309,281</u>	<u>\$ 4,281</u>
Amounts available for appropriation	<u>\$ 58,366,327</u>	<u>\$ 58,366,327</u>	<u>\$ 58,746,681</u>	<u>\$ 380,354</u>
Charges to appropriations (outflows):				
Current operating:				
General administration:				
Mayor's office	\$ 295,977	\$ 295,977	\$ 292,401	\$ 3,576
City council	295,124	295,124	249,013	46,111
Urban forestry	257,201	257,201	215,778	41,423
Purchasing and grants administration	192,341	192,341	190,656	1,685
Legal	231,350	231,350	213,489	17,861
Accounting	436,985	436,985	418,682	18,303
City clerk	471,948	471,948	425,018	46,930
Planning	288,656	288,656	288,942	(286)
Personnel	238,657	238,657	233,380	5,277
Administrative buildings	622,400	622,400	597,132	25,268
Building	625,910	625,910	610,504	15,406
Engineering	702,377	702,377	701,030	1,347
Elections	60,000	60,000	38,291	21,709
Total general administration	<u>\$ 4,718,926</u>	<u>\$ 4,718,926</u>	<u>\$ 4,474,316</u>	<u>\$ 244,610</u>

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(Continued)**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Public safety:				
Police	\$ 7,966,508	\$ 7,966,508	\$ 8,043,890	\$ (77,382)
Jail	520,000	520,000	460,643	59,357
Municipal court	463,198	463,198	443,604	19,594
Animal control	413,477	423,302	388,011	35,291
Fire	6,103,903	6,103,903	6,033,508	70,395
Total public safety	<u>\$ 15,467,086</u>	<u>\$ 15,476,911</u>	<u>\$ 15,369,656</u>	<u>\$ 107,255</u>
Public works:				
Streets	\$ 3,222,685	\$ 3,222,685	\$ 3,335,338	\$ (112,653)
Municipal lighting and utilities	809,000	809,000	868,417	(59,417)
Cemetery	258,098	258,098	237,055	21,043
Parking deck facility	81,498	81,498	93,605	(12,107)
Total public works	<u>\$ 4,371,281</u>	<u>\$ 4,371,281</u>	<u>\$ 4,534,415</u>	<u>\$ (163,134)</u>
Culture and recreation:				
Parks and recreation administration	\$ 1,452,443	\$ 1,452,443	\$ 1,521,063	\$ (68,620)
Parks	2,154,628	2,189,428	2,171,831	17,597
Golf course	989,569	989,569	1,081,997	(92,428)
Braly municipal stadium	213,323	213,323	262,953	(49,630)
Arts and museums	307,431	307,431	275,061	32,370
Total culture and recreation	<u>\$ 5,117,394</u>	<u>\$ 5,152,194</u>	<u>\$ 5,312,905</u>	<u>\$ (160,711)</u>
Nondepartmental:				
Other	\$ 1,262,450	\$ 1,262,450	\$ 1,223,651	\$ 38,799
Education—funding for school district	6,697,252	6,697,252	6,930,643	(233,391)
Transfers to other funds	9,283,510	9,283,510	9,270,434	13,076
Total nondepartmental	<u>\$ 17,243,212</u>	<u>\$ 17,243,212</u>	<u>\$ 17,424,728</u>	<u>\$ (181,516)</u>
Total charges to appropriations	<u>\$ 46,917,899</u>	<u>\$ 46,962,524</u>	<u>\$ 47,116,020</u>	<u>\$ (153,496)</u>
Budgetary fund balance—ending	<u>\$ 11,448,428</u>	<u>\$ 11,403,803</u>	<u>\$ 11,630,661</u>	<u>\$ 226,858</u>

**CITY OF FLORENCE, ALABAMA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 58,746,681
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(11,355,957)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(309,281)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 47,081,443</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 47,116,020
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(9,270,434)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 37,845,586</u>

Note B—Excess of Expenditures Over Appropriations

The following departments within the General Fund incurred expenditures in excess of appropriations for the year ended September 30, 2008:

General administration:

Planning	\$ 286
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Public safety:

Police	77,382
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Public works:

Streets	112,653
Municipal lighting and utilities	59,417
Parking deck facility	12,107

Culture and recreation:

Parks and recreation administration	68,620
Golf course	92,428
Braly municipal stadium	49,630

Nondepartmental:

Education—funding for school district	233,391
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The excess expenditures were provided for by available fund balance in the General Fund.



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CITY OF FLORENCE, ALABAMA

Schedule of Funding Progress

Employees' Retirement Plan						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)— Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
October 1, 2007	\$ 66,351,235	\$ 75,291,669	\$ 8,940,434	88.1%	\$ 25,653,135	34.9%
October 1, 2006	61,149,457	72,170,897	11,021,440	84.7%	24,300,964	45.4%
October 1, 2005	55,190,319	68,736,219	13,545,900	80.3%	23,418,971	57.8%

CITY OF FLORENCE, ALABAMA

Schedule of Funding Progress

Postretirement Benefits Plan						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)— Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
October 1, 2007	\$ -	\$ 4,186,288	\$ 4,186,288	0.0%	\$ 26,065,584	16.1%
October 1, 2006	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2005	N/A	N/A	N/A	N/A	N/A	N/A

Because fiscal year 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

FLORENCE-LAUDERDALE PUBLIC LIBRARY

Schedule of Funding Progress

Employees' Retirement Plan						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)— Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
September 30, 2007	\$ 458,731	\$ 853,174	\$ 394,443	53.8%	\$ 325,544	121.5%
September 30, 2006	411,480	783,418	371,938	52.5%	323,525	115.0%
September 30, 2005	368,109	721,282	353,173	51.0%	329,046	107.3%

CITY OF FLORENCE, ALABAMA
Schedule of Employer Contributions

Postretirement Benefits Plan		
Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
September 30, 2008	\$ 469,977	100.0%
September 30, 2007	N/A	N/A
September 30, 2006	N/A	N/A

Because fiscal year 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

SUPPLEMENTARY INFORMATION



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**CITY OF FLORENCE, ALABAMA
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008**

	Special Revenue Funds									
	State Gas Tax (\$.07)	State Gas Tax (\$.04)	County Gas Tax	Miscellaneous Grants	State Arts Council Grant	Community Development	1995 Capital Sales Tax	Drug Enforcement	Drug Task Force Grant	Municipal Court
ASSETS										
Cash and cash equivalents	\$ 457,201	\$ 190,331	\$ 257,217	\$ 17,628	\$	\$ 63,279	\$ 3,360,254	\$ 18,164	\$ 111,513	\$ 169,831
Receivables (net)	13,072	14,083	55,648	30,231			86,217		45,878	1,384
Accrued interest receivable	226	326	331				1,113			
Loan receivables (net)						548,298	91,083			
Interfund receivables		917			61,312		573,546			
Restricted cash and investments										
Total assets	<u>\$ 470,499</u>	<u>\$ 205,657</u>	<u>\$ 313,196</u>	<u>\$ 47,859</u>	<u>\$ 61,312</u>	<u>\$ 611,577</u>	<u>\$ 4,112,213</u>	<u>\$ 18,164</u>	<u>\$ 157,391</u>	<u>\$ 171,215</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable and accrued expenses	\$	\$	\$	\$ 17,441	\$	\$	\$ 1,649,217	\$ 9,930	\$ 121,587	\$ 144,176
Interfund payables			91,965	40,931		58,399	296,274		436	27,039
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 91,965</u>	<u>\$ 58,372</u>	<u>\$ —</u>	<u>\$ 58,399</u>	<u>\$ 1,945,491</u>	<u>\$ 9,930</u>	<u>\$ 122,023</u>	<u>\$ 171,215</u>
Fund balances										
Reserved for:										
Other purposes-nonexpendable	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Debt service										
Unreserved, reported in:										
Special revenue funds	470,499	205,657	221,231	(10,513)	61,312	553,178	2,166,722	8,234	35,368	
Capital project funds										
Total fund balances	<u>\$ 470,499</u>	<u>\$ 205,657</u>	<u>\$ 221,231</u>	<u>\$ (10,513)</u>	<u>\$ 61,312</u>	<u>\$ 553,178</u>	<u>\$ 2,166,722</u>	<u>\$ 8,234</u>	<u>\$ 35,368</u>	<u>\$ —</u>
Total liabilities and fund balance	<u>\$ 470,499</u>	<u>\$ 205,657</u>	<u>\$ 313,196</u>	<u>\$ 47,859</u>	<u>\$ 61,312</u>	<u>\$ 611,577</u>	<u>\$ 4,112,213</u>	<u>\$ 18,164</u>	<u>\$ 157,391</u>	<u>\$ 171,215</u>

