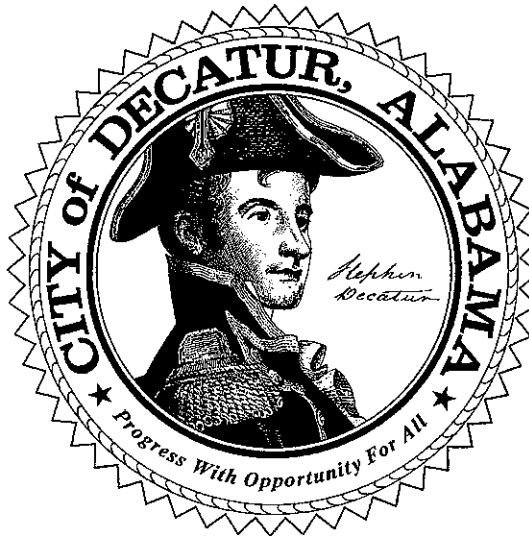


COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF DECATUR, ALABAMA



FOR THE FISCAL YEAR ENDED

SEPTEMBER 30,

2005

ADMINISTRATIVE SERVICES

DEPARTMENT OF FINANCE
Linda McKinney, Finance Supervisor

TECHNICAL ASSISTANCE / COMPUTER GRAPHICS
Allen Stover

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Decatur,
Alabama

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director



CITY OF Decatur
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 SEPTEMBER 30, 2005

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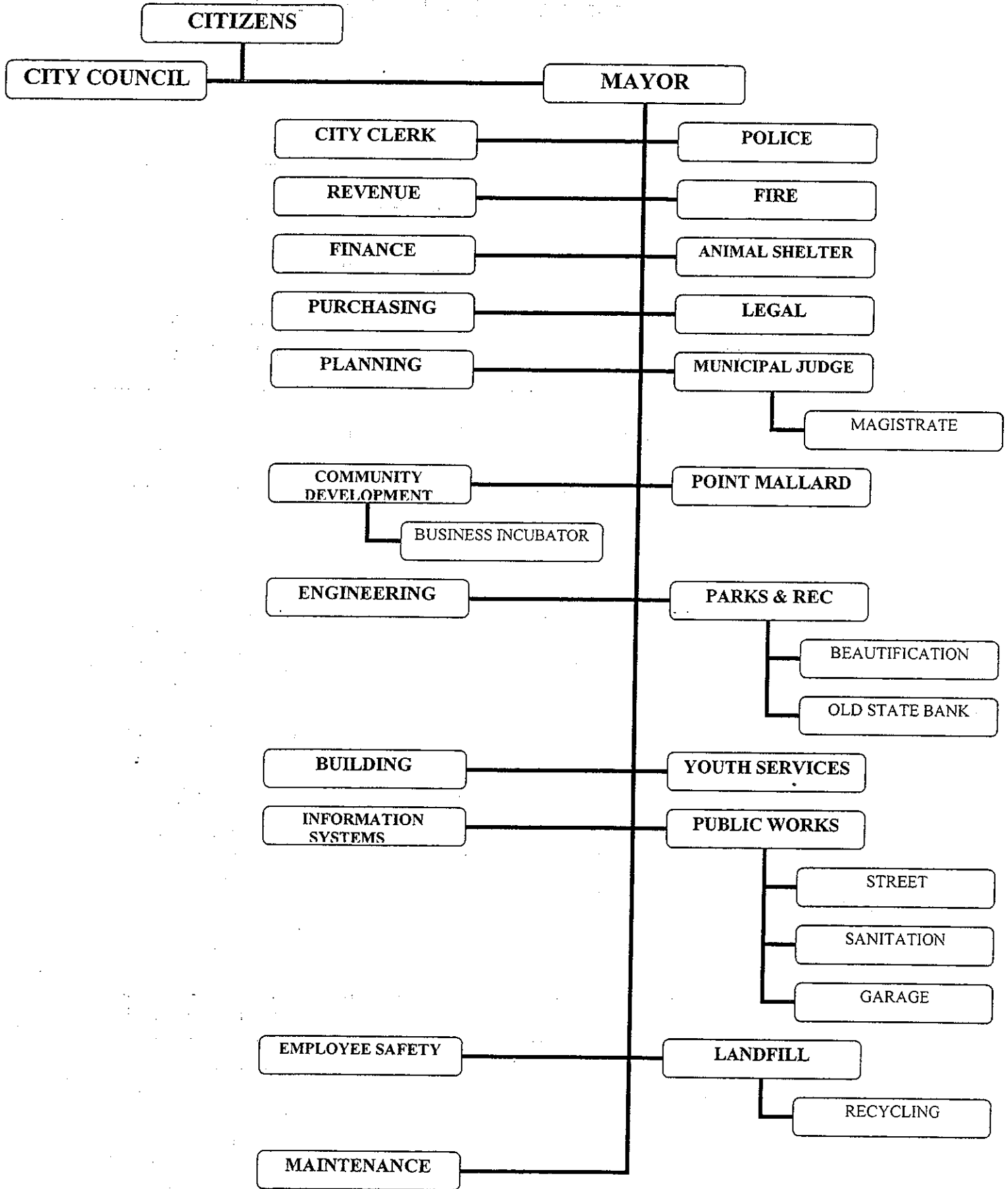
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CITY OF DECATUR 2005 ORGANIZATIONAL CHART



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

City of Decatur

Boards and Commissions

Decatur Historic Preservation Commission

Medical Clinic Board

Industrial Development Board

Public Building Authority

Housing Authority

Board of Examinations and Appeals

Parks & Recreation Board

Old Bank Board

Decatur Beautification Board

Community Preservation
Board

Downtown Redevelopment Authority

Housing Board of Adjustments
& Appeals

Planning Commission

Board of Zoning and Adjustment

Decatur Animal Shelter Board

Decatur Health Care Authority

Small Business Development Board

Personnel Board

Municipal Utilities Board

City Board of Education

Point Mallard Facilities Board

Urban Forestry Board

Educational Building Authority

City / County Boards

North Central Mental
Retardation Authority

State Products Mart Authority

E-911 Board

Civil Defense/Emergency
Management

Decatur/ Morgan County Port Authority

EMS Advisory Committee

Board of Equalization

Wheeler Basin Regional Library

Healthcare Authority of
Morgan County

Airport Authority

Decatur/Morgan County
Farmer's Market Board

Mental Health Center
of North Central Alabama

OFFICIALS OF THE CITY OF DECATUR

MAYOR

Don Kyle

CITY COUNCIL

Billy Jackson – President

Ronny Russell – President Pro Tempore
Gary Hammon

David Bolding
Ray Metzger

DEPARTMENT DIRECTORS

Animal Shelter
Building Department
City Attorney
City Clerk
City Engineer (Acting)
Community Development
Fire Chief
Information Systems
Municipal Judge
Landfill
Parks & Recreation
Personnel
Planning
Point Mallard
Police Chief
Public Works (Acting)
Youth Services

Danny Melson
Jimmy Brothers
Herman Marks
Gail Busbey
Carl Prewitt
Michelle Gilliam-Jordan
Charlie Johnson
Todd Russell
Bill Cook, Jr.
Rickey Terry
Jeff Dunlap
Ken Smith
Jim Fisher
Bob Stewart
Joel Gilliam
Franklin Parham
Bruce Jones

OTHER KEY PERSONNEL

Beautification Coordinator
Business Incubator
Court Magistrate
Employee Safety Coordinator
Finance Supervisor
Maintenance Supervisor
Old State Bank Coordinator
Purchasing Agent
Recycling Coordinator
Revenue Administrator

Linda Eubanks
Jim Gregory
Janice Clemons
Mike Voss
Linda McKinney
Ray Wilkinson
Melinda Dunn
Jeff Fussell
Emily Johnson
Ronne Harvell



Commodore Stephen Decatur
1779 - 1820

CITY of DECATUR

P.O. Box 488 - Decatur, Alabama 35602

March 30, 2006

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

The Comprehensive Annual Financial Report of the City of Decatur, Alabama, for the fiscal year ending September 30, 2005, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. This report, including the exhibits and statistical data contained herein, has been prepared by the Finance Department of the City of Decatur in conformity with the standards established by the Governmental Accounting Standards Board and complies with accounting principles generally accepted in the United States of America (GAAP). We believe the data as presented is accurate in all material aspects, and that it is presented in a manner to fairly set forth the financial position and results of operations of the City.

Alabama state law requires an annual audit to be made, in accordance with generally accepted auditing standards, of all books and accounts of the City by independent certified public accountants. This requirement has been complied with and the report of Beason & Nalley, Inc., Certified Public Accountants, for the fiscal year ended September 30, 2005 is included in this report.

This year's annual audit included a single audit of all federal grants, which complies with federal legislation. The single audit report is forwarded to the City's grantor agencies for review.

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

Profile of the Government

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

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

Since October 1968, the City of Decatur has been governed by a mayor-council form of government. The mayor is chief executive officer of the city and is elected by general election to a four year term. The city council is the legislative body and consists of five (5) members, who are elected for four year terms. Prior to 1988, members of the city council were elected on an "at large" basis. In 1988, the city council established five (5) electoral districts, one of which is primarily black in population. An election was held August 23, 1988, on a "single member district" basis to fill all five places on the city council.

The City of Decatur provides a full range of services. These include police and fire protection, sanitation services, the construction and maintenance of streets and infrastructure, recreational facilities (24 parks comprising 1,263 acres, 34 tennis courts, 4 recreation centers, 32 ball fields, 4 pools, 4 golf courses both public & private, 31 soccer fields), cultural events, community services, and general administrative services. The city operates Point Mallard Park, a major 750 acre family recreation park on the Tennessee River, and home of America's first wave pool. At this location, in addition to the wave pool, there is an Olympic diving pool, water slides, 18-hole championship golf course, regulation size ice rink, and a 210 pad campground. The City continues to make major investments in the park. Utility services are provided through a separate Municipal Utilities Board, which functions as a department of the City of Decatur and has been included as an integral part of the City's financial statements.

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

Local economy

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

Decatur and Morgan County have a strong, diversified industrial base built on the area's access to raw materials and their end markets. Looking back on economic activity for the past year, positive trends continue for the area despite layoffs and company downsizings that have occurred over the past couple of years. Our manufacturers are still investing money into their companies and many are expanding operations. In fiscal year 2005, there was one new company, and twenty-seven expansions investing \$183.35 million and creating 374 jobs. The numbers are up from the previous year, and companies continue to invest in their local facilities, expressing a confidence in their outlook of Decatur and Morgan County.

The Decatur MSA unemployment rate improved in 2005 with 3.9% unemployed compared with 6.1% at 9/30/04. This rate is slightly higher than the state's average unemployment rate which was 3.5%.

Long-term financial planning

Envision Decatur is a plan for the renovation of the downtown, uptown, riverfront, and West Moulton Street areas. The consultant contract was completed in the spring of 2004 and estimated time for full implementation of this plan is twenty years. Day Park, an entryway to the City, became part of the North Alabama Birding Trail and was formally dedicated in September 2005. The \$300,000 development was funded by the room occupancy tax imposed by the Hospitality Association. Also funded with the room occupancy tax is the \$1.6 million construction project on the marina and other facilities on the old Ingalls property located adjacent to the Tennessee River. Improvements to Delano Park, funded by grants, include restoration of the Rose Garden, a new \$200,000 water play feature through the Land, Water, and Conservation program, and a \$200,000 walking trail funded through the Alabama Department of Transportation. The Southwest Recreation Center was renamed in honor of Jack Allen, a former Council president. Construction continues on the soccer complex.

The new Turner-Surles Community Resource Center will open March 2006 in Northwest Decatur. The North West Community Development Corporation was formed to provide the organizational framework for community based leadership to plan and implement actions which will lead to the revitalization, development and sustainability of Northwest Decatur using this new Resource Center. The Corporation's mission is to foster economic development programs, opportunities for self-reliance, empowerment and entrepreneurship for residents of Northwest Decatur, expand the availability of and accessibility to decent and affordable housing, enhance employment opportunities of residents through adult training, education, employment programs, and business development opportunities, create programs and opportunities for joint venture projects with successful for-profit business and catalyze and sustain a sense of neighborhood in Northwest Decatur. Approximately one million dollars has been spent on this new resource center funded entirely by community development block grant funds. Future funding to complete the Resource Center and pay costs related to CDC activities will be provided by the Community Development Block Grant program.