**CITY OF FLORENCE, ALABAMA
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008
(Continued)**

	Special Revenue Funds		Debt Service Fund	Capital Projects Funds				Permanent Fund Cemetery Perpetual Care	Total Other Governmental Funds	
	Flo-Laud Government Building	Total		Municipal Capital Improvement	Economic Development	Series 2003-B G.O. Warrants	Series 2007 G.O. Warrants			Total
ASSETS										
Cash and cash equivalents	\$ 49,831	\$ 4,695,249	\$ —	\$ 423,353	\$ 1,607,765	\$ 282,317	\$ 958,174	\$ 3,271,609	\$ 246,567	\$ 8,213,425
Receivables (net)	658	247,171	—	—	—	—	—	—	—	247,171
Accrued interest receivable	—	1,996	—	181	3,347	—	—	3,528	102	5,626
Loan receivables (net)	—	639,381	—	—	—	—	—	—	—	639,381
Interfund receivables	—	635,775	—	—	—	—	—	—	—	635,775
Restricted cash and investments	—	—	127,654	—	—	—	—	—	—	127,654
Total assets	\$ 50,489	\$ 6,219,572	\$ 127,654	\$ 423,534	\$ 1,611,112	\$ 282,317	\$ 958,174	\$ 3,275,137	\$ 246,669	\$ 9,869,032
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable and accrued expenses	\$ 27,178	\$ 1,969,529	\$ —	\$ —	\$ —	\$ 286,234	\$ 934,595	\$ 1,220,829	\$ —	\$ 3,190,358
Interfund payables	—	515,044	—	—	—	4,000,000	—	4,000,000	8,435	4,523,479
Total liabilities	\$ 27,178	\$ 2,484,573	\$ —	\$ —	\$ —	\$ 4,286,234	\$ 934,595	\$ 5,220,829	\$ 8,435	\$ 7,713,837
Fund balances										
Reserved for:										
Other purposes-nonexpendable	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 238,234	\$ 238,234
Debt service	—	—	127,654	—	—	—	—	—	—	127,654
Unreserved, reported in:										
Special revenue funds	23,311	3,734,999	—	—	—	—	—	—	—	3,734,999
Capital project funds	—	—	—	423,534	1,611,112	(4,003,917)	23,579	(1,945,692)	—	(1,945,692)
Total fund balances	\$ 23,311	\$ 3,734,999	\$ 127,654	\$ 423,534	\$ 1,611,112	\$ (4,003,917)	\$ 23,579	\$ (1,945,692)	\$ 238,234	\$ 2,155,195
Total liabilities and fund balance	\$ 50,489	\$ 6,219,572	\$ 127,654	\$ 423,534	\$ 1,611,112	\$ 282,317	\$ 958,174	\$ 3,275,137	\$ 246,669	\$ 9,869,032

CITY OF FLORENCE, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Special Revenue Funds									
	State Gas Tax (\$.07)	State Gas Tax (\$.04)	County Gas Tax	Miscellaneous Grants	State Arts Council Grant	Community Development	1995 Capital Sales Tax	Drug Enforcement	Drug Task Force Grant	Municipal Court
REVENUES										
Taxes	\$ 148,086	\$ 160,251	\$ 329,008	\$	\$	\$	\$	\$	\$	\$
Intergovernmental				417,604		758,177	700,387		189,441	
Interest revenues	10,307	6,244	6,752	802		45	119,950	382	2,349	
Program revenues						22,805		23,650	55,064	
Miscellaneous										
Total revenues	<u>\$ 158,393</u>	<u>\$ 166,495</u>	<u>\$ 335,760</u>	<u>\$ 418,406</u>	<u>\$ —</u>	<u>\$ 781,027</u>	<u>\$ 820,337</u>	<u>\$ 24,032</u>	<u>\$ 246,854</u>	<u>\$ —</u>
EXPENDITURES										
Current operating:										
General administration	\$	\$	\$	\$ 298,949	\$	\$ 127,917	\$ 139,064	\$	\$	\$
Public safety				82,864			33,000	6,927	238,474	
Public works		21,316				123,702	4,094			
Culture and recreation					7,604		20,323			
Other						297,198	32,438			
Education—funding for school district							1,200,138			
Capital outlay and improvements	50,100			70,662			3,399,970	19,089	75,847	
Debt service:										
Principal payments										
Interest and fiscal charges										
Total expenditures	<u>\$ 50,100</u>	<u>\$ 21,316</u>	<u>\$ —</u>	<u>\$ 452,475</u>	<u>\$ 7,604</u>	<u>\$ 548,817</u>	<u>\$ 4,829,027</u>	<u>\$ 26,016</u>	<u>\$ 314,321</u>	<u>\$ —</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 108,293</u>	<u>\$ 145,179</u>	<u>\$ 335,760</u>	<u>\$ (34,069)</u>	<u>\$ (7,604)</u>	<u>\$ 232,210</u>	<u>\$ (4,008,690)</u>	<u>\$ (1,984)</u>	<u>\$ (67,467)</u>	<u>\$ —</u>
OTHER FINANCING SOURCES (USES)										
Transfers in	\$	\$	\$	\$	\$	\$	\$ 7,336,733	\$	\$	\$
Transfers out		(83,520)	(344,000)				(4,071,806)			
Total other financing sources (uses)	<u>\$ —</u>	<u>\$ (83,520)</u>	<u>\$ (344,000)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,264,927</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net change in fund balances	<u>\$ 108,293</u>	<u>\$ 61,659</u>	<u>\$ (8,240)</u>	<u>\$ (34,069)</u>	<u>\$ (7,604)</u>	<u>\$ 232,210</u>	<u>\$ (743,763)</u>	<u>\$ (1,984)</u>	<u>\$ (67,467)</u>	<u>\$ —</u>
Fund balances—beginning	<u>362,206</u>	<u>143,998</u>	<u>229,471</u>	<u>23,556</u>	<u>68,916</u>	<u>320,968</u>	<u>2,910,485</u>	<u>10,218</u>	<u>102,835</u>	<u>—</u>
Fund balances—ending	<u>\$ 470,499</u>	<u>\$ 205,657</u>	<u>\$ 221,231</u>	<u>\$ (10,513)</u>	<u>\$ 61,312</u>	<u>\$ 553,178</u>	<u>\$ 2,166,722</u>	<u>\$ 8,234</u>	<u>\$ 35,368</u>	<u>\$ —</u>

CITY OF FLORENCE, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(Continued)