The City and the Decatur Board of Education have worked together to insure a safe school environment for the students and faculty. In September 2005, the U.S. Department of Justice awarded a \$372,844 Secure Our Schools grant for the purchase and installation of metal detectors and camera surveillance systems for the two high schools and three middle schools. The City's match was \$111,853. The Cops in Schools grant from the U.S. Department of Justice provides the salaries and benefits for four City of Decatur police officers to be deployed full time in the schools.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Decatur for its comprehensive annual financial report for the fiscal year ended September 30, 2004. This was the thirteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report is possible because of the efficient and dedicated service of the entire staff of the finance department. We wish to express our appreciation to Allen Stover, who assisted in the preparation of this report and our independent auditors, especially Jeremy Jefferys, CPA and Julie Reeves, CPA. We would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

Gail Busbey
Chief Financial Officer

Linda McKinney
Finance Supervisor



Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Decatur, Alabama ("the City") as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Decatur's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Decatur's Board of Education ("Board of Education"), which is a component unit of the City, or the financial statements of the Municipal Utilities Board Enterprise Fund ("Utilities Board"). The Board of Education's financial statements represent 98.5% of the total assets and 99.8% of the revenues of the discretely presented component units. The Utilities Board's financial statements represent 91.2% of the total assets and 94.8% of the operating revenues of the enterprise funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Decatur, Alabama, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, and the School Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5G to the basic financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB No. 3*.

Beason & Nalley, Inc.
101 Monroe Street
Huntsville, Alabama
35801-4829

Tel: 256.533.1720
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www.beasonnalley.com

The management's discussion and analysis beginning on page 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Decatur's basic financial statements. The introductory section, supplementary information and statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2006 on our consideration of the City of Decatur's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2006



Commodore Stephen Decatur
1779 - 1820

CITY of DECATUR

P.O. Box 488 - Decatur, Alabama 35602

Management's Discussion and Analysis

As management of the City, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2005 by \$243.2 million. Of this amount, \$23.4 million from governmental activities is considered unrestricted, which means the City may use this amount, plus future revenues, to meet its ongoing obligations to citizens and creditors.
- The unrestricted net assets of the business-type activities are \$28.1 million and may be used to meet the ongoing obligations of the business-type activities.
- Total net assets increased \$8.6 million in 2005. Net assets of the governmental activities increased \$2.8 million and net assets of the business-type activities increased \$5.8 million
- Total revenues of the governmental activities increased \$1.5 million or 2.5 percent, and total expenses of governmental activities increased \$1.3 million, or 2 percent.
- As of September 30, 2005, the governmental funds reported a combined ending fund balance of \$25.1 million, a decrease of \$2.6 million from the prior year. Of the ending fund balance, \$22.7 million is unreserved and available to finance the activities of the governmental funds and \$2.4 million is reserved to meet existing obligations.
- The General Fund reported a fund balance of \$19.8 million and \$9.5 million of this amount is available for any purpose. The fund balance decreased \$1.2 million from the prior year.
- The City's total debt decreased by \$10.3 million during 2005. \$10.1 million in principal was paid during the year. Decatur City Schools issued \$26 million in Capital Outlay Warrants, for which the City of Decatur is not responsible.

Overview of the Financial Statements

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

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

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

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

Management's Discussion and Analysis- Continued

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

The business-type activities of the City include the Municipal Utilities Board, Sanitary Landfill and Point Mallard operations.

All of these activities are collectively referred to in the financial statements as those of the *primary government*.

As described in the letter of transmittal and notes to the financial statements, other entities' activities are included in this report because of the relationship of these legally separate entities to the City. Financial information of the Board of Education and Public Building Authority are referred to in the financial statements as those of the *discretely-presented component units*. This discussion and analysis focuses on the primary government, and the complete financial statements (including MD&A) of the component units may be obtained from the Finance Department of the City.

The government-wide financial statements can be found on pages 12 through 13 of this report.

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

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

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

The City maintains sixteen individual governmental funds:

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

The basic governmental fund financial statements can be found on pages 14 through 17 of this report.

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

Management's Discussion and Analysis- Continued

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

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

The basic proprietary fund financial statements can be found on pages 18 through 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 53 of this report.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Overall, the City's assets exceeded liabilities by \$243.2 million at the close of the most recent fiscal year.

The largest portion of the City's net assets (76.3 percent) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, infrastructure, and other), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets (2.6 percent) represents resources that are subject to restrictions as to how they may be used, such restrictions being imposed by legal requirements other than those imposed by the City Council (e.g. state or federal law).

The remaining balance of unrestricted net assets is \$51.5 million, which consisted of \$23.4 million from governmental activities and \$28.1 million from business-type activities.

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

Management's Discussion and Analysis- Continued

City of Decatur's Net Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 32,580	\$ 36,427	\$ 45,111	\$ 41,025	\$ 77,691	\$ 77,452
Capital assets	80,582	80,632	212,673	212,272	293,255	292,904
Total assets	113,162	117,059	257,784	253,297	370,946	370,356
Long-term liabilities outstanding	61,008	66,656	46,182	50,844	107,190	117,500
Other liabilities	4,916	5,994	15,690	12,290	20,606	18,284
Total liabilities	65,924	72,650	61,872	63,134	127,796	135,784
Net assets:						
Invested in capital assets, net of related debt	22,479	17,001	162,954	158,027	185,433	175,028
Restricted	1,368	3,035	4,825	5,651	6,193	8,686
Unrestricted	23,391	24,373	28,133	26,485	51,524	50,858
Total net assets	\$ 47,238	\$ 44,409	\$195,912	\$190,163	\$243,150	\$234,572

Net assets from governmental activities increased \$2.8 million in fiscal year 2005 and net assets from business-type activities increased \$5.6 million. Net assets also changed due to prior period adjustments of \$175,260, as noted in Note 4A on page 33.

Management's Discussion and Analysis- Continued

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$15,383	\$15,149	\$124,326	\$123,358	\$ 139,709	\$138,507
Operating grants & contributions	474	1,233	-	-	474	1,233
Capital grants & contributions	2,068	1,573	1,675	1,202	3,743	2,775
General revenues:						
Sales taxes	31,823	30,980	-	-	31,823	30,980
Property taxes	8,507	8,129	-	-	8,507	8,129
Other taxes	8,727	8,940	-	-	8,727	8,940
Interest on investments	829	560	1,017	421	1,846	981
Other	1,874	1,588	-	-	1,874	1,588
Total revenues	69,685	68,152	127,018	124,981	196,703	193,133
Expenses:						
General government	4,106	4,130			4,106	4,130
Public safety	18,736	18,394			18,736	18,394
Public works	7,865	8,023			7,865	8,023
Public services	7,497	6,535			7,497	6,535
Intergovernmental assistance	17,335	17,232			17,335	17,232
Community service contracts	2,426	2,359			2,426	2,359
Community development	721	1,139			721	1,139
Personnel board	530	469			530	469
Interest on long-term debt	2,877	2,591			2,877	2,591
Unallocated depreciation	3,457	3,365			3,457	3,365
Municipal Utilities Board:			116,461	116,535	116,461	116,535
Other			6,288	6,577	6,288	6,577
Total expenses	65,550	64,237	122,749	123,112	188,299	187,349
Increase in net assets before Transfers	4,135	3,915	4,269	1,869	8,404	5,784
Transfers	(1,305)	(571)	1,305	571	-	-
Increase in net assets	2,830	3,344	5,574	2,440	8,404	5,784
Net assets - beginning of year	44,409	41,065	190,163	187,723	234,572	228,788
Prior period adjustments			175		175	
Net assets - end of year	\$ 47,239	\$ 44,409	\$ 195,912	\$ 190,163	\$ 243,149	\$ 234,572

Management's Discussion and Analysis- Continued

Governmental Activities. Revenues from governmental activities increased \$1.5 million (2.3 percent) during 2005. The most significant changes were as follows:

- Sales taxes increased \$843 thousand, or 2.7 percent compared to 2004, due to an increase in retail sales
- Property taxes increased 4.7 percent due to annual property value reappraisals.
- Interest on investments increased \$269,000 or 48 percent due to rising interest rates and increased revenues.
- Capital contributions increase by \$495 thousand. This was due to the net of increases in capital contributions and the decrease in capital grant programs during the current year. During 2005, the City received \$1,608,250 in infrastructure assets streets and drainage from the contribution of four new subdivisions. This was a significant increase over the amount of capital contributions received during the prior year. On the other hand, capital grants were below the FY 2004 levels, which included a large drawdown of \$861,543 from older CDBG grants for the renovation of the Turner-Surles Community Resource Center. FY 2005 grants included \$89,357 for a water play feature at Delano Park, an increase of \$37,400 in Summer Food Program grant and an \$11,000 increase in Cops in Schools grant funding.

Expenses of governmental activities increased 1.3 million (2 percent) in 2005. In general, the cost of delivery of services has risen. A large portion of this increase was due to the rise in personnel cost associated with every function of governmental activities. This increase totaled approximately \$663,939 and was attributable to an across-the-board 2% cost of living increase at mid-year with scheduled 5% employee step increase on employee anniversary dates for those employees who have not reached the top of their pay scale (approximately one-half of all full-time employees.) Operating expenses, particularly fuel-related costs and depreciation, also increased.

Business-Type Activities. Revenues from business-type activities increased \$2 million (1.6 percent), the majority of which was due to increases in the Municipal Utilities Board Fund. Water System revenues increased by 5%, mainly due to a water rate increase effective in June, 2004, without a corresponding increase in expense. Wastewater System Revenues increased 9%, due to a combination of rate increases and increase in gallons sold, again without a corresponding increase in expenses. The Wastewater System also benefited from Capital Contributions from contractors for wastewater infrastructure turned over to the system in several new residential subdivisions.

Because of Alabama's territorial law for electric utility systems, the Electric System gained only 32 customers. The Gas System gained 196 customers, both residential and commercial accounts. The Water System added 301 customers, mostly residential. The Wastewater System added 206 customers, also mostly residential. This increase in the overall customer base also contributed slightly to the increase in revenue.

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

Expenses of the business-type activities decreased \$364 thousand, or .3 percent

Financial Analysis of the Governments Funds

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

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

The combined fund balances of the City's governmental funds decreased \$2.6 million for the 2005 fiscal year, and the total balance as of September 30, 2005, was \$25.1 million. Of this amount, \$22.7 million constitutes unreserved fund balance, which is generally available for spending at the City's discretion, although it is subject to certain designation made within each fund by the City Council.

Management's Discussion and Analysis- Continued

The decrease of \$2.6 million in the combined fund balances of the City's governmental funds was mostly attributable to the changes in the individual funds as follows:

- The General Fund decreased \$1.2 million due to the establishment of new revenue funds and the transfer of designated monies to those funds, as noted in Note 1 Don page 32. Revenue increased \$345 thousand, expenses decreased \$3 million and debt service decreased \$3.6 million, with \$2.875 million School Fund debt no longer being paid from the General Fund.
- The Non-major governmental fund balance decreased \$1.4 million as the City financed capital projects at the Marina and Jack Allen Recreation Complex.

The General Fund is the primary operating fund of the City. The unreserved fund balance of the General Fund was \$19.7 million, but \$10.2 million of this amount has been designated, or earmarked by management for special purposes as noted further within Note 4H on pages 45 and 46.

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

The unrestricted net assets of the enterprise funds increased \$1.6 million, which is primarily attributable to the fact that rate changes within the Municipal Utilities Board, as discussed earlier, caused increases in the amount of revenues which were greater than the related expenses for this fund. The remainder of the increase is due to the addition of the new Pro Bowl attraction at Pt. Mallard, the reopening of the golf course for an entire year (had been under renovation for majority of prior year) and a change in rate structures at the Sanitary Landfill; all of which increased revenues without significant increases in related expenses.

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

Governmental Funds Budgetary Highlights

General Fund. A \$1,498,509 positive difference between budgeted and actual revenues is a result of the conservative budgeting approach of the governing body in budgeting FY 2005 revenues based on FY 2004 actual revenues. The increase in revenues is accompanied by a \$398,314 positive difference between budgeted and actual expenditures, again a result of a conservative approach by management. The increase of \$276,945 in revenues for business licenses was a result of aggressive enforcement and the normal economic growth reflected in sales and use tax collections. The \$130,929 difference between budgeted and actual revenues from building permits occurred mainly in those revenues generated in the police jurisdiction, a result of basing FY 2005 projected revenues on FY 2004 actual revenues; FY 2004 saw an increase in industrial expansions located in the police jurisdiction, while FY 2005 returned to a more average number. The \$289,914 reduction in tax equivalent payments by Decatur Utilities' Gas Department was due to a reduction in their net revenues mainly due to a large industrial customer's decision to buy natural gas direct and transport it through DU. Payments in lieu of taxes made by TVA increased \$413,199, based upon TVA's formula of revenues and valuation of assets. The \$841,868 budget amendment consisted of \$572,300 transferred from the Room Occupancy Tax Fund for improvements at the Ingall's Marina site and \$269,568 in prior year revenue adjustments, the great majority of which was a tax payment resulting from an audit of a large business's prior year records. Community Service Contracts budget was exceeded by \$30,237 in the form of payments to the Decatur Convention and Visitors Bureau; this amount was based on 50% of lodging tax collections; collections exceeded projections based on prior year revenues by this amount. Budgeted expenditures were exceeded by the Public Works/Sanitation Department and by the Parks & Recreation Department as a result of extreme fluctuations in fuel prices and overtime necessitated by storm damages.

Management's Discussion and Analysis- Continued

School Fund. Revenues to the School Fund exceeded budgeted amounts by \$592,411. As previously stated, FY 2005 revenues were budgeted based on prior year revenues. The City Council appropriated 25% of Sales and Use Taxes to City Schools; 12.6 mills of the City's total 18.6 mill ad valorem tax levy is earmarked for City Schools. These amounts are transferred to the School Fund and paid to Decatur City Schools based upon actual collections, which exceeded conservative budget projections.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of September 30, 2005, totals \$293.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, utility plant-in-service, park facilities, roads, curbs and gutters, streets and sidewalks, greenways, drainage and sewer systems. Total capital assets increased \$352 thousand in 2005. Those used for governmental activities decreased by \$50 thousand (0.06 percent) as total additions (\$10.92 million) were exceeded by depreciation and disposition of those assets (\$10.97 million). Capital assets used for business-type activities increased by \$401 thousand (0.19 percent), as total additions (\$18.032 million) exceeded depreciation and disposition of those assets (\$17.631 million).

Major capital events during the fiscal year included the following:

- \$2.2 million of the proceeds of the 2003-E General Obligation Warrants were expended for the construction of soccer fields at the Jack Allen Recreation Complex, a 27 acre sports facility with lighting and laser-graded fields with irrigation and drainage systems. An additional \$264,000 was spent on a concession/office building with dressing rooms and showers;
- \$950,000 of the proceeds of the 2003-E General Obligation Warrants was expended for improvements at Point Mallard Park, including the completion of the Pro Bowl, a new water attraction at the Park.
- \$64,042 in improvements at Day Park was funded from the Room Occupancy Tax Fund, as the site became part of the North Alabama Birding Trail.
- Construction continued on the marina at the former Ingall's Shipyard site, with \$273,609 of the proceeds of the 2003-E General Obligation Warrants and \$153,665 from the Room Occupancy Tax Fund.

City of Decatur's Capital Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 9,213	\$ 9,112	\$ 3,719	\$ 2,982	\$ 12,932	\$ 12,094
Land improvements	7,235	2,381	-	-	7,235	2,381
Buildings and improvements	12,205	13,113	9,234	8,224	21,439	21,337
Infrastructure	44,735	45,045	-	-	44,735	45,045
Construction in process	3,038	5,530	2,021	4,631	5,059	10,161
Machinery and Equipment	4,156	5,451	933	554	5,090	6,005
Utility plant-in-service	-	-	196,766	195,881	196,766	195,881
Total	\$80,582	\$80,632	\$212,673	\$212,272	\$293,256	\$292,904

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

Management's Discussion and Analysis- Continued

Long-term debt. As of September 30, 2005, the City had \$103.4 million of long-term debt outstanding. Of this amount, \$58.6 million is debt backed by the full faith and credit of the City and \$44.8 million is comprised of revenue bonds and warrants secured solely by specific revenue sources (utility system debt). The School System issued debt of \$26 million, for which the School System's ad valorem tax payments are pledged and which is not an obligation of the City of Decatur.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation warrants	\$57,935	\$63,005	\$ -	\$ -	\$57,935	\$63,005
Revenue warrants	-	-	44,820	49,830	44,820	49,830
Notes payable	630	680	-	-	630	680
Total	\$58,565	\$63,685	\$44,820	\$49,830	\$103,385	\$113,515

The Decatur Board of Education issued \$26 million of capital outlay warrants May 1, 2005, for the repayment of which was pledged the school's ad valorem tax payments. The City of Decatur is not responsible for this debt. The warrants were issued for the following purposes:

- Construction of the new Banks-Caddell Elementary School
- Renovation of Benjamin Davis Elementary School
- Renovation of Leon Sheffield Elementary School

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

Other than debt paid from proprietary fund revenue sources (e.g. revenue bonds), State of Alabama law limits the amount of general obligation debt cities can issue for purposes other than schools and drainage systems to twenty percent of the assessed value of real and personal property. As of September 30, 2005, the City's allocable debt outstanding was \$73.6 million less than the legal debt limit.

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

2006 Budget

The Mayor and City Council have considered many factors in the development of the fiscal year 2006 budget. The approach to the budget process has been one of conservatism. Revenue projections are based on 2005 actual receipts of \$48.5 million for the General Fund budget, less one-time revenues. Department expenditures are currently held to the 2005 level, with reductions in expenditures for overtime and contract services. Management believes revenues and expenditures will meet overall budgetary goals.

Request for Information

This financial report is designed with a general overview of the City's finances and to demonstrate accountability for the money it receives from taxpayers, customers, and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Linda McKinney, P.O. Box 488 Decatur, AL 35602, by calling (256) 341-4561, or by sending an email to lmckinney@decatur-al.gov. This report and other City financial information are available on the City's website at www.digitaldecatur.com.

BASIC FINANCIAL STATEMENTS

CITY OF DECATUR
STATEMENT OF NET ASSETS
September 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash & investments, at cost	\$ 24,473,070	\$ 27,463,977	\$ 51,937,047	\$ 41,754,317
Receivables (net of allowances)	6,271,205	11,028,196	17,299,401	-
Due from component units	2,670	-	2,670	-
Due from governmental entities	945,858	-	945,858	14,050,446
Inventories	37,677	1,313,302	1,350,979	140,380
Other	62,005	68,769	130,774	-
Deferred costs	519,271	678,704	1,197,975	210,143
Internal balances	267,821	(267,821)	-	-
Restricted assets				
Cash & investments, at cost	-	4,825,400	4,825,400	-
Capital assets				
Land, collections and construction in process	12,251,416	5,739,539	17,990,955	8,889,459
Other assets, net of accum. depreciation	68,331,477	206,933,789	275,265,266	36,243,104
Total assets	113,162,470	257,783,855	370,946,325	101,287,849
LIABILITIES				
Accounts payable	1,585,690	12,826,944	14,412,634	1,370,961
Accrued liabilities	1,836,722	52,265	1,888,987	5,459,584
Contract retainages	56,747	48,378	105,125	-
Due to component units	1,165,309	-	1,165,309	-
Due to governmental entities	48,326	-	48,326	-
Customer deposits	-	2,762,563	2,762,563	-
Deferred revenue	-	-	-	10,945,944
Other	223,708	-	223,708	-
Liabilities payable from restricted assets:				
Matured warrants payable	-	2,795,000	2,795,000	-
Noncurrent liabilities				
Due within one year	6,269,694	67,401	6,337,095	206,497
Due in more than one year	54,737,834	43,318,970	98,056,804	26,469,266
Total liabilities	65,924,030	61,871,521	127,795,551	44,452,252
NET ASSETS				
Invested in capital assets, net of related debt	22,478,756	162,954,372	185,433,128	17,920,055
Restricted for:				
Capital projects	559,273	-	559,273	-
Debt service	808,884	4,825,400	5,634,284	-
Unrestricted	23,391,527	28,132,562	51,524,089	38,915,542
Total net assets	\$ 47,238,440	\$ 195,912,334	\$ 243,150,774	\$ 56,835,597

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

Functions/Programs	Program Revenue			Net Revenue (Expense) & Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Component Units
Primary Government							
Governmental activities							
General government	\$ 4,106,422	\$ 4,682,502	\$ -	\$ -	\$ 576,080	\$ -	\$ 576,080
Public safety	18,735,909	2,482,336	-	-	(16,253,573)	-	(16,253,573)
Public works	7,864,825	1,991,888	-	1,680,560	(4,192,377)	-	(4,192,377)
Intergovernmental assistance	7,496,941	570,640	-	-	(6,926,301)	-	(6,926,301)
Community service contracts	17,335,424	5,655,455	-	-	(11,679,969)	-	(11,679,969)
Community development	2,425,783	-	-	-	(2,425,783)	-	(2,425,783)
Personnel board	720,867	-	473,856	387,937	140,926	-	140,926
Interest on long-term debt	530,389	-	-	-	(530,389)	-	(530,389)
Unallocated depreciation	2,877,155	-	-	-	(2,877,155)	-	(2,877,155)
	3,457,256	-	-	-	(3,457,256)	-	(3,457,256)
Total governmental activities	65,550,971	15,382,821	473,856	2,068,497	(47,625,797)	-	(47,625,797)
Business-type activities							
Municipal Utilities Board	116,460,704	117,869,302	-	1,674,920	-	3,083,518	3,083,518
Point Mallard	3,276,086	2,615,778	-	-	(660,308)	-	(660,308)
Sanitary Landfill	3,011,682	3,840,554	-	-	828,872	-	828,872
Total business-type activities	122,748,472	124,325,634	-	1,674,920	3,252,082	-	3,252,082
Total primary government	\$ 188,299,443	\$ 139,708,455	\$ 473,856	\$ 3,743,417	\$ (47,625,797)	\$ 3,252,082	\$ (44,373,715)
Component Units							
All	74,758,487	5,591,340	41,763,802	1,762,697	-	-	(25,640,648)
Total component units	\$ 74,758,487	\$ 5,591,340	\$ 41,763,802	\$ 1,762,697	\$ -	\$ -	\$ (25,640,648)
General Revenues							
Sales & use taxes					\$ 31,822,887	\$ -	\$ 31,822,887
Property taxes					8,506,525	-	8,506,525
Alcoholic beverage taxes					1,899,066	-	1,899,066
Gasoline taxes					1,324,890	-	1,324,890
Automobile taxes					1,280,830	-	1,280,830
Lodging taxes					1,101,824	-	1,101,824
Rental taxes					1,101,615	-	1,101,615
Other taxes					2,019,036	-	2,019,036
Interest on investments					829,131	1,017,206	2,019,036
Other					1,874,267	-	1,846,337
Transfers					(1,304,539)	1,304,539	1,874,267
Total general revenues & transfers					50,455,532	2,321,745	52,777,277
Change in net assets					2,829,735	5,573,827	8,403,562
Net assets, beginning					44,408,705	190,163,247	234,571,952
Prior period adjustments					0	175,260	175,260
Net assets, ending					\$ 47,238,440	\$ 195,912,334	\$ 243,150,774

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2005

	General Fund	School Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash & cash equivalents	\$ 9,319,626	\$ 574,373	\$ 4,672,326	\$ 14,566,325
Cash with fiscal agents	45,679	-	-	45,679
Investments, at cost	9,251,066	-	610,000	9,861,066
Receivables (net of allowances)				
Accounts	2,331,207	694,944	47,772	3,073,923
Notes	-	-	511,262	511,262
Taxes	2,636,464	-	-	2,636,464
Accrued interest	16,652	-	32,904	49,556
Due from other funds	261,672	26,432	-	288,104
Due from component units	2,670	-	-	2,670
Due from governmental entities	464,889	111,693	369,276	945,858
Deposits	62,005	-	-	62,005
Inventories	37,677	-	-	37,677
Total assets	24,429,607	1,407,442	6,243,540	32,080,589
LIABILITIES				
Accounts payable	1,072,204	304	513,182	1,585,690
Accrued liabilities	1,107,542	-	25,557	1,133,099
Contract retainages	-	-	56,747	56,747
Due to other funds	-	-	20,283	20,283
Due to component units	-	1,165,309	-	1,165,309
Due to governmental entities	41,171	-	7,155	48,326
Deferred revenue	2,229,963	-	511,262	2,741,225
Other	223,708	-	-	223,708
Total liabilities	4,674,588	1,165,613	1,134,186	6,974,387
FUND BALANCES				
Reserved for:				
Encumbrances	-	-	828,816	828,816
Inventories	37,677	-	-	37,677
Perpetual care	-	-	664,945	664,945
Debt service	-	-	808,884	808,884
Donor restricted	-	-	50,000	50,000
Unreserved & Designated for:				
Special purposes	8,331,935	-	-	8,331,935
Future capital needs	899,636	-	-	899,636
Landfill	977,362	-	-	977,362
Other	1,381	-	-	1,381
Unreserved & undesignated, reported in:				
General fund	9,507,028	-	-	9,507,028
Special revenue funds	-	241,829	2,197,436	2,439,265
Capital projects funds	-	-	559,273	559,273
Total fund balance	19,755,019	241,829	5,109,354	25,106,202
Total liabilities and fund balance	\$ 24,429,607	\$ 1,407,442	\$ 6,243,540	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund 80,582,893
Other long-term receivables which are not available for current-period expenditures and, therefore, are deferred in the funds 2,741,225

Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the funds.