	Special Revenue Funds		Debt Service Fund	Capital Projects Funds				Permanent Fund Cemetery Perpetual Care	Total Other Governmental Funds	
	Flo-Laud Government Building	Total		Municipal Capital Improvement	Economic Development	Series 2003-B G.O. Warrants	Series 2007 G.O. Warrants			Total
REVENUES										
Taxes	\$	\$ 637,345	\$	\$	\$	\$	\$ —	\$	\$ 637,345	
Intergovernmental		1,980,085		258,837		25,270	284,107		2,264,192	
Interest revenues	2,805	149,636	10,202	9,982	54,346	23,013	113,407	200,748	360,586	
Program revenues	297,796	399,315						—	409,442	
Miscellaneous	66	66						—	66	
Total revenues	\$ 300,667	\$ 3,166,447	\$ 10,202	\$ 268,819	\$ 54,346	\$ 48,283	\$ 113,407	\$ 484,855	\$ 10,127	\$ 3,671,631
EXPENDITURES										
Current operating:										
General administration	\$ 356,746	\$ 922,676	\$	\$ 10,454	\$	\$	\$ 10,454	\$	\$ 933,130	
Public safety		361,265					—		361,265	
Public works		149,112					—		149,112	
Culture and recreation		27,927					—		27,927	
Other		244,112					—		244,112	
Education—funding for school district		1,200,138					—		1,200,138	
Capital outlay and improvements		3,615,668		139,023		5,664,351	6,438,390	12,241,764	15,857,432	
Debt service:										
Principal payments		—	3,895,000				—		3,895,000	
Interest and fiscal charges		—	2,181,138				—		2,181,138	
Total expenditures	\$ 356,746	\$ 6,520,898	\$ 6,076,138	\$ 149,477	\$ —	\$ 5,664,351	\$ 6,438,390	\$ 12,252,218	\$ —	\$ 24,849,254
Excess (deficiency) of revenues over expenditures	\$ (56,079)	\$ (3,354,451)	\$ (6,065,936)	\$ 119,342	\$ 54,346	\$ (5,616,068)	\$ (6,324,983)	\$ (11,767,363)	\$ 10,127	\$ (21,177,623)
OTHER FINANCING SOURCES (USES)										
Transfers in	\$	\$ 7,336,733	\$ 6,133,027	\$	\$	\$	\$	\$ —	\$	\$ 13,469,760
Transfers out		(4,499,326)						—	(9,281)	(4,508,607)
Total other financing sources (uses)	\$ —	\$ 2,837,407	\$ 6,133,027	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (9,281)	\$ 8,961,153
Net change in fund balances	\$ (56,079)	\$ (517,044)	\$ 67,091	\$ 119,342	\$ 54,346	\$ (5,616,068)	\$ (6,324,983)	\$ (11,767,363)	\$ 846	\$ (12,216,470)
Fund balances—beginning	79,390	4,252,043	60,563	304,192	1,556,766	1,612,151	6,348,562	9,821,671	237,388	14,371,665
Fund balances—ending	\$ 23,311	\$ 3,734,999	\$ 127,654	\$ 423,534	\$ 1,611,112	\$ (4,003,917)	\$ 23,579	\$ (1,945,692)	\$ 238,234	\$ 2,155,195

**CITY OF FLORENCE, ALABAMA
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2008**

	Governmental Activities—Internal Service Funds			Total
	Employee Group Health Insurance	General Liability Insurance	Workers' Compensation Insurance	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 907,998	\$ 475,898	\$ 49,009	\$ 1,432,905
Investments		2,500,000	2,300,000	4,800,000
Receivables (net)	3,641			3,641
Accrued interest receivable	1,422	8,177	8,865	18,464
Interfund receivables		2,502,940	1,500,000	4,002,940
Total current assets	\$ 913,061	\$ 5,487,015	\$ 3,857,874	\$ 10,257,950
Noncurrent assets				
Restricted cash and cash equivalents	\$ —	\$ 50,000	\$ 100,000	\$ 150,000
Total noncurrent assets	\$ —	\$ 50,000	\$ 100,000	\$ 150,000
Total assets	\$ 913,061	\$ 5,537,015	\$ 3,957,874	\$ 10,407,950
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$ 78,855	\$ 31,942	\$ 125,547	\$ 236,344
Interfund payables	28,178			28,178
Noncurrent liabilities				
Claims reserve		700,390	1,843,099	2,543,489
Total liabilities	\$ 107,033	\$ 732,332	\$ 1,968,646	\$ 2,808,011
NET ASSETS				
Restricted for:				
Other purposes	\$ 806,028	\$ 50,000	\$ 100,000	\$ 150,000
Unrestricted	806,028	4,754,683	1,889,228	7,449,939
Total net assets	\$ 806,028	\$ 4,804,683	\$ 1,989,228	\$ 7,599,939

**CITY OF FLORENCE, ALABAMA
 COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN FUND NET ASSETS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Governmental Activities—Internal Service Funds			
	Employee Group Health Insurance	General Liability Insurance	Workers' Compensation Insurance	Total
Operating revenues				
User charges	\$	\$ 325,176	\$ 466,308	\$ 791,484
Total operating revenues	\$ —	\$ 325,176	\$ 466,308	\$ 791,484
Operating expenses				
Insurance premiums and claims (net of refunds)	\$ 458,319	\$ (33,329)	\$ 2,030,758	\$ 2,455,748
Operations and administration	17,128	167,585	101,951	286,664
Total operating expenses	\$ 475,447	\$ 134,256	\$ 2,132,709	\$ 2,742,412
Operating income (loss)	\$ (475,447)	\$ 190,920	\$ (1,666,401)	\$ (1,950,928)
Non-operating revenues (expenses)				
Interest revenues	37,282	126,012	128,036	291,330
Change in net assets	\$ (438,165)	\$ 316,932	\$ (1,538,365)	\$ (1,659,598)
Net assets—beginning	1,244,193	4,487,751	3,527,593	9,259,537
Net assets—ending	\$ 806,028	\$ 4,804,683	\$ 1,989,228	\$ 7,599,939

**CITY OF FLORENCE, ALABAMA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Governmental Activities—Internal Service Funds			Total
	Employee Group Health Insurance	General Liability Insurance	Workers' Compensation Insurance	
Cash flows from operating activities				
Receipts from customers and users	\$	\$ 326,979	\$ 468,100	\$ 795,079
Payments to suppliers	(293,007)	(229,441)	(1,660,474)	(2,182,922)
Payments to employees for services and benefits		(25,878)		(25,878)
Net cash provided (used) by operating activities	<u>\$ (293,007)</u>	<u>\$ 71,660</u>	<u>\$ (1,192,374)</u>	<u>\$ (1,413,721)</u>
Cash flows from investing activities				
Interest on investments	\$ 38,861	\$ 164,341	\$ 166,711	\$ 369,913
Due to (from) other funds	28,178	(2,452,940)	(1,500,000)	(3,924,762)
Net cash provided (used) by investing activities	<u>\$ 67,039</u>	<u>\$ (2,288,599)</u>	<u>\$ (1,333,289)</u>	<u>\$ (3,554,849)</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (225,968)</u>	<u>\$ (2,216,939)</u>	<u>\$ (2,525,663)</u>	<u>\$ (4,968,570)</u>
Cash and cash equivalents—beginning	1,133,966	5,242,837	4,974,672	11,351,475
Cash and cash equivalents—ending	<u>\$ 907,998</u>	<u>\$ 3,025,898</u>	<u>\$ 2,449,009</u>	<u>\$ 6,382,905</u>
<i>Classified as:</i>				
Current assets	\$ 907,998	\$ 2,975,898	\$ 2,349,009	\$ 6,232,905
Restricted assets		50,000	100,000	150,000
Totals	<u>\$ 907,998</u>	<u>\$ 3,025,898</u>	<u>\$ 2,449,009</u>	<u>\$ 6,382,905</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>				
Operating income (loss)	\$ (475,447)	\$ 190,920	\$ (1,666,401)	\$ (1,950,928)
Changes in assets and liabilities				
Receivables (net)	\$ 122,198	\$ 1,803	\$ 1,792	\$ 125,793
Accounts payable and accrued expenses	60,242	(121,063)	472,235	411,414
Total adjustments	<u>\$ 182,440</u>	<u>\$ (119,260)</u>	<u>\$ 474,027</u>	<u>\$ 537,207</u>
Net cash provided (used) by operating activities	<u>\$ (293,007)</u>	<u>\$ 71,660</u>	<u>\$ (1,192,374)</u>	<u>\$ (1,413,721)</u>