(61,191,880)

Net assets of governmental activities

\$ 47,238,440

**CITY OF DECATUR
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2005**

	General Fund	School Fund	Other Governmental Funds	Total Governmental Funds
REVENUE				
Sales & use taxes	\$ 23,867,120	\$ 7,955,767	\$ -	\$ 31,822,887
Property taxes	2,333,771	6,172,754	-	8,506,525
Other taxes	6,370,349	1,118,181	357,654	7,846,184
Licenses & permits	5,260,874	-	-	5,260,874
Fines & forfeitures	970,310	-	383,568	1,353,878
Revenues from money & property	751,982	1,409	244,343	997,734
Charges for services	2,853,277	-	-	2,853,277
Intergovernmental	5,362,591	545,934	2,640,240	8,548,765
Other revenues	700,353	86,250	141,664	928,267
Total revenues	48,470,627	15,880,295	3,767,469	68,118,391
EXPENDITURES				
Current				
General government	3,085,609	45,432	193,311	3,324,352
Public safety	17,825,151	-	206,043	18,031,194
Public works	7,162,372	-	418,234	7,580,606
Public services	6,763,693	-	405,794	7,169,487
Intergovernmental assistance	4,149,898	12,981,125	-	17,131,023
Community services contracts	2,425,783	-	-	2,425,783
Community development	-	-	1,503,289	1,503,289
Personnel Board	-	-	530,389	530,389
Debt service				
Principal	2,679,464	2,235,000	760,000	5,674,464
Interest and fiscal charges	2,026,363	640,109	173,214	2,839,686
Capital projects construction and outlay	-	-	4,257,550	4,257,550
Total expenditures	46,118,333	15,901,666	8,447,824	70,467,823
Excess (deficiency) of revenues over expenditures	2,352,294	(21,371)	(4,680,355)	(2,349,432)
OTHER FINANCING SOURCES (USES)				
Transfers in	623,657	23,420	2,465,299	3,112,376
Transfers (out)	(2,547,646)	-	(855,860)	(3,403,506)
Total other financing sources (uses)	(1,923,989)	23,420	1,609,439	(291,130)
Net change in fund balance	428,305	2,049	(3,070,916)	(2,640,562)
Fund balance, beginning	19,326,714	239,780	8,180,270	27,746,764
Fund balance, ending	\$ 19,755,019	\$ 241,829	\$ 5,109,354	\$ 25,106,202

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

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

Net change in fund balances - total governmental funds \$ (2,640,562)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (53,344)

Governmental funds report the sales of capital assets as revenues and unlike the Statement of Activities, do not recognize the effect of the cost of those assets and their related depreciation. This is the amount by which the cost of assets sold, minus their accumulated depreciation, exceeded the proceeds from the sales. This amount is included in the expenses of the general government function in the Statement of Activities. 4,617

Revenues in the statement of activities that do not provide current financial resources (113,704)

For governmental funds, the issuance of long-term debt (e.g. warrants and leases) provide current financial resources and the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 5,526,780

Other expenses reported in the Statement of Activities that do not require current financial resources. 105,948

Change In Net Assets Of Governmental Activities \$ 2,829,735

CITY OF DECATUR
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET & ACTUAL
 For the Year Ended September 30, 2005

	General Fund				School Fund				
	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)	Final Budget		Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final			Final Budget	Actual Amounts	Original Budget	Final Budget	
REVENUES									
Taxes and payments in lieu of taxes	\$ 31,882,792	\$ 31,882,792	\$ 32,571,240	\$ 688,448	\$ 14,717,217	\$ 14,717,217	\$ 15,246,702	\$ 529,485	
Licenses and permits	5,104,987	5,104,987	5,260,874	155,887	-	-	-	-	-
Fines and forfeitures	894,350	894,350	970,310	75,960	-	-	-	-	-
Revenues from money and property	362,315	362,315	751,982	389,667	-	-	1,409	1,409	-
Charges for services	2,635,735	2,635,735	2,853,277	217,542	-	-	-	-	-
Intergovernmental	5,279,213	5,279,213	5,362,591	83,378	545,667	570,667	545,934	(24,733)	
Other revenues	543,158	812,726	700,553	(112,373)	-	-	86,250	86,250	
Total revenues	46,702,550	46,972,118	48,470,627	1,498,509	15,262,884	15,287,884	15,880,295	592,411	
EXPENDITURES									
Current									
General government	3,329,068	3,330,271	3,085,609	244,662	23,513	48,513	45,432	3,081	
Public safety	17,856,328	17,851,592	17,825,151	26,441	-	-	-	-	
Public works	6,815,865	7,114,821	7,162,372	(47,551)	-	-	-	-	
Public services	6,815,660	6,828,130	6,763,693	64,437	-	-	-	-	
Intergovernmental assistance	4,147,561	4,271,467	4,149,898	121,569	12,362,012	12,362,012	12,981,125	(619,113)	
Community services contracts	2,396,731	2,395,546	2,425,783	(30,237)	-	-	-	-	
Debt service									
Principal	2,696,989	2,696,989	2,679,464	17,525	2,235,000	2,235,000	2,235,000	-	
Interest	2,134,750	2,027,831	2,026,363	1,468	642,359	642,359	640,109	2,250	
Total expenditures	46,192,952	46,516,647	46,118,333	398,314	15,262,884	15,287,884	15,901,666	(613,782)	
Excess of revenues over expenditures	509,598	455,471	2,352,294	1,896,823	-	-	(21,371)	(21,371)	
OTHER FINANCING SOURCES (USES)									
Operating transfers in	16,669	588,969	623,657	34,688	-	-	23,420	23,420	
Operating transfers out	(1,098,930)	(2,698,396)	(2,547,646)	150,750	-	-	-	-	
Total other financing sources (uses)	(1,082,261)	(2,109,427)	(1,923,989)	185,438	-	-	23,420	23,420	
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(572,663)	(1,653,956)	428,305	2,082,261	-	-	2,049	2,049	
Fund balance, beginning	19,326,714	19,326,714	19,326,714	-	239,780	239,870	239,780	-	
Fund balance, ending	\$ 18,754,051	\$ 17,672,758	\$ 19,755,019	\$ 2,082,261	\$ 239,780	\$ 239,870	\$ 241,829	\$ 2,049	

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 September 30, 2005

	Municipal Utilities Board	Other Enterprise Funds	Totals
ASSETS			
Current assets			
Cash & cash equivalents	\$ 17,302,909	\$ 7,026,287	\$ 24,329,196
Investments, at cost	-	3,134,781	3,134,781
Receivables (net of allowance)			
Accounts	10,578,734	442,193	11,020,927
Accrued interest	-	6,645	6,645
Other	624	-	624
Inventories, at cost	1,293,153	20,149	1,313,302
Other	68,769	-	68,769
Total current assets	29,244,189	10,630,055	39,874,244
Noncurrent assets			
Restricted cash, cash equivalents and investments:			
Revenue warrant covenant accounts	4,825,400	-	4,825,400
Deferred costs	678,704	-	678,704
Capital assets:			
Land	2,303,200	1,415,739	3,718,939
Buildings	-	6,908,360	6,908,360
Improvements other than buildings	-	14,543,136	14,543,136
Furniture & equipment	-	3,873,458	3,873,458
Utility plant in service	286,804,467	-	286,804,467
Construction work in progress	1,506,371	514,229	2,020,600
Less accumulated depreciation	(90,038,461)	(15,157,171)	(105,195,632)
Total capital assets (net of accumulated depreciation)	200,575,577	12,097,751	212,673,328
Total noncurrent assets	206,079,681	12,097,751	218,177,432
Total assets	235,323,870	22,727,806	258,051,676
LIABILITIES			
Current liabilities			
Accounts payable	11,717,473	1,109,471	12,826,944
Accrued liabilities	-	52,265	52,265
Contract retainages	-	48,378	48,378
Compensated absences	-	22,401	22,401
Customer deposits	2,762,563	-	2,762,563
Revenue warrants payable - current	2,795,000	-	2,795,000
Capital leases payable - current	-	45,000	45,000
Due to other funds	267,821	-	267,821
Total current liabilities	17,542,857	1,277,515	18,820,372
Noncurrent liabilities			
Landfill closure and post-closure care costs	-	1,682,441	1,682,441
Revenue notes payable	41,434,922	-	41,434,922
Compensated absences	-	201,607	201,607
Total noncurrent liabilities	41,434,922	1,884,048	43,318,970
Total liabilities	58,977,779	3,161,563	62,139,342
NET ASSETS			
Invested in capital assets, net of related debt	150,901,621	12,052,751	162,954,372
Restricted for debt service	4,825,400	-	4,825,400
Unrestricted	20,619,070	7,513,492	28,132,562
Total net assets	\$ 176,346,091	\$ 19,566,243	\$ 195,912,334

The accompanying notes are an integral part of this statement.

**CITY OF DECATUR
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 For the Year Ended September 30, 2005**

	Municipal Utilities Board	Other Enterprise Funds	Totals
Operating revenue			
Charges for services	\$ 117,869,302	\$ 3,840,554	\$ 121,709,856
Premiums & fees	-	2,615,778	2,615,778
Total operating revenue	117,869,302	6,456,332	124,325,634
Operating expenses			
Personnel, operations & maintenance	107,151,729	5,196,792	112,348,521
Closure and postclosure costs	-	124,067	124,067
Depreciation and amortization	7,043,279	1,067,167	8,110,446
Total operating expenses	114,195,008	6,388,026	120,583,034
Operating income (loss)	3,674,294	68,306	3,742,600
Nonoperating revenue (expenses)			
Interest income	722,107	295,099	1,017,206
Interest expense	(2,268,860)	(6,079)	(2,274,939)
Intergovernmental	-	(33,121)	(33,121)
Gain (loss) on disposition of assets	-	103,284	103,284
Miscellaneous revenue (expense)	3,164	36,174	39,338
Total nonoperating revenue (expenses)	(1,543,589)	395,357	(1,148,232)
Income before contributions, transfers & special items	2,130,705	463,663	2,594,368
Capital contributions	1,674,920	1,013,409	2,688,329
Transfers in	43,269	280,982	324,251
Transfers (out)	-	(33,121)	(33,121)
Change in net assets	3,848,894	1,724,933	5,573,827
Total net assets, beginning	172,321,937	17,841,310	190,163,247
Prior period adjustments	175,260	-	175,260
Total net assets, ending	\$ 176,346,091	\$ 19,566,243	\$ 195,912,334

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Year Ended September 30, 2005

	Municipal Utilities Board	Other Enterprise Funds	Totals
Operating activities			
Receipts from customers and users	\$ 115,684,727	\$ 6,384,235	\$ 122,068,962
Other operating cash receipts	-	45,061	45,061
Payments to suppliers	(95,441,238)	(2,779,153)	(98,220,391)
Payments to employees	(8,820,109)	(1,466,356)	(10,286,465)
Payments for interfund services	-	(98,000)	(98,000)
Non-operating cash receipts	3,163	-	3,163
Net cash provided (used) by operating activities	11,426,543	2,085,787	13,512,330
Noncapital financing activities			
Transfers in	-	411,725	411,725
Transfers (out)	-	(33,121)	(33,121)
Net cash provided (used) by noncapital financing activities	-	378,604	378,604
Capital and related financing activities			
Acquisition and construction of capital assets	(5,775,697)	(2,074,908)	(7,850,605)
Proceeds from sale of capital assets	-	92,042	92,042
Proceeds from capital leases	-	90,000	90,000
Capital contributions	1,718,189	-	1,718,189
Principal payments on capital leases	-	(74,251)	(74,251)
Principal payments on warrants	(5,010,000)	-	(5,010,000)
Interest paid on capital leases	-	(6,079)	(6,079)
Interest paid on warrants	(2,145,774)	-	(2,145,774)
Net cash provided (used) by capital and related financing activities	(11,232,282)	(1,973,196)	(13,205,478)
Investing activities			
Decrease (increase) in restricted assets	561,730	-	561,730
Interest received	726,564	297,453	1,024,017
Net cash provided (used) by investing activities	1,288,294	297,453	1,585,747
Net increase (decrease) in cash and cash equivalents	1,482,555	788,648	2,271,203
Cash and cash equivalents, beginning	15,820,354	6,237,639	22,057,993
Cash and cash equivalents, ending	<u>\$ 17,302,909</u>	<u>\$ 7,026,287</u>	<u>\$ 24,329,196</u>
Operating income (loss)	\$ 3,674,294	\$ 68,306	\$ 3,742,600
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	7,529,144	1,067,167	8,596,311
Landfill postclosure costs	-	124,067	124,067
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:			
Change in assets and liabilities:			
Receivables	(2,188,407)	(72,097)	(2,260,504)
Accounts payable	2,140,620	918,880	3,059,500
Contract retainages	-	48,378	48,378
Inventory	227,045	7,657	234,702
Due to (from) other funds	145,688	(98,000)	47,688
Accrued liabilities	221,608	9,487	231,095
Deferred demand credit	(98,738)	-	(98,738)
Deferred revenue	(230,066)	-	(230,066)
Other items	5,355	11,942	17,297
Net cash provided (used) by operating activities	\$ 11,426,543	\$ 2,085,787	\$ 13,512,330
Supplemental information			
Noncash activities			
Acquisition of fixed assets through contributions from other funds	\$ -	\$ 882,666	\$ 882,666

The accompanying notes are an integral part of this statement.