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
STATE GAS TAX (\$.07) FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 362,206	\$ 362,206	\$ 362,206	\$ —
Resources (inflows):				
Taxes	152,000	152,000	148,086	(3,914)
Interest revenues	5,000	5,000	10,307	5,307
Amounts available for appropriation	<u>\$ 519,206</u>	<u>\$ 519,206</u>	<u>\$ 520,599</u>	<u>\$ 1,393</u>
Charges to appropriations (outflows):				
Capital outlay and improvements	\$ 157,000	\$ 157,000	\$ 50,100	\$ 106,900
Total charges to appropriations	<u>\$ 157,000</u>	<u>\$ 157,000</u>	<u>\$ 50,100</u>	<u>\$ 106,900</u>
Budgetary fund balance—ending	<u>\$ 362,206</u>	<u>\$ 362,206</u>	<u>\$ 470,499</u>	<u>\$ 108,293</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 520,599
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(362,206)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 158,393</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 50,100
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 50,100</u>

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
STATE GAS TAX (\$.04) FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 143,998	\$ 143,998	\$ 143,998	\$ —
Resources (inflows):				
Taxes	167,000	167,000	160,251	(6,749)
Interest revenues	1,500	1,500	6,244	4,744
Amounts available for appropriation	<u>\$ 312,498</u>	<u>\$ 312,498</u>	<u>\$ 310,493</u>	<u>\$ (2,005)</u>
Charges to appropriations (outflows):				
Current operating:				
Public works	\$ 30,000	\$ 30,000	\$ 21,316	\$ 8,684
Capital outlay and improvements	54,980	54,980		54,980
Transfers to other funds	83,520	83,520	83,520	—
Total charges to appropriations	<u>\$ 168,500</u>	<u>\$ 168,500</u>	<u>\$ 104,836</u>	<u>\$ 63,664</u>
Budgetary fund balance—ending	<u>\$ 143,998</u>	<u>\$ 143,998</u>	<u>\$ 205,657</u>	<u>\$ 61,659</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 310,493
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(143,998)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	—
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 166,495</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 104,836
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(83,520)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 21,316</u>

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
COUNTY GAS TAX FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance—beginning	\$ 229,471	\$ 229,471	\$ 229,471	\$ —
Resources (inflows):				
Taxes	340,000	340,000	329,008	(10,992)
Interest revenues	4,000	4,000	6,752	2,752
Amounts available for appropriation	<u>\$ 573,471</u>	<u>\$ 573,471</u>	<u>\$ 565,231</u>	<u>\$ (8,240)</u>
Charges to appropriations (outflows):				
Transfers to other funds	\$ 344,000	\$ 344,000	\$ 344,000	\$ —
Total charges to appropriations	<u>\$ 344,000</u>	<u>\$ 344,000</u>	<u>\$ 344,000</u>	<u>\$ —</u>
Budgetary fund balance—ending	<u>\$ 229,471</u>	<u>\$ 229,471</u>	<u>\$ 221,231</u>	<u>\$ (8,240)</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 565,231
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(229,471)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 335,760</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 344,000
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(344,000)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ —</u>

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
MISCELLANEOUS GRANTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 23,556	\$ 23,556	\$ 23,556	\$ —
Resources (inflows):				
Intergovernmental	65,000	65,000	417,604	352,604
Interest revenues	200	200	802	602
Amounts available for appropriation	<u>\$ 88,756</u>	<u>\$ 88,756</u>	<u>\$ 441,962</u>	<u>\$ 353,206</u>
Charges to appropriations (outflows):				
Current operating:				
General administration	\$	\$	\$ 298,949	\$ (298,949)
Public safety	65,200	65,200	82,864	(17,664)
Capital outlay and improvements			70,662	(70,662)
Total charges to appropriations	<u>\$ 65,200</u>	<u>\$ 65,200</u>	<u>\$ 452,475</u>	<u>\$ (387,275)</u>
Budgetary fund balance—ending	<u>\$ 23,556</u>	<u>\$ 23,556</u>	<u>\$ (10,513)</u>	<u>\$ (34,069)</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 441,962
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(23,556)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	—
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 418,406</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 452,475
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	—
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 452,475</u>

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$387,275 for the year ended September 30, 2008. The excess expenditures were partially provided for by available fund balance in the fund. The City plans to fund the remaining excess expenditures through an interfund transfer from the General Fund.

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
STATE ARTS COUNCIL GRANT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 68,916	\$ 68,916	\$ 68,916	\$ —
Charges to appropriations (outflows):				
Current operating:				
Culture and recreation	\$ 24,500	\$ 24,500	\$ 7,604	\$ 16,896
Total charges to appropriations	<u>\$ 24,500</u>	<u>\$ 24,500</u>	<u>\$ 7,604</u>	<u>\$ 16,896</u>
Budgetary fund balance—ending	<u>\$ 44,416</u>	<u>\$ 44,416</u>	<u>\$ 61,312</u>	<u>\$ 16,896</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 68,916
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(68,916)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ —</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 7,604
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 7,604</u>

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 320,968	\$ 320,968	\$ 320,968	\$ —
Resources (inflows):				
Intergovernmental	477,524	477,524	758,177	280,653
Interest revenues			45	45
Program revenues	65,000	65,000	22,805	(42,195)
Amounts available for appropriation	<u>\$ 863,492</u>	<u>\$ 863,492</u>	<u>\$ 1,101,995</u>	<u>\$ 238,503</u>
Charges to appropriations (outflows):				
Current operating:				
General administration	\$ 91,000	\$ 91,000	\$ 127,917	\$ (36,917)
Public works	32,500	32,500	123,702	(91,202)
Other	419,024	419,024	297,198	121,826
Total charges to appropriations	<u>\$ 542,524</u>	<u>\$ 542,524</u>	<u>\$ 548,817</u>	<u>\$ (6,293)</u>
Budgetary fund balance—ending	<u>\$ 320,968</u>	<u>\$ 320,968</u>	<u>\$ 553,178</u>	<u>\$ 232,210</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,101,995
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(320,968)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 781,027</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 548,817
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 548,817</u>

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$6,293 for the year ended September 30, 2008. The excess expenditures were provided for by available fund balance in the fund.

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
1995 CAPITAL SALES TAX FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 2,910,485	\$ 2,910,485	\$ 2,910,485	\$ —
Resources (inflows):				
Intergovernmental			700,387	700,387
Interest revenues	75,000	75,000	119,950	44,950
Transfers from other funds	7,386,570	7,386,570	7,336,733	(49,837)
Amounts available for appropriation	<u>\$ 10,372,055</u>	<u>\$ 10,372,055</u>	<u>\$ 11,067,555</u>	<u>\$ 695,500</u>
Charges to appropriations (outflows):				
Current operating:				
General administration	\$ 85,000	\$ 186,960	\$ 139,064	\$ 47,896
Public safety			33,000	(33,000)
Public works	20,000	20,000	4,094	15,906
Culture and recreation	20,000	20,000	20,323	(323)
Other			32,438	(32,438)
Education—funding for school district	1,226,480	1,226,480	1,200,138	26,342
Capital outlay and improvements	1,881,210	2,561,140	3,399,970	(838,830)
Transfers to other funds	4,228,880	4,228,880	4,071,806	157,074
Total charges to appropriations	<u>\$ 7,461,570</u>	<u>\$ 8,243,460</u>	<u>\$ 8,900,833</u>	<u>\$ (657,373)</u>
Budgetary fund balance—ending	<u>\$ 2,910,485</u>	<u>\$ 2,128,595</u>	<u>\$ 2,166,722</u>	<u>\$ 38,127</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 11,067,555
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(2,910,485)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(7,336,733)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 820,337</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 8,900,833
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(4,071,806)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 4,829,027</u>

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$657,373 for the year ended September 30, 2008. The excess expenditures were provided for by available fund balance in the fund.