**CITY OF DECATUR
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS
September 30, 2005**

	Governmental Activities	Business-Type Activities	
	Board of Education	Public Building Authority	Total
ASSETS			
Cash & cash equivalents	\$ 41,617,156	\$ 100,927	\$ 41,718,083
Investments, at cost	36,234	-	36,234
Due from primary government	1,165,309	-	1,165,309
Due from governmental entities	12,885,137	-	12,885,137
Inventories	140,380	-	140,380
Deferred Charges	210,143	-	210,143
Capital assets			
Land and construction in process	8,756,157	133,302	8,889,459
Other assets, net of accum. depreciation	34,981,620	1,261,484	36,243,104
Total assets	99,792,136	1,495,713	101,287,849
LIABILITIES			
Accounts payable	1,370,961	-	1,370,961
Accrued liabilities	5,459,584	-	5,459,584
Deferred revenue	10,945,944	-	10,945,944
Noncurrent liabilities			
Due within one year	51,497	155,000	206,497
Due in more than one year	25,976,368	492,898	26,469,266
Total liabilities	43,804,354	647,898	44,452,252
NET ASSETS			
Invested in capital assets, net of related debt	17,920,055	-	17,920,055
Restricted for:			
Unrestricted	38,067,727	847,815	38,915,542
Total net assets	\$ 55,987,782	\$ 847,815	\$ 56,835,597

The accompanying notes are an integral part of this statement.

CITY OF DECATUR
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

Functions/Programs	Program Revenue		Net Revenue (Expense) & Changes in Net Assets			
	Expenses	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
		Charges for Services		Board of Education	Public Building Authority	
Component Units						
Decatur City Board of Education	\$ 74,682,780	\$ 41,763,802	\$ 1,762,697	\$ (25,757,582)	\$ -	\$ (25,757,582)
Public Building Authority	75,707	-	-	-	116,934	116,934
Total component units	74,758,487	41,763,802	1,762,697	(25,757,582)	116,934	(25,640,648)
		General Revenues				
		Sales & use taxes		\$ 10,518,988	\$ -	\$ 10,518,988
		Property taxes		12,325,660	-	12,325,660
		Other taxes		949,078	-	949,078
		Interest on investments		1,140,911	1,737	1,142,648
		Other		3,093,924	-	3,093,924
		Total general revenues & transfers		28,028,561	1,737	28,030,298
		Change in net assets		2,270,979	118,671	2,389,650
		Net assets, beginning		54,273,466	729,144	55,002,610
		Prior period adjustments		(556,663)	-	(556,663)
		Net assets, ending		\$ 55,987,782	\$ 847,815	\$ 56,835,597

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

City of Decatur
Notes To The Financial Statements
September 30, 2005

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City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

Primary Government

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

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

Blended Component Unit

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Discretely Presented Component Unit

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

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

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

Board of Education
302 Fourth Avenue Northeast
Decatur, Alabama 35601

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

The following are the City's major governmental funds:

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

The following are the City's major enterprise funds:

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

Additionally, the City reports the following fund types:

Governmental Funds:

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Proprietary Funds:

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

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, State of Alabama, Alabama counties, or the general obligations of Alabama Municipalities.

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

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

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

Receivables and Payables

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Amounts receivable and payable from federal, state, county, and local governments are classified as "due from/to other governmental entities." No individually significant amounts were due from any single entity as of September 30, 2005.

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

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

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

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

Inventories and Prepaid Items

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

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

Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects when constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed.

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Compensated Absences

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

Long-term Obligations

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

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

Fund Equity

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Change in Fund Structure

Effective for the fiscal year ending September 30, 2005, the City reorganized the fund structure in order to assist management in isolating and monitoring activities related to amounts that had been previously designated within the General Fund balance. Therefore, a comparison of the 2005 Governmental Fund financial statements to prior year statements must take this change into consideration.

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

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

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$61,191,880 difference are as follows:

Warrants Payable	\$57,694,264
Less: Deferred charge on refunding (to be amortized as interest expense)	(519,271)
Notes payable	629,963
Accrued interest payable	703,623
Capital leases payable	299,181
Compensated absences	<u>2,384,120</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets-governmental activities	<u>\$61,191,880</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$53,344 difference are as follows:

Capital outlay	\$(5,873,734)
Capital contributions	(667,151)
Depreciation expense	<u>6,594,229</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 53,344</u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

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

Another element of that reconciliation states that "the issuance of long-term debt (e.g., warrants and leases) provide current financial resources and the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$5,526,780 difference are as follows:

Principal repayments:	
General obligation debt	\$(5,070,000)
Notes	(50,037)
Payment on capital lease	(554,427)
Amortization of premium and refunding loss	84,765
Deferral of issuance costs	<u>62,919</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$(5,526,780)</u></u>

Another element of that reconciliation states that "other expenses reported in the statement of activities that do not require current financial resources." The details of this \$105,948 difference is as follows:

Compensated absences	\$ (58,652)
Accrued interest	<u>(47,296)</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$(105,948)</u></u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

<u>Annually-Budgeted Governmental Funds</u>	<u>Governmental Funds Not Annually-Budgeted</u>
<p>General Fund</p> <p>Special Revenue Funds 7 Cent Gas Tax Fund 4&5 Cent Gas Tax Fund School Fund Personnel Board Fund Heritage Trust Fund Docket Fees Fund Drug Seizure Fund Room Occupancy Fund Corrections Fund</p>	<p>Special Revenue Funds Community Development Fund Municipal Court Fund</p> <p>Debt Service Fund Public Port and Infrastructure Warrants Fund</p> <p>Capital Projects Funds 2003 GO Warrants Fall Capital Projects Fund Capital Improvements Fund</p> <p>Permanent Fund Perpetual Care Fund</p>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

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

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

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

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

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

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

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

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, 2005:

General Fund

<i>Public Works:</i>	
Streets	\$69,107
Sanitation	\$69,823
<i>Public Services:</i>	
Park and recreation	\$56,010
<i>Intergovernmental Assistance:</i>	
Garage	\$7,854
Community service contracts:	\$30,237

Special Revenue Funds

<i>School Fund:</i>	
Intergovernmental assistance	\$619,113

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

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Restatement of Beginning Net Assets (Proprietary Funds and Component Units)

During the current year, the Municipal Utilities Board of Decatur restated 2004 Net Assets due to various metering and billing errors in the Wastewater System for the billing period beginning in September 2002. The revenue adjustment for 2004 resulted in an increase of Net Assets by \$175,260. This amount is shown as a change to the beginning net asset balance in the Proprietary Funds Statement of Revenues, Expenses and Changes in Fund Net Assets.

In the prior year, the Net Assets for the Decatur City Board of Education was restated due to understated depreciation for certain assets having an invalid acquisition date. The amount of the error resulted in an overstatement of net assets in the amount of \$556,663. This amount is shown as a change to the beginning net asset balance in the Discretely Presented Component Units Combining Statement of Activities.

B. Deposits and Investments

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

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Cash on hand	\$38,895,521
Carrying amount of deposits	12,995,847
Carrying amount of investments	<u>4,871,079</u>
Total	<u>\$56,762,447</u>
Per Governmental Funds Balance Sheet-total governmental funds	
Cash and investments	\$24,473,070
Per Proprietary Funds Statement of Net Assets	
Total enterprise funds	
Cash and investments	27,463,977
Restricted cash for debt service	<u>4,825,400</u>
Total	<u>\$56,762,447</u>

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

	<u>Board of Education</u>
Cash on hand	\$41,718,083
Carrying amount of deposits	<u>36,234</u>
Total Cash and investments	<u>\$41,754,317</u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

C. Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	Balance September 30, 2004	Additions/ Transfers-in	Deletions/ Transfers-out	Balance September 30, 2005
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 9,111,723	\$ 101,506	\$ -	\$ 9,213,229
Construction in progress	5,530,034	1,889,615	(4,381,462)	3,038,187
Total capital assets, not being depreciated	14,641,757	1,991,121	(4,381,462)	12,251,416
Capital assets, being depreciated:				
Buildings and improvements	24,614,908	217,982	-	24,832,890
Land improvements	6,546,923	5,066,575	(7,413)	11,606,085
Furniture, equipment and other	20,801,532	499,117	(33,612)	21,267,037
Infrastructure	86,674,360	3,147,552	-	89,821,912
Total capital assets, being depreciated	138,637,723	8,931,226	(41,025)	147,527,924
Less accumulated depreciation for:				
Buildings and improvements	(11,502,203)	(1,125,886)	-	(12,628,089)
Land improvements	(4,165,988)	(209,172)	4,530	(4,370,630)
Furniture, equipment and other	(15,350,212)	(1,801,916)	41,113	(17,111,015)
Infrastructure	(41,629,457)	(3,457,256)	-	(45,086,713)
Total accumulated depreciation	(72,647,860)	(6,594,230)	45,643	(79,196,447)
Total capital assets, being depreciated, net	65,989,863	2,336,996	4,618	68,331,477
Governmental activities capital assets, net	\$80,631,620	\$4,328,117	\$(4,376,844)	\$80,582,893
<u>Business-type activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 2,981,849	\$ 737,090	\$ -	\$ 3,718,939
Construction in progress	4,631,412	5,777,997	(8,388,809)	2,020,600
Total capital assets, not being depreciated	7,613,261	6,515,087	(8,388,809)	5,739,539
Capital assets, being depreciated:				
Buildings and improvements	19,677,013	1,774,483	-	21,451,496
Furniture, equipment and other	3,732,236	682,669	(541,447)	3,873,458
Utility plant-in-service	283,464,594	9,060,091	(5,720,218)	286,804,467
Total capital assets, being depreciated	306,873,843	11,517,243	(6,261,665)	312,129,421
Less accumulated depreciation for:				
Buildings and improvements	(11,444,392)	(773,040)	-	(12,217,432)
Furniture, equipment and other	(3,187,057)	(294,130)	541,448	(2,939,739)
Utility plant-in-service	(87,583,561)	(7,893,024)	5,438,124	(90,038,461)
Total accumulated depreciation	(102,215,010)	(8,960,194)	5,979,572	(105,195,632)
Total capital assets, being depreciated, net	204,658,833	2,557,049	(282,093)	206,933,789
Business-type activities capital assets, net	\$212,272,094	\$9,072,136	\$(8,670,902)	\$ 212,673,328

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Depreciation expense of \$3,457,256 for the Governmental activities Infrastructure assets is not allocated to the functions. The depreciation expense for all other depreciable assets is charged to functions/programs of the primary government as follows:

<u>Governmental activities:</u>	
General government	\$ 863,276
Public Safety	686,251
Public Works	689,034
Public Services	588,482
Intergovernmental	306,661
Community Development	3,270
Total depreciation expense – governmental activities	<u>\$ 3,136,974</u>
<u>Business-type activities:</u>	
Municipal Utilities Board Fund	\$ 7,893,024
Sanitary Landfill Fund	593,655
Point Mallard Fund	473,515
Total depreciation expense – business-type activities	<u>\$ 8,960,194</u>

Activity for the discretely presented component unit, Board of Education for the year ended September 30, 2005 was as follows:

	Balance September 30, 2004	Additions/ Transfers-in	Deletions Transfers-out	Balance September 30, 2005
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,476,229	\$ 79,132	\$ -	\$ 3,555,361
Construction in progress	538,460	4,662,336	-	5,200,796
Total capital assets, not being depreciated	<u>4,014,689</u>	<u>4,741,468</u>	<u>-</u>	<u>8,756,157</u>
Capital assets, being depreciated:				
Buildings and improvements	61,223,863	1,113,045	-	62,336,908
Furniture, equipment and other	4,418,148	113,001	(79,968)	4,451,181
Total capital assets, being depreciated	65,642,011	1,226,046	(79,968)	66,788,089
Less accumulated depreciation	(29,801,684)	(2,084,673)	79,888	(31,806,469)
Total capital assets, being depreciated, net	<u>35,840,327</u>	<u>(858,627)</u>	<u>(80)</u>	<u>34,981,620</u>
Total governmental activities capital assets, net	<u>\$ 39,855,016</u>	<u>\$ 3,882,841</u>	<u>\$ (80)</u>	<u>\$ 43,737,777</u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2005 is as follows:

Transfers In/Out:

Transfers Out:

From General Fund			
To School Fund	\$	23,420	
To non-major governmental funds		2,243,244	
To non-major enterprise funds		<u>280,982</u>	\$2,547,646
From Non-major governmental funds			
To General Fund		590,536	
To Municipal Utilities Board Enterprise Fund		43,269	
To other non-major governmental funds		<u>222,055</u>	855,860
From Non-major enterprise funds			
To General Fund			<u>33,121</u>
Subtotal			3,436,627
Transfer of capital assets from Non-major governmental fund to Non-major enterprise fund			<u>1,013,409</u>
Total			<u><u>\$4,450,036</u></u>

Transfers In:

To General Fund:			
From non-major governmental funds	\$	590,536	
From non-major enterprise funds		<u>33,121</u>	\$623,657
To School Fund			
From General Fund			23,420
To Municipal Utilities Board Enterprise Fund			
From non-major governmental funds			43,269
To Non-major governmental funds			
From General Fund		2,243,244	
From other non-major governmental funds		<u>222,055</u>	2,465,299
To Non-major enterprise funds			
From General Fund			<u>1,294,391</u>
Subtotal			<u><u>\$4,450,036</u></u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

In the fund financial statements, total transfers in of \$4,450,036 are greater than total transfers out of \$3,436,627 because of the treatment of capital contributions to a non-major enterprise fund. During the year, a non-major governmental fund transferred \$1,013,409 of capital assets to a non-major enterprise fund as approved by Council. This was shown as a transfer in within the non-major enterprise fund and was eliminated through reconciliation to the Government-Wide statements.

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Municipal Utilities Board Enterprise Fund	\$241,389
	Non-major Governmental Funds	<u>20,283</u>
		<u>261,672</u>
School Fund	Municipal Utilities Board Enterprise Fund	<u>26,432</u>
Total due to/from other funds		<u>\$288,104</u>

Due To/From Primary Government and Component Units:

Receivable Fund	Payable Fund	Amount
Component Unit – Board of Education	Primary Government - School Fund	<u>\$1,165,309</u>
Total due to/from primary government to component units		<u>\$1,165,309</u>

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

E. Leases

Operating Leases

The City entered into four non-cancelable operating lease agreements for the use of golf carts late in the year. Total costs for such leases were \$2,023 for the year ended September 30, 2005. The future minimum lease payments for these leases are as follow:

Year Ending September 30	Business-Type Activities Point Mallard
2006	\$ 51,444
2007	51,444
2008	49,421
Total minimum lease payments	<u>\$152,309</u>

Capital Leases

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

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities Point Mallard
Equipment	\$2,626,640	\$139,639
Less: accumulated amortization	<u>(1,598,285)</u>	<u>(139,639)</u>
Total	<u>\$1,028,355</u>	<u>\$ -</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of September 30, 2005 are as follows:

Year Ending September 30	Governmental Activities	Business-Type Activities Point Mallard
2006	\$156,319	\$48,182
2007	128,792	-
2008	29,957	-
2009	-	-
Total minimum lease payments	315,068	48,182
Less amount representing interest	<u>(15,888)</u>	<u>(3,182)</u>
Present value of minimum lease payments	<u>\$299,180</u>	<u>\$45,000</u>

The future debt service requirements of the governmental activities leases at September 30, 2005 are primarily to be provided by the General Fund, and the requirements of the business-type activities will be provided by the respective fund.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

F. Long-Term Debt

General Obligation Warrants

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

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

Source of Repayment of Long-Term Debt

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

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

Lease Revenue Bonds – Public Building Authority Component Unit

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

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Outstanding Debt

The amount of debt outstanding at September 30, 2005, and information related to it was as follows:

Series	Face Amount (thousands)	Dated	Final Maturity	Interest Rates (%)	Principal Maturities (thousands)	Ending Balance (thousands)	Amount Due Within One Year (thousands)
PRIMARY GOVERNMENT							
<u>Governmental Activities</u>							
<i>G.O. Warrants - general purposes</i>							
1997-Municipal	\$ 9,695	6/1/1997	6/1/2014	4.65 - 5.2	310 - 1,150	\$ 4,835	\$ 325
1997-B	3,975	6/1/1997	6/1/2011	4.65 - 5.0	295 - 410	2,155	310
2000	15,920	7/1/2000	6/1/2020	5.375 - 5.4	110 - 2,095	12,910	115
2003-A	3,945	2/1/2003	12/1/2007	2.25 - 2.5	760 - 835	2,420	780
2003-B	1,575	2/1/2003	12/1/2007	2.25 - 2.5	305 - 340	980	315
2003-C	3,775	2/1/2003	8/1/2013	2.5 - 4.0	205 - 500	2,770	455
2003-E	19,900	11/1/2003	7/1/2026	3.5 - 4.75	380 - 800	18,785	620
	<u>58,785</u>					<u>44,855</u>	<u>2,920</u>
<i>G.O. Warrants - school purposes</i>							
1997-School	7,965	6/1/1997	6/1/2013	4.65 - 5.1	530 - 715	4,925	560
1997-A	7,370	6/1/1997	6/1/2011	4.65 - 5.0	545 - 760	3,985	575
2003-D	7,305	2/1/2003	8/1/2009	2.0 - 3.125	865 - 1,220	4,170	1,190
	<u>22,640</u>					<u>13,080</u>	<u>2,325</u>
<i>Notes</i>							
Carnegie Library	830	6/27/2001	6/27/2006	4.475	50 - 630	630	630
	<u>830</u>					<u>630</u>	<u>630</u>
Total governmental activities	<u>\$82,255</u>					<u>\$58,565</u>	<u>\$5,875</u>

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Outstanding Debt - Continued

Series	Face Amount (thousands)	Dated	Final Maturity	Interest Rates (%)	Principal Maturities (thousands)	Ending Balance	Amount Due Within One Year
<u>Business-Type activities</u>							
<i>Water System Revenue Warrants</i>							
1999	\$ 23,240	5/1/1999	5/1/2019	4.35 - 5.0	1,100 - 2,140	\$ 22,140	\$1,145
	<u>23,240</u>					<u>22,140</u>	<u>1,145</u>
<i>Wastewater System Revenue Warrants</i>							
1997	2,850	11/1/1996	8/15/2017	3.95	125 - 200	1,970	130
2000	15,590	12/22/1999	8/15/2020	3.85	615 - 1,095	12,735	640
2004	9,645	04/21/2004	8/15/2013	2.85	850 - 1,125	7,975	880
	<u>28,085</u>					<u>22,680</u>	<u>1,650</u>
Total business-type activities	<u>51,325</u>					<u>44,820</u>	<u>2,795</u>
Total Primary Government	<u>\$133,580</u>					<u>\$103,385</u>	<u>\$8,670</u>

COMPONENT UNITS

Governmental-Type Activities

Board of Education

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

Business-Type Activities

Public Building Authority

2003	\$950	2/1/2003	3/1/2009	1.75 - 3.4	155 - 170	\$650	\$155
	<u>950</u>					<u>650</u>	<u>155</u>

Total Component Units

	<u>\$26,950</u>					<u>\$26,650</u>	<u>\$155</u>
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The City is not obligated in any manner for the debt of the Public Building Authority or the Board of Education, discretely presented component units.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Future Debt Service

The City's future debt service requirements on its outstanding warrants and bonds as of September 30, 2005 are shown below. There is \$808,884 available in the Public Port and Infrastructure Warrants Fund to service general obligation debt and \$4,825,400 is available in the Municipal Utilities Board Enterprise Fund to service the revenue warrants

PRIMARY GOVERNMENT

<u>Governmental activities:</u>	(thousands)			
	G.O. Warrants		Notes	
	Principal	Interest	Principal	Interest
2006	\$ 5,245	\$ 2,605	\$ 630	\$14
2007	5,450	2,418	-	-
2008	4,845	2,221	-	-
2009	4,045	2,059	-	-
2010	2,950	1,886	-	-
Thereafter	35,400	16,083	-	-
Total governmental activities	\$57,935	\$27,272	\$ 630	\$14

<u>Business-type activities:</u>	Water System Revenue Warrants		Wastewater System Revenue Warrants	
	Principal	Interest	Principal	Interest
	2006	\$ 1,145	\$ 1,069	\$ 1,650
2007	1,200	1,016	1,710	741
2008	1,250	960	1,775	683
2009	1,310	902	1,845	624
2010	1,370	841	1,910	564
Thereafter	15,865	4,198	13,790	2,470
Total business-type activities	\$22,140	\$ 8,986	\$22,680	\$ 5,878

COMPONENT UNITS

<u>Governmental activities: Board of Education</u>	Capital Outlay Warrants	
	Principal	Interest
	2006	\$ -
2007	-	1,107
2008	-	1,107
2009	-	1,107
2010	-	1,107
Thereafter	26,000	13,909
Total governmental activities	\$26,000	\$19,444

<u>Business-Type Activities – Public Building Authority</u>	Lease Revenue Warrants	
	Principal	Interest
	2006	\$ 155
2007	160	25
2008	165	11
2009	170	5
Total business-type activities	\$ 650	\$ 60

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2005, was as follows (in thousands):

PRIMARY GOVERNMENT

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities:</u>					
General obligation warrants	\$ 63,005	\$ -	\$ (5,070)	\$ 57,935	\$ 5,245
Notes payable	680	-	(50)	630	630
Subtotal	63,685	-	(5,120)	58,565	5,875
Less amounts deferred for:					
Issue discounts & premiums	21	-	(1)	20	-
Refunding losses	(347)	-	86	(261)	-
Total warrant, bonds, & notes	63,359	-	(5,035)	58,324	5,875
Capitalized leases	854	-	(555)	299	156
Compensated absences	1,965	2	-	1,967	197
Claims payable	478	363	(424)	417	42
Governmental activities Long-term liabilities	\$ 66,656	\$ 365	\$ (6,014)	\$ 61,007	\$ 6,270
<u>Business-Type Activities:</u>					
Revenue warrants	\$ 49,830	\$ -	\$ (5,010)	\$ 44,820	\$ 2,795
Less amounts deferred for:					
Issue discounts & premiums	(790)	200	-	(590)	-
Total warrants	49,040	200	(5,010)	44,230	2,795
Landfill closure and postclosure	1,558	124	-	1,682	-
Capitalized leases	29	90	(74)	45	45
Compensated absences	217	12	(5)	224	22
Business-type activities Long-term liabilities	\$ 50,844	\$ 426	\$ (5,089)	\$ 46,181	\$ 2,862

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

COMPONENT UNITS – PUBLIC BUILDING AUTHORITY

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Business-type activities – Public Building Authority</u>					
Revenue warrants	\$805	\$ -	\$(155)	\$650	\$155
Plus amounts deferred for:					
Issue discounts & premiums	(3)	-	1	(2)	-
Total Public Building Authority long-term liabilities	<u>\$802</u>	<u>\$ -</u>	<u>\$(154)</u>	<u>\$648</u>	<u>\$155</u>

G. Conduit Debt Obligations

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

As of September 30, 2005, there were thirty-seven series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable for the nine series outstanding that were issued after September 30, 1996, was \$250,008,977. The aggregate principal amount payable for the twenty-eight series issued prior to September 30, 1996, could not be determined; however, their original issue amounts totaled \$732,455,000.

H. Fund Equity Reserves and Designations

General Fund

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

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

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

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS – CONTINUED

Other Governmental Funds

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

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

Reserved for debt service - funds restricted to servicing debt.