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
DRUG ENFORCEMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 10,218	\$ 10,218	\$ 10,218	\$ —
Resources (inflows):				
Interest revenues			382	382
Program revenues	6,500	6,500	23,650	17,150
Amounts available for appropriation	<u>\$ 16,718</u>	<u>\$ 16,718</u>	<u>\$ 34,250</u>	<u>\$ 17,532</u>
Charges to appropriations (outflows):				
Current operating:				
Public safety	\$ 6,500	\$ 6,500	\$ 6,927	\$ (427)
Capital outlay and improvements			19,089	(19,089)
Total charges to appropriations	<u>\$ 6,500</u>	<u>\$ 6,500</u>	<u>\$ 26,016</u>	<u>\$ (19,516)</u>
Budgetary fund balance—ending	<u><u>\$ 10,218</u></u>	<u><u>\$ 10,218</u></u>	<u><u>\$ 8,234</u></u>	<u><u>\$ (1,984)</u></u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 34,250
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(10,218)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 24,032</u></u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 26,016
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 26,016</u></u>

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$19,516 for the year ended September 30, 2008. The excess expenditures were provided for by available fund balance in the fund.

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
DRUG TASK FORCE GRANT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 102,835	\$ 102,835	\$ 102,835	\$ —
Resources (inflows):				
Intergovernmental	202,000	202,000	189,441	(12,559)
Interest revenues			2,349	2,349
Program revenues			55,064	55,064
Amounts available for appropriation	\$ 304,835	\$ 304,835	\$ 349,689	\$ 44,854
Charges to appropriations (outflows):				
Current operating:				
Public safety	\$ 202,000	\$ 202,000	\$ 238,474	\$ (36,474)
Capital outlay and improvements			75,847	(75,847)
Total charges to appropriations	\$ 202,000	\$ 202,000	\$ 314,321	\$ (112,321)
Budgetary fund balance—ending	\$ 102,835	\$ 102,835	\$ 35,368	\$ (67,467)

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 349,689
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(102,835)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	—
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ 246,854

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 314,321
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	—
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ 314,321

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$112,321 for the year ended September 30, 2008. The excess expenditures were provided for by available fund balance in the fund.

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
FLO-LAUD GOVERNMENT BUILDING
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 79,390	\$ 79,390	\$ 79,390	\$ —
Resources (inflows):				
Interest revenues	5,000	5,000	2,805	(2,195)
Program revenues	244,800	244,800	297,796	52,996
Miscellaneous			66	66
Amounts available for appropriation	<u>\$ 329,190</u>	<u>\$ 329,190</u>	<u>\$ 380,057</u>	<u>\$ 50,867</u>
Charges to appropriations (outflows):				
Current operating:				
General administration	\$ 318,500	\$ 318,500	\$ 356,746	\$ (38,246)
Total charges to appropriations	<u>\$ 318,500</u>	<u>\$ 318,500</u>	<u>\$ 356,746</u>	<u>\$ (38,246)</u>
Budgetary fund balance—ending	<u>\$ 10,690</u>	<u>\$ 10,690</u>	<u>\$ 23,311</u>	<u>\$ 12,621</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 380,057
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(79,390)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 300,667</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 356,746
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 356,746</u>

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$38,246 for the year ended September 30, 2008. The excess expenditures were provided for by available fund balance in the fund.

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance—beginning	\$ 60,563	\$ 60,563	\$ 60,563	\$ —
Resources (inflows):				
Interest revenues			10,202	10,202
Transfers from other funds	6,092,240	6,092,240	6,133,027	40,787
Amounts available for appropriation	<u>\$ 6,152,803</u>	<u>\$ 6,152,803</u>	<u>\$ 6,203,792</u>	<u>\$ 50,989</u>
Charges to appropriations (outflows):				
Debt service:				
Principal payments	\$ 3,870,000	\$ 3,870,000	\$ 3,895,000	\$ (25,000)
Interest and fiscal charges	2,222,240	2,222,240	2,181,138	41,102
Total charges to appropriations	<u>\$ 6,092,240</u>	<u>\$ 6,092,240</u>	<u>\$ 6,076,138</u>	<u>\$ 16,102</u>
Budgetary fund balance—ending	<u>\$ 60,563</u>	<u>\$ 60,563</u>	<u>\$ 127,654</u>	<u>\$ 67,091</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 6,203,792
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(60,563)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(6,133,027)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 10,202</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 6,076,138
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 6,076,138</u>

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL CAPITAL IMPROVEMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance—beginning	\$ 304,192	\$ 304,192	\$ 304,192	\$ —
Resources (inflows):				
Intergovernmental	200,000	200,000	258,837	58,837
Interest revenues	20,000	20,000	9,982	(10,018)
Amounts available for appropriation	<u>\$ 524,192</u>	<u>\$ 524,192</u>	<u>\$ 573,011</u>	<u>\$ 48,819</u>
Charges to appropriations (outflows):				
Current operating:				
General administration	\$ 31,465	\$ 46,125	\$ 10,454	\$ 35,671
Capital outlay and improvements	188,535	226,535	139,023	87,512
Total charges to appropriations	<u>\$ 220,000</u>	<u>\$ 272,660</u>	<u>\$ 149,477</u>	<u>\$ 123,183</u>
Budgetary fund balance—ending	<u>\$ 304,192</u>	<u>\$ 251,532</u>	<u>\$ 423,534</u>	<u>\$ 172,002</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 573,011
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(304,192)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 268,819</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 149,477
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 149,477</u>

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance—beginning	\$ 1,556,766	\$ 1,556,766	\$ 1,556,766	\$ —
Resources (inflows):				
Interest revenues	55,000	55,000	54,346	(654)
Amounts available for appropriation	<u>\$ 1,611,766</u>	<u>\$ 1,611,766</u>	<u>\$ 1,611,112</u>	<u>\$ (654)</u>
Charges to appropriations (outflows):				
Current operating:				
Capital outlay and improvements	\$ 250,000	\$ 250,000	\$ —	\$ 250,000
Total charges to appropriations	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ —</u>	<u>\$ 250,000</u>
Budgetary fund balance—ending	<u>\$ 1,361,766</u>	<u>\$ 1,361,766</u>	<u>\$ 1,611,112</u>	<u>\$ 249,346</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,611,112
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(1,556,766)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 54,346</u>

Uses/outflows of resources

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

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
SERIES 2003-B G.O. WARRANTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance—beginning	\$ 1,612,151	\$ 1,612,151	\$ 1,612,151	\$ —
Resources (inflows):				
Intergovernmental			25,270	25,270
Interest revenues			23,013	23,013
Amounts available for appropriation	<u>\$ 1,612,151</u>	<u>\$ 1,612,151</u>	<u>\$ 1,660,434</u>	<u>\$ 48,283</u>
Charges to appropriations (outflows):				
Capital outlay and improvements	\$ 2,100,000	\$ 2,100,000	\$ 5,664,351	\$ (3,564,351)
Total charges to appropriations	<u>\$ 2,100,000</u>	<u>\$ 2,100,000</u>	<u>\$ 5,664,351</u>	<u>\$ (3,564,351)</u>
Budgetary fund balance—ending	<u>\$ (487,849)</u>	<u>\$ (487,849)</u>	<u>\$ (4,003,917)</u>	<u>\$ (3,516,068)</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,660,434
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(1,612,151)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 48,283</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 5,664,351
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 5,664,351</u>

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$3,564,351 for the year ended September 30, 2008. The excess expenditures were partially provided for by available fund balance in the fund. The City plans to fund the remaining excess expenditures through sales tax revenues traditionally set aside for capital projects over a period of five years.

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
SERIES 2007 G.O. WARRANTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance—beginning	\$ 6,348,562	\$ 6,348,562	\$ 6,348,562	\$ —
Resources (inflows):				
Interest revenues			113,407	113,407
Amounts available for appropriation	<u>\$ 6,348,562</u>	<u>\$ 6,348,562</u>	<u>\$ 6,461,969</u>	<u>\$ 113,407</u>
Charges to appropriations (outflows):				
Capital outlay and improvements	\$ 5,000,000	\$ 5,000,000	\$ 6,438,390	\$ (1,438,390)
Total charges to appropriations	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 6,438,390</u>	<u>\$ (1,438,390)</u>
Budgetary fund balance—ending	<u>\$ 1,348,562</u>	<u>\$ 1,348,562</u>	<u>\$ 23,579</u>	<u>\$ (1,324,983)</u>

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 6,461,969
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(6,348,562)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 113,407</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 6,438,390
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 6,438,390</u>

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$1,438,390 for the year ended September 30, 2008. The excess expenditures were provided for by available fund balance in the fund.

**CITY OF FLORENCE, ALABAMA
BUDGETARY COMPARISON SCHEDULE
CEMETERY PERPETUAL CARE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Budgetary fund balance—beginning	\$ 237,388	\$ 237,388	\$ 237,388	\$ —
Resources (inflows):				
Program revenues	7,000	7,000	10,127	3,127
Amounts available for appropriation	\$ 244,388	\$ 244,388	\$ 247,515	\$ 3,127
Charges to appropriations (outflows):				
Transfers to other funds	\$ 4,500	\$ 4,500	\$ 9,281	\$ (4,781)
Total charges to appropriations	\$ 4,500	\$ 4,500	\$ 9,281	\$ (4,781)
Budgetary fund balance—ending	\$ 239,888	\$ 239,888	\$ 238,234	\$ (1,654)

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 247,515
Differences—budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(237,388)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	—
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ 10,127

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 9,281
Differences—budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(9,281)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ —

Note B—Excess of Expenditures Over Appropriations

The fund incurred expenditures in excess of appropriations of \$4,781 for the year ended September 30, 2008. The excess expenditures were provided for by available fund balance in the fund.

**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues				
User charges	\$ 94,835,000	\$ 101,941,000	\$ 101,728,760	\$ (212,240)
Other	705,000	705,000	657,130	(47,870)
Total operating revenues	<u>\$ 95,540,000</u>	<u>\$ 102,646,000</u>	<u>\$ 102,385,890</u>	<u>\$ (260,110)</u>
Operating expenses				
Costs of sales	\$ 75,460,000	\$ 82,175,000	\$ 81,854,275	\$ 320,725
Operations, maintenance, and administration	11,533,000	11,709,300	12,504,764	(795,464)
Depreciation	4,200,000	4,200,000	4,285,339	(85,339)
Taxes and tax equivalents	2,851,000	2,851,000	2,772,283	78,717
Total operating expenses	<u>\$ 94,044,000</u>	<u>\$ 100,935,300</u>	<u>\$ 101,416,661</u>	<u>\$ (481,361)</u>
Operating income (loss)	<u>\$ 1,496,000</u>	<u>\$ 1,710,700</u>	<u>\$ 969,229</u>	<u>\$ (741,471)</u>
Nonoperating revenues (expenses)				
Interest revenues	\$ 480,000	\$ 275,000	\$ 267,205	\$ (7,795)
Merchandising revenues (net of costs)	150,000	150,000	124,433	(25,567)
Interest expense	(409,700)	(409,700)	(409,691)	9
Amortization of debt discount and costs	(19,100)	(19,100)	(19,100)	—
Total nonoperating revenues (expenses)	<u>\$ 201,200</u>	<u>\$ (3,800)</u>	<u>\$ (37,153)</u>	<u>\$ (33,353)</u>
Change in net assets	<u>\$ 1,697,200</u>	<u>\$ 1,706,900</u>	<u>\$ 932,076</u>	<u>\$ (774,824)</u>

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Positive (Negative)
	Original	Final		
Operating revenues				
User charges	\$ 24,455,000	\$ 25,655,000	\$ 26,045,316	\$ 390,316
Other	13,600	13,600	14,043	443
Total operating revenues	<u>\$ 24,468,600</u>	<u>\$ 25,668,600</u>	<u>\$ 26,059,359</u>	<u>\$ 390,759</u>
Operating expenses				
Costs of sales	\$ 16,430,000	\$ 17,895,000	\$ 18,314,767	\$ (419,767)
Operations, maintenance, and administration	4,175,500	4,276,000	4,321,751	(45,751)
Depreciation	1,485,000	1,440,000	1,431,013	8,987
Amortization of acquisition adjustment			10,661	(10,661)
Taxes and tax equivalents	1,654,800	1,589,800	1,594,102	(4,302)
Total operating expenses	<u>\$ 23,745,300</u>	<u>\$ 25,200,800</u>	<u>\$ 25,672,294</u>	<u>\$ (471,494)</u>
Operating income (loss)	<u>\$ 723,300</u>	<u>\$ 467,800</u>	<u>\$ 387,065</u>	<u>\$ (80,735)</u>
Nonoperating revenues (expenses)				
Interest revenues	\$ 125,000	\$ 225,000	\$ 220,394	\$ (4,606)
Gain (loss) on disposal of capital assets	2,500	2,500	(10,980)	(13,480)
Miscellaneous nonoperating income	2,500	2,500	13,443	10,943
Interest expense	(176,500)	(176,500)	(176,423)	77
Amortization of debt discount and costs	(20,300)	(20,300)	(9,593)	10,707
Total nonoperating revenues (expenses)	<u>\$ (66,800)</u>	<u>\$ 33,200</u>	<u>\$ 36,841</u>	<u>\$ 3,641</u>
Change in net assets	<u><u>\$ 656,500</u></u>	<u><u>\$ 501,000</u></u>	<u><u>\$ 423,906</u></u>	<u><u>\$ (77,094)</u></u>

**CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues				
User charges	\$ 16,542,550	\$ 16,792,550	\$ 16,828,253	\$ 35,703
Other	191,900	191,900	254,031	62,131
Total operating revenues	\$ 16,734,450	\$ 16,984,450	\$ 17,082,284	\$ 97,834
Operating expenses				
Operations, maintenance, and administration	\$ 8,036,850	\$ 8,068,670	\$ 8,047,318	\$ 21,352
Depreciation	2,527,100	2,527,100	2,580,700	(53,600)
Taxes and tax equivalents	1,566,800	1,451,800	1,441,897	9,903
Total operating expenses	\$ 12,130,750	\$ 12,047,570	\$ 12,069,915	\$ (22,345)
Operating income (loss)	\$ 4,603,700	\$ 4,936,880	\$ 5,012,369	\$ 75,489
Nonoperating revenues (expenses)				
Interest revenues	\$ 417,700	\$ 417,700	\$ 382,157	\$ (35,543)
Gain (loss) on disposal of capital assets			(3,213)	(3,213)
Interest expense	(2,270,898)	(2,270,898)	(2,036,651)	234,247
Amortization of debt discount and costs	(66,670)	(66,670)	(57,833)	8,837
Total nonoperating revenues (expenses)	\$ (1,919,868)	\$ (1,919,868)	\$ (1,715,540)	\$ 204,328
Capital contributions:				
Donated capital assets		564,500	564,500	—
Change in net assets	\$ 2,683,832	\$ 3,581,512	\$ 3,861,329	\$ 279,817