Reserve for donor restricted purposes – funds restricted for the purpose of funding the City's portion of future capital grant expenditures.

I. Tax Equivalents

The Municipal Utilities Board Fund is required to pay to the City a tax equivalent which is determined by applying the current property tax rates to the Utilities' net plant in service at the end of the preceding year. The amount of tax equivalents paid to the City by the Municipal Utilities Board Fund during 2005 was \$1,382,800 by the Electric System, \$574,188 by the Natural Gas System, \$81,167 by the Wastewater System and \$453,446 by the Water System. These amounts are reported as intergovernmental revenue in the General Fund and the School Fund of the City and as operating expenses in the financial statements of the Municipal Utility Board Enterprise Fund.

J. Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will only be paid near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The total amount of \$1,682,441 reported for landfill closure and postclosure care liability at September 30, 2005 within the proprietary statement of net assets, represents the cumulative amount reported to date based on the use of 32.283 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure of \$4,400,760 as the remaining capacity is filled. These costs are based on the amount required to be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of September 30, 2005. The City expects to close the landfill in the year 2032. Actual costs of closure and postclosure may be higher due to inflation, changes in technology, or changes in laws and regulations.

NOTE 5 – OTHER INFORMATION

A. Contingent Liabilities and Commitments

Litigation

The City is a defendant in a number of claims and lawsuits. The outcome of these matters is uncertain as of the date of this report. The City Attorney estimates the total liability with respect to these claims and lawsuits that are not covered by insurance will not exceed \$375,000, which is estimated to be currently payable and has been accrued as a liability in the City's General Fund at September 30, 2005.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 5 – OTHER INFORMATION – CONTINUED

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

Grants

The City participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other government units. As of September 30, 2005, significant amounts of grant expenditures have not been audited by the grantor agencies, but the City believes that future disallowed expenditures related to the unaudited grant programs, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

Construction Contracts

The City entered into various construction contracts as of September 30, 2005. The unfulfilled balance of these contracts that related to the non-major governmental funds operations are included in the "Reserve for Encumbrances" as described more fully in Note 4H.

B. Jointly Governed Organizations

Joint Ventures

The City of Decatur is involved in two joint ventures:

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

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

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

Jointly Governed

Decatur-Morgan County Emergency Management Agency provides measures for the mobilization, organization, and direction of the civilian population and necessary support agencies to prevent, or minimize, the effect of fire, flood, earthquake and epidemic. The officers and employees of the City and Morgan County comprise the agency. The City provided \$28,100 in appropriations during the fiscal year ending September 30, 2005.

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 5 – OTHER INFORMATION – CONTINUED

NARCOG – The North Alabama Regional Council of Governments provide regional planning for the physical, economic and human resources development within North Alabama. There are three particular programs controlled by NARCOG, which the City of Decatur supports financially. These are the Aging Program, Regional Planning, and Transportation Planning. The City of Decatur contributed a total of \$42,018 to these programs during the fiscal year.

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

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

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

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

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

C. Related Organizations

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

D. Pension Plans

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

On October 1, 2002, the Municipal Utilities Board elected to move its retirement plan to the Employee Retirement System of Alabama. Prior to this date the assets of the plan were maintained by The Municipal Utilities Board of Decatur, Morgan County, Alabama Pension Plan, and a single-employer defined benefit pension plan administered by Aetna Life Insurance Company. Among the requirements, the Board was directed to move all of its assets for current employees and the majority of its assets for retired employees to the Employees Retirement System. A small number of annuity investments for certain employees are funded in the plan and could not be transferred. These retirees are paid from these assets and their retirement benefits from RSA are adjusted accordingly. The plan is fully funded with respect to these retirees and requires no current contributions.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 5 – OTHER INFORMATION – CONTINUED

State correctional officers, certified full-time firefighters, and certified full-time law enforcement officers are required to contribute 6% of their annual covered salary to the plan. All other System members are required by the State of Alabama to contribute 5% of their annual covered salary to the plan. The City is required to contribute at actuarially determined rates. The rate as a percentage of annual covered payroll for the City is 8.27%, with the exception of the Municipal Utilities Board Fund, for which the rate is 15.82%. The contribution requirements of plan members are established and may be amended by the Employee's Retirement System of Alabama.

For 2005, the City of Decatur's annual pension cost was equal to their required and actual contributions. The required contribution was determined as part of the September 30, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.61% to 7.75% per year, and (c) 0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of the System's assets was determined using market values of instruments at September 30, 2004 for the City, and using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period in the years prior to September 30, 2004 and September 30, 2003, respectively. The System's unfunded actuarial accrued liability is amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2004 and September 30, 2003 was nineteen for the Board and the City.

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

(1) Trend information for the Utilities for the year ended September 30, 2005 was not available from the System.

Department	Schedule of Funding Progress for the System						UAAL as a Percentage of Covered Payroll
	Actuarial Valuation Date(1)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	
City of Decatur	9/30/04	\$60,941,212	\$72,166,289	\$11,225,077	84.4%	\$21,520,864	52.2%
	9/30/03	57,761,965	68,409,110	10,647,145	84.4%	20,179,635	52.8%
	9/30/02	55,874,584	65,185,554	9,310,970	85.7%	20,487,418	45.4%
	9/30/01	54,745,398	58,315,524	3,570,126	93.9%	18,099,633	19.7%
	9/30/00	52,133,416	50,253,651	(1,879,765)	103.7%	17,576,098	(10.7%)
Municipal Utilities Board	9/30/04	\$17,647,774	\$30,560,464	\$12,912,690	57.7%	\$7,121,446	181.3%
	9/30/03	15,908,417	27,643,247	11,734,830	57.5%	7,159,805	163.9%
	9/30/02	14,308,951	25,129,839	10,820,888	57.0%	6,317,144	171.3%

(1) Trend information for the Utilities for the year ended September 30, 2005 was not available from the System.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 5 – OTHER INFORMATION – CONTINUED

Component Unit

City Board of Education

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

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

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

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

	Fiscal Year Ended September 30,		
	2005	2004	2003
Total percentage of payroll	12.03%	11.56%	10.02%
Contributions:			
Percentage contributed by the Board	7.03%	6.56%	5.02%
Percentage contributed by employees	5.00%	5.00%	5.00%
Amount contributed by the Board	\$2,883,110	\$2,630,879	\$2,012,537
Amount contributed by employees	2,050,576	2,005,243	2,004,519
Total Contributions	\$4,933,686	\$4,636,122	\$4,017,056

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 5 – OTHER INFORMATION – CONTINUED

E. Post-Retirement Health Plan

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

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

Effective October 1, 1998, any employee, regardless of age, who qualified for retirement with at least twenty-five years of service or age sixty with at least ten years service with the City of Decatur qualified for medical and dental insurance benefits. The portion paid by the City is equal to that being paid for active employees. As of July 1, 2004, vision coverage was added as a benefit. The medical insurance continues as a secondary insurance to Medicare and the City continues to pay a reduced premium for the retirees insurance.

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

In addition, when an eligible employee reaches Medicare eligibility, the City will pay for Medicare supplemental insurance. At September 30, 2005, there were nineteen retirees eligible to receive this benefit and nineteen retirees receiving the benefit, at a cost to the City of \$4,194 monthly.

The cost of retiree health care benefits is recognized as an expenditure as premiums are paid. During the year, expenditures of \$658,118 were recognized for post-employment health care.

The Municipal Utilities Board Enterprise Fund provides post-employment benefits other than pension benefits to all full time employees who retire as an eligible participant in the qualified retirement plan and who are age 55 or older. Benefits provided retirees at September 30, 2005 include:

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

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

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 5 – OTHER INFORMATION – CONTINUED

At September 30, 2005, approximately seventy-seven employees were receiving benefits. The cost of postretirement benefits other than pension benefits are included within the total benefit expenditures, and cannot be separately determined.

Component Units

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

F. Risk Financing Programs

The City elected to retain risk related to the employees' health and dental insurance for the first time beginning December 1, 1999. Then, on January 1, 2002 the City elected to no longer retain the health insurance risk and purchased health insurance. The City currently pays premiums to the State Employee Insurance Board. However, the City still retains the risk for the period under the health self-insurance. The amount of outstanding claims liability remaining as of September 30, 2005 is insignificant and immaterial to the City's statements as a whole.

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

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

	September 30,	
	2005	2004
Unpaid claims, beginning of year	\$478,222	\$465,811
Incurred claims	363,110	468,067
Less claim payments	(423,954)	(455,656)
Unpaid claims, end of year	\$417,378	\$478,222

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

G. GASB Accounting Pronouncements

The City adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, in fiscal 2005. This statement establishes and modifies disclosure requirements related to investment and deposit risks. The adoption of this statement had no significant effect on the City's basic financial statements.

The City plans to adopt GASB Statement No. 42, *Impairment of Capital Assets and Insurance Recoveries*, required for fiscal periods beginning after December 15, 2004, in fiscal 2006. This statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and provides consistency in accounting for insurance recoveries.

City of Decatur
Notes To The Financial Statements - continued
September 30, 2005

NOTE 5 -- OTHER INFORMATION -- CONTINUED

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

The City plans to adopt GASB Statement No. 44, *Economic Condition Reporting: the Statistical Section*, required for fiscal periods beginning after June 15, 2005, in fiscal 2006. This statement updates the statistical section that accompanies the basic financial statements.

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

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

The City plans to adopt GASB Statement No. 47, *Accounting for Termination Benefits*, required for fiscal periods beginning after June 15, 2005, in fiscal 2006. This statement provides accounting and reporting guidance for benefits such as early retirement incentives or severance to employees that are involuntarily terminated.

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

SUPPLEMENTAL INFORMATION

**CITY OF DECATUR
GENERAL FUND
BALANCE SHEET
September 30, 2005**

ASSETS

Cash & cash equivalents	\$	9,319,626
Cash with fiscal agent		45,679
Investments, at cost		9,251,066
Receivables (net of allowances):		
Accounts		2,331,207
Taxes		2,636,464
Accrued interest		16,652
Due from other funds		261,672
Due from component units		2,670
Due from other governmental entities		464,889
Deposits		62,005
Inventories		37,677
Total assets	\$	24,429,607

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	1,072,204
Accrued liabilities		1,107,542
Due to other governmental entities		41,171
Deferred revenue		2,229,963
Other		223,708
Total liabilities		4,674,588

FUND BALANCE

Reserved for inventories		37,677
Unreserved		
Designated for Special purposes		8,331,935
Designated for Future capital needs		899,636
Designated for Landfill		977,362
Designated for other purposes		1,381
Undesignated		9,507,028
Total fund balance		19,755,019
Total liabilities and fund balance	\$	24,429,607

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET & ACTUAL
For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and payments in lieu of taxes	\$ 31,882,792	\$ 31,882,792	\$ 32,571,240	\$ 688,448
Licenses and permits	5,104,987	5,104,987	5,260,874	155,887
Fines and forfeitures	894,350	894,350	970,310	75,960
Revenues from money and property	362,315	362,315	751,982	389,667
Charges for services	2,635,735	2,635,735	2,853,277	217,542
Intergovernmental	5,279,213	5,279,213	5,362,591	83,378
Other revenues	543,158	812,726	700,353	(112,373)
Total revenues	46,702,550	46,972,118	48,470,627	1,498,509
EXPENDITURES				
Current				
General government	3,329,068	3,330,271	3,085,609	244,662
Public safety	17,856,328	17,851,592	17,825,151	26,441
Public works	6,815,865	7,114,821	7,162,372	(47,551)
Public services	6,815,660	6,828,130	6,763,693	64,437
Intergovernmental assistance	4,147,561	4,271,467	4,149,898	121,569
Community services contracts	2,396,731	2,395,546	2,425,783	(30,237)
Debt service:				
Principal	2,696,989	2,696,989	2,679,464	17,525
Interest and fiscal charges	2,134,750	2,027,831	2,026,363	1,468
Total expenditures	46,192,952	46,516,647	46,118,333	398,314
Excess (deficiency) of revenues over expenditures	509,598	455,471	2,352,294	1,896,823
OTHER FINANCING SOURCES (USES)				
Operating transfers in	16,669	588,969	623,657	34,688
Operating transfers out	(1,098,930)	(2,698,396)	(2,547,646)	150,750
Total other financing sources (uses)	(1,082,261)	(2,109,427)	(1,923,989)	185,438
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(572,663)	(1,653,956)	428,305	2,082,261
Fund balance, beginning	19,326,714	19,326,714	19,326,714	-
Fund balance, ending	\$ 18,754,051	\$ 17,672,758	\$ 19,755,019	\$ 2,082,261