CITY OF FLORENCE, ALABAMA
SOLID WASTE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues				
User charges	\$ 4,030,000	\$ 4,030,000	\$ 4,191,224	\$ 161,224
Other	3,000	3,000	8,532	5,532
Total operating revenues	<u>\$ 4,033,000</u>	<u>\$ 4,033,000</u>	<u>\$ 4,199,756</u>	<u>\$ 166,756</u>
Operating expenses				
Operations, maintenance, and administration	\$ 3,305,628	\$ 3,305,628	\$ 3,464,826	\$ (159,198)
Depreciation	595,971	595,971	590,981	4,990
Taxes and tax equivalents	120,667	120,667	116,662	4,005
Total operating expenses	<u>\$ 4,022,266</u>	<u>\$ 4,022,266</u>	<u>\$ 4,172,469</u>	<u>\$ (150,203)</u>
Operating income (loss)	<u>\$ 10,734</u>	<u>\$ 10,734</u>	<u>\$ 27,287</u>	<u>\$ 16,553</u>
Nonoperating revenues (expenses)				
Interest revenues	\$ 150,000	\$ 150,000	\$ 153,650	\$ 3,650
Gain (loss) on disposal of capital assets	10,000	10,000	55,479	45,479
Total nonoperating revenues (expenses)	<u>\$ 160,000</u>	<u>\$ 160,000</u>	<u>\$ 209,129</u>	<u>\$ 49,129</u>
Change in net assets	<u>\$ 170,734</u>	<u>\$ 170,734</u>	<u>\$ 236,416</u>	<u>\$ 65,682</u>

**CITY OF FLORENCE, ALABAMA
EMPLOYEE GROUP HEALTH INSURANCE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues				
User charges	\$	\$	\$	\$
Total operating revenues	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating expenses				
Insurance premiums and claims (net of refunds)	\$ 380,500	\$ 380,500	\$ 458,319	\$ (77,819)
Operations and administration	27,500	27,500	17,128	10,372
Total operating expenses	<u>\$ 408,000</u>	<u>\$ 408,000</u>	<u>\$ 475,447</u>	<u>\$ (67,447)</u>
Operating income (loss)	<u>\$ (408,000)</u>	<u>\$ (408,000)</u>	<u>\$ (475,447)</u>	<u>\$ (67,447)</u>
Nonoperating revenues				
Interest revenues	65,000	65,000	37,282	(27,718)
Change in net assets	<u>\$ (343,000)</u>	<u>\$ (343,000)</u>	<u>\$ (438,165)</u>	<u>\$ (95,165)</u>

**CITY OF FLORENCE, ALABAMA
GENERAL LIABILITY INSURANCE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues				
User charges	\$ 380,000	\$ 380,000	\$ 325,176	\$ (54,824)
Total operating revenues	<u>\$ 380,000</u>	<u>\$ 380,000</u>	<u>\$ 325,176</u>	<u>\$ (54,824)</u>
Operating expenses				
Insurance premiums and claims (net of refunds)	\$ 397,895	\$ 397,895	\$ (33,329)	\$ 431,224
Operations and administration	207,105	207,105	167,585	39,520
Total operating expenses	<u>\$ 605,000</u>	<u>\$ 605,000</u>	<u>\$ 134,256</u>	<u>\$ 470,744</u>
Operating income (loss)	<u>\$ (225,000)</u>	<u>\$ (225,000)</u>	<u>\$ 190,920</u>	<u>\$ 415,920</u>
Nonoperating revenues				
Interest revenues	225,000	225,000	126,012	(98,988)
Change in net assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 316,932</u>	<u>\$ 316,932</u>

**CITY OF FLORENCE, ALABAMA
WORKERS' COMPENSATION INSURANCE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues				
User charges	\$ 466,455	\$ 466,455	\$ 466,308	\$ (147)
Total operating revenues	<u>\$ 466,455</u>	<u>\$ 466,455</u>	<u>\$ 466,308</u>	<u>\$ (147)</u>
Operating expenses				
Insurance premiums and claims (net of refunds)	\$ 572,955	\$ 572,955	\$ 2,030,758	\$ (1,457,803)
Operations and administration	113,500	113,500	101,951	11,549
Total operating expenses	<u>\$ 686,455</u>	<u>\$ 686,455</u>	<u>\$ 2,132,709</u>	<u>\$ 1,446,254</u>
Operating income (loss)	<u>\$ (220,000)</u>	<u>\$ (220,000)</u>	<u>\$ (1,666,401)</u>	<u>\$ (1,446,401)</u>
Nonoperating revenues				
Interest revenues	220,000	220,000	128,036	(91,964)
Change in net assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1,538,365)</u>	<u>\$ (1,538,365)</u>



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SINGLE AUDIT SECTION

CITY OF FLORENCE, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>Appalachian Regional Commission:</u>			
<i>Direct program:</i>			
Appalachian Area Development	23.002	A-15873-08	\$ 4,094
Total Appalachian Regional Commission			<u>\$ 4,094</u>
<u>Department of Homeland Security:</u>			
<i>Direct program:</i>			
Assistance to Firefighters Grant	97.044	EMW-2007-FO-09389	\$ 256,770
Total Department of Homeland Security			<u>\$ 256,770</u>
<u>Department of Housing and Urban Development:</u>			
<i>Direct programs:</i>			
Community Development Block Grants/Entitlement Grants	14.218	B-05-MC-01-0003	\$ 106,563
Community Development Block Grants/Entitlement Grants	14.218	B-06-MC-01-0003	127,889
Community Development Block Grants/Entitlement Grants	14.218	B-07-MC-01-0003	356,789
Community Development Block Grants/Entitlement Grants	14.218	B-08-MC-01-0003	217,371
Subtotal			<u>\$ 808,612</u>
Community Development Block Grants—Section 108 Loan Guarantees	14.248	B-94-MC-01-0003	468
Total direct programs			<u>\$ 809,080</u>
<i>Pass-through program from:</i>			
<i>Alabama Department of Economic and Community Affairs:</i>			
Emergency Shelter Grants Program (Note 2)	14.231	ESG-07-001	85,524
Total Department of Housing and Urban Development			<u>\$ 894,604</u>
<u>Department of Agriculture:</u>			
<i>Pass-through program from:</i>			
<i>Auburn University:</i>			
Cooperative Forestry Assistance	10.664	07-UCF-374446-FLO	\$ 71,718
Total Department of Agriculture			<u>\$ 71,718</u>
<u>Department of Justice:</u>			
<i>Direct program:</i>			
Bulletproof Vest Partnership Program	16.607	2003BUBX03015342	\$ 5,257
Total direct program			<u>\$ 5,257</u>
<i>Pass-through programs from:</i>			
<i>Alabama Department of Economic and Community Affairs:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	06-DJ-01-020	\$ 52,323
Edward Byrne Memorial Justice Assistance Grant Program	16.738	07-DH-05-072	25,000
Edward Byrne Memorial Justice Assistance Grant Program	16.738	07-DJ-01-022	42,397
<i>Lauderdale County Commission:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0238	722
Total pass-through programs			<u>\$ 120,442</u>
Total Department of Justice			<u>\$ 125,699</u>

The accompanying notes are an integral part of this schedule.

CITY OF FLORENCE, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(Continued)

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>Department of Transportation:</u>			
<i>Pass-through programs from:</i>			
<i>Alabama Department of Transportation:</i>			
Highway Planning and Construction	20.205	STPTE-TE03(908)	\$ 25,270
Highway Planning and Construction	20.205	STPTE-TE02(961)	652,000
Subtotal			<u>\$ 677,270</u>
<i>North Alabama Highway Safety Office:</i>			
State and Community Highway Safety	20.600	08-SP-PT-001	4,040
Occupant Protection	20.602	07-HS-K4-004	968
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	06-HS-K8-019	1,125
Total Department of Transportation			<u>\$ 683,403</u>
<u>General Services Administration:</u>			
<i>Pass-through program from:</i>			
<i>Alabama Department of Economic and Community Affairs:</i>			
Donation of Federal Surplus Personal Property	39.003		\$ 874
Total General Services Administration			<u>\$ 874</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,037,162</u></u>

**CITY OF FLORENCE, ALABAMA
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

NOTE 1—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City 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, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2—SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City of Florence, Alabama provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Emergency Shelter Grant	14.231	<u>\$ 85,524</u>



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Charles L. Watkins, CPA
M. Buddy Johnsey, III, CPA

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

Honorable Mayor and Members of the City Council
City of Florence, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Florence, Alabama as of and for the year ended September 30, 2008, which collectively comprise the City of Florence, Alabama's basic financial statements and have issued our report thereon dated March 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Florence, Alabama Electricity, Gas, and Solid Waste Departments, the Florence-Lauderdale Public Library, and the Florence Library Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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



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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Florence, Alabama in a separate letter dated March 18, 2009.

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

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The Watkins Johnsey Professional Group, P.C.
March 18, 2009



Charles L. Watkins, CPA
M. Buddy Johnsey, III, CPA

Member of
American Institute of CPA's
AICPA Private Companies
Practice Section
Alabama Society of CPA's

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

Honorable Mayor and Members of the City Council
City of Florence, Alabama

Compliance

We have audited the compliance of the City of Florence, Alabama with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. City of Florence, Alabama's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Florence, Alabama's management. Our responsibility is to express an opinion on the City of Florence, Alabama's compliance based on our audit.

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

In our opinion, the City of Florence, Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-1 and 2008-2.



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A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Florence, Alabama's responses to the findings identified in our audit are described in the accompanying auditee response/corrective action plan. We did not audit City of Florence, Alabama's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "The Watkins Johnsey Professional Group, P.C." The signature is written in a cursive, flowing style.

The Watkins Johnsey Professional Group, P.C.
March 18, 2009

**CITY OF FLORENCE, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Section I—Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X None reported

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee? Yes X No

Section II—Financial Statement Findings

None to be reported.

CITY OF FLORENCE, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(Continued)

Section III—Federal Award Findings and Questioned Costs

Finding #2008-1	U.S. Department of Housing and Urban Development		
	Community Development Block Grants/Entitlement Grants	CFDA Number	14.218
Type:	Compliance Finding		
Criteria:	24 CFR 85 §21 states that grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee.		
Condition:	In our review of cash management, we noted two cash advances that were not disbursed by the City in a timely manner.		
Questioned Costs:	No questioned costs were identified.		
Context:	The City requested fourteen advances during the fiscal year.		
Possible Asserted Effect:	The City is not in compliance with federal cash management regulations.		
Recommendation:	We recommend the City establish controls to ensure compliance with cash management provisions of federal regulations and the grant agreement.		
Finding #2008-2	U.S. Department of Housing and Urban Development		
	Community Development Block Grants/Entitlement Grants	CFDA Number	14.218
Type:	Compliance Finding		
Criteria:	24 CFR 570 §200 states that no more than 20 percent of the sum of any grant, plus program income, shall be expended for planning and program administrative costs, as defined in §§205 and 206, respectively. Recipient of entitlement grants under subpart D of this part shall conform with this requirement by limiting the amount of CDBG funds obligated for planning plus administration during each program year to an amount no greater than 20 percent of the sum of its entitlement grant made for that program year, if any, plus the program income received by the recipient and its subrecipients, if any, during that program year.		
Condition:	In our review of earmarking compliance requirements, we determined that the planning and program administrative costs expended during the fiscal year exceeded 20 percent of the sum of its entitlement grant, plus the program income received.		
Questioned Costs:	\$3,622		
Context:	In its submission of the Consolidated Annual Performance Evaluation Report (CAPER) for the 2007 Program Year (May 1, 2007 to April 30, 2008), the City reported that its planning and administration activities were not greater than the 20 percent allowed in the federal regulations. As a result of our compliance testing, the City determined that the amount of program income for the current year as reported in the original CAPER was incorrect, which lead to the erroneous conclusion that the City was in compliance with this federal requirement. Based on our evaluation, this appears to be an isolated instance.		
Possible Asserted Effect:	A refund of these costs from a non-federal source may be required by the awarding agency.		
Recommendation:	We recommend that the City more closely monitor its planning and program administration costs to ensure adherence with the applicable federal regulations.		

**CITY OF FLORENCE, ALABAMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Department of Housing and Urban Development

Finding #2007-1: Community Development Block Grants/Entitlement Grants

Condition: Grant funds used to reimburse the City's General Fund on a paving construction contract did not contain the required provisions for compliance with the Davis-Bacon Act.

Recommendation: The auditor recommended that controls be established to ensure construction contracts comply with federal regulations related to the Davis-Bacon Act, when applicable. Management concurred with the recommendation and indicated that the controls and procedures would be implemented.

Current Status: Procedures are in place to ensure that any construction contract where a portion of the contract has the potential of being paid from Community Development Block Grant funds contain Davis-Bacon requirements. No similar findings were noted in the 2008 audit.

Finding #2007-2: Community Development Block Grants/Entitlement Grants

Condition: Two cash advances were not disbursed in a timely manner.

Recommendation: The auditor recommended that controls be established to ensure compliance with cash management provisions of federal regulations and the grant agreement. Management concurred with the recommendation and indicated that the controls and procedures would be implemented.

Current Status: Procedures and controls were developed and implemented to ensure the timely disbursement of all payments. Payment requests are to be prepared and submitted concurrently with each drawdown request and, upon confirmation of the availability of funds, the disbursement is to be processed immediately.

Finding #2007-3: Community Development Block Grants/Entitlement Grants

Condition: Federal Cash Transaction Reports, Standard Form 272, were not filed in a timely manner due to a miscommunication of the financial reporting requirements by HUD personnel.

Recommendation: The auditor recommended that procedures be implemented to ensure that timely submissions are made in the future. Management concurred with the recommendation and indicated that procedures would be implemented.

Current Status: The delinquent reports were prepared and submitted. The City is current with all reporting requirements including the Standard Form 272, Federal Cash Transaction Report. No similar findings were noted in the 2008 audit.

**CITY OF FLORENCE, ALABAMA
AUDITEE RESPONSE/CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

FINDINGS—FEDERAL AWARD PROGRAMS AUDIT

Department of Housing and Urban Development

Finding #2008-1: Community Development Block Grants/Entitlement Grants

Action taken: This lapse in disbursement was an oversight. In the future, the Community Development office will prepare the request for the fund disbursements at the same time as preparing the drawdown request and submit to the Chief Accountant at the time that he enters the approval of the drawdown. The Chief Accountant will verify the deposit of the funds and have the check requests processed. This action will take effect immediately.

Finding #2008-2: Community Development Block Grants/Entitlement Grants

Action taken: The Community Development Staff is currently in the process of implementing new project based accounting in addition to the accounting performed by the Chief Accountant. We will be undergoing a CDBG monitoring with HUD in the near future. We have discussed the accounting issues and have come to an agreement for corrective actions. Funds disbursed and income received will be more closely tracked to avoid noncompliance in the future.

Questions regarding this response/plan should be directed to Dan Barger, Chief Accountant/Treasurer at (256) 760-6634.