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2005

Page 1 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and payments in lieu of taxes				
Sales and use	\$ 23,240,949	\$ 23,240,949	\$ 23,867,120	\$ 626,171
Ad valorem	2,248,881	2,248,881	2,333,771	84,890
Other	1,583,702	1,583,702	6,370,349	4,786,647
	4,809,260	4,809,260		
Total	31,882,792	31,882,792	32,571,240	5,497,708
Licenses and permits				
Motor Vehicle	162,820	162,820	172,691	9,871
Business Licenses and Permits	4,099,756	4,099,756	4,376,701	276,945
Building Permits and Inspection Fees	842,411	842,411	711,482	(130,929)
Total	5,104,987	5,104,987	5,260,874	155,887
Fines and forfeitures				
	894,350	894,350	970,310	75,960
Revenues from money and property				
Interest	362,315	362,315	749,596	387,281
Other	-	-	2,386	2,386
Total	362,315	362,315	751,982	389,667
Charges for current services				
Recreation	319,644	319,644	366,539	46,895
Animal shelter	15,942	15,942	18,058	2,116
General government	317,044	317,044	351,490	34,446
Public safety	164,647	164,647	168,596	3,949
Public works	1,795,182	1,795,182	1,924,946	129,764
Cemetery	21,668	21,668	21,950	282
Old bank	1,105	1,105	1,380	275
Youth services	503	503	318	(185)
Total	2,635,735	2,635,735	2,853,277	217,542
Intergovernmental				
Tax equivalents	4,823,873	4,823,873	4,934,293	110,420
State Shared Taxes	453,033	453,033	428,298	(24,735)
State Grants	2,307	2,307	-	(2,307)
Total	5,279,213	5,279,213	5,362,591	83,378
Other revenues				
	543,158	812,726	700,353	(112,373)
TOTAL REVENUES	46,702,550	46,972,118	48,470,627	6,307,769
EXPENDITURES				
Current Expenditures				
<i>General Government</i>				
Mayor and Council				
Personal services	261,613	261,613	249,185	12,428
Operating expenses	41,150	41,813	31,666	10,147
Total	302,763	303,426	280,851	22,575

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2005

Page 2 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Legal Services				
Personal services	308,218	308,218	308,938	(720)
Operating expenses	60,430	60,565	51,194	9,371
Total	368,648	368,783	360,132	8,651
Municipal Court				
Personal services	384,890	384,890	346,443	38,447
Operating expenses	45,061	45,196	33,900	11,296
Total	429,951	430,086	380,343	49,743
City Clerk				
Personal services	359,480	359,480	361,263	(1,783)
Operating expenses	82,785	82,920	43,903	39,017
Total	442,265	442,400	405,166	37,234
Revenue department				
Personal services	252,000	252,000	255,473	(3,473)
Operating expenses	85,500	85,500	65,280	20,220
Total	337,500	337,500	320,753	16,747
Finance department				
Personal services	379,764	379,764	384,974	(5,210)
Operating expenses	104,722	104,722	69,900	34,822
Total	484,486	484,486	454,874	29,612
Public building				
Personal services	98,990	98,990	103,641	(4,651)
Operating expenses	432,599	432,599	403,990	28,609
Total	531,589	531,589	507,631	23,958
Community development				
Personal services	343,479	343,479	305,569	37,910
Operating expenses	88,387	88,522	70,290	18,232
Total	431,866	432,001	375,859	56,142
Total general government	3,329,068	3,330,271	3,085,609	244,662

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2005

Page 3 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Safety				
Fire				
Personal services	6,817,418	6,817,418	6,765,666	51,752
Operating expenses	605,589	600,718	649,624	(48,906)
Capital outlay	2,610	2,610	-	2,610
Total	7,425,617	7,420,746	7,415,290	5,456
Inspection				
Personal services	614,600	614,600	621,251	(6,651)
Operating expenses	87,259	87,259	59,770	27,489
Total	701,859	701,859	681,021	20,838
Police				
Personal services	8,470,204	8,470,204	8,445,398	24,806
Operating expenses	1,258,648	1,258,783	1,283,442	(24,659)
Total	9,728,852	9,728,987	9,728,840	147
Total public safety	17,856,328	17,851,592	17,825,151	26,441
Public Works				
Director				
Personal services	341,568	341,568	294,160	47,408
Operating expenses	89,424	119,559	95,884	23,675
Total	430,992	461,127	390,044	71,083
Streets				
Personal services	2,093,935	2,086,301	2,070,791	15,510
Operating expenses	945,184	945,405	1,030,022	(84,617)
Total	3,039,119	3,031,706	3,100,813	(69,107)
Engineering				
Personal services	166,073	176,297	179,142	(2,845)
Operating expenses	101,708	98,150	75,009	23,141
Total	267,781	274,447	254,151	20,296
Sanitation				
Personal services	1,505,089	1,505,089	1,443,028	62,061
Operating expenses	1,572,884	1,842,452	1,974,336	(131,884)
Total	3,077,973	3,347,541	3,417,364	(69,823)
Total public works	6,815,865	7,114,821	7,162,372	(47,551)

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Services				
Animal Shelter				
Personal services	283,284	283,284	276,276	7,008
Operating expenses	50,392	54,958	52,189	2,769
Total	333,676	338,242	328,465	9,777
Park and recreation				
Personal services	2,683,077	2,683,077	2,537,905	145,172
Operating expenses	2,112,096	2,112,096	2,315,906	(203,810)
Capital outlay	18,500	18,500	15,872	2,628
Total	4,813,673	4,813,673	4,869,683	(56,010)
Landscape and beautification				
Personal services	363,841	411,475	345,641	65,834
Operating expenses	462,427	422,427	437,548	(15,121)
Total	826,268	833,902	783,189	50,713
Cemetery				
Personal services	91,570	91,570	92,176	(606)
Operating expenses	78,398	78,398	61,575	16,823
Total	169,968	169,968	153,751	16,217
Business development board				
Personal services	40,624	40,624	40,784	(160)
Operating expenses	93,482	93,617	80,117	13,500
Total	134,106	134,241	120,901	13,340
Youth services				
Personal services	173,957	173,957	182,080	(8,123)
Operating expenses	263,038	263,173	247,531	15,642
Total	436,995	437,130	429,611	7,519
Culture				
Cultural Facilities	10,770	10,770	8,363	2,407
Old Bank	90,204	90,204	69,730	20,474
Total	100,974	100,974	78,093	22,881
Total public services	6,815,660	6,828,130	6,763,693	64,437

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Intergovernmental assistance</i>				
Garage				
Personal services	497,133	497,133	469,614	27,519
Operating expenses	62,374	62,374	97,747	(35,373)
Total	559,507	559,507	567,361	(7,854)
Purchasing				
Personal services	122,411	122,411	122,789	(378)
Operating expenses	44,147	44,147	29,938	14,209
Total	166,558	166,558	152,727	13,831
Information services				
Personal services	448,528	448,528	445,790	2,738
Operating expenses	332,230	331,001	272,302	58,699
Capital outlay	90,000	90,000	99,185	(9,185)
Total	870,758	869,529	817,277	52,252
Miscellaneous				
Workman's compensation	800,000	625,000	563,270	61,730
Insurance	235,000	235,000	192,865	42,135
Other	1,007,670	1,307,670	1,396,875	(89,205)
Total	2,042,670	2,167,670	2,153,010	14,660
Planning department				
Personal services	345,465	345,465	341,906	3,559
Operating expenses	33,928	34,063	20,046	14,017
Total	379,393	379,528	361,952	17,576
Safety				
Personal services	77,488	77,488	77,473	15
Operating expenses	51,187	51,187	20,098	31,089
Total	128,675	128,675	97,571	31,104
Total Intergovernmental assistance	4,147,561	4,271,467	4,149,898	121,569

**CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2005**

Page 6 of 7

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Community Service Contracts				
Wheeler Basin Regional Library Board	360,000	360,000	360,000	-
Morgan County Emergency Management Dist.	594,149	594,149	594,149	-
Decatur-Morgan County Emergency Mgt. Agency	28,100	28,100	28,100	-
NARCOG:				
Regional Planning	16,153	16,153	16,153	-
Senior Aid Program	1,000	1,000	1,000	-
Transport Planning	24,865	24,865	24,865	-
NCA Mental Health Board	20,350	20,350	20,350	-
NCA Mental Health Board - Facets	17,000	17,000	17,000	-
Economic Development Association	80,000	80,000	80,000	-
NCA Mental Retardation Center, Inc.	13,200	13,200	13,200	-
Decatur Arts Council	5,000	5,000	5,000	-
Tennessee Valley Rehabilitation Center, Inc.	10,000	10,000	10,000	-
Morgan County Health Department	150,000	150,000	150,000	-
Morgan County Commission	150,000	150,000	150,000	-
Community Action and Community Development Agency of North Alabama:				
Meals on Wheels	16,500	16,500	16,500	-
Foster Grandparents	14,700	14,700	14,700	-
Carnegie Library	50,000	50,000	50,000	-
Princess Theatre	70,000	70,000	70,000	-
Decatur-Morgan County Seniors' Council, Inc.	62,000	62,000	62,000	-
Decatur Convention and Visitors' Bureau	359,127	359,127	389,364	(30,237)
Convention/Visitors' Bureau - Fishing Tournaments	120,000	118,815	118,815	-
Chamber of Commerce:				
Beautification Committee	1,500	1,500	1,500	-
Community Business Development Board	30,000	30,000	30,000	-
Cornerstone	40,000	40,000	40,000	-
Urban Design	-	-	-	-
Morgan County Rescue Squad	10,000	10,000	10,000	-
Main Street of Decatur	8,000	8,000	8,000	-
Hospice of the Valley	5,500	5,500	5,500	-
American Red Cross	5,500	5,500	5,500	-
Pryor Field Airport Authority	30,000	30,000	30,000	-
ARC of Morgan County	7,160	7,160	7,160	-
Volunteer Center	11,200	11,200	11,200	-
PACT	5,000	5,000	5,000	-
System of Services	5,727	5,727	5,727	-
Free Health Clinic	50,000	50,000	50,000	-
Founders Festival	-	-	-	-
Hospice Capital Fund	25,000	25,000	25,000	-
Calhoun Foundation Dump Day	-	-	-	-
Total Community Services Contract	2,396,731	2,395,546	2,425,783	(30,237)
Debt Service Expenditures	4,831,739	4,724,820	4,705,827	18,993
TOTAL EXPENDITURES	46,192,952	46,516,647	46,118,333	398,314
Excess (deficiency) of revenues over expenditures	509,598	455,471	2,352,294	1,896,823

CITY OF DECATUR
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BY ACTIVITY
For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Operating transfers in	16,669	588,969	623,657	34,688
Operating transfers out	(1,098,930)	(2,698,396)	(2,547,646)	150,750
Total other financing sources (uses)	(1,082,261)	(2,109,427)	(1,923,989)	185,438
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(572,663)	(1,653,956)	428,305	2,082,261
Fund balance, beginning	19,326,714	19,326,714	19,326,714	-
Fund balance, ending	\$ 18,754,051	\$ 17,672,758	\$ 19,755,019	\$ 2,082,261

CITY OF DECATUR
 NON-MAJOR GOVERNMENTAL FUNDS (by fund type)
 COMBINING BALANCE SHEET
 September 30, 2005

	Special Revenue Funds										Capital Projects Fund	Debt Service Fund	Total Nonmajor Governmental Funds		
	7 Cent Gas Tax	4 & 5 Cent Gas Tax	Community Development	Personnel Board	Municipal Court	Henriane Trust	Concessions	Docket Fees	Drug Seizure	Room Occupancy				Perpetual Care	Capital Improvements Fund
ASSETS															
Cash & investments, at cost	\$ 254,741	\$ 12,274	\$ 224,277	\$ 33,925	\$ 95,629	\$ 359,670	\$ 654,741	\$ 20,803	\$ 84,547	\$ 908,203	\$ 53,848	\$ 1,160,786	\$ -	\$ 808,884	\$ 4,672,328
Investments, at cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables (net of allowances)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	-	-	168	47,334	280	-	-	-	-	-	-	-	-	-	47,772
Notes receivable	-	-	511,282	-	-	-	-	-	-	-	-	-	-	-	511,282
Accrued interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from governmental entities	12,500	20,259	302,432	-	-	-	-	8,585	31,805	1,099	-	-	-	-	32,904
Total assets	267,241	40,533	1,038,128	81,259	95,909	359,670	654,741	20,803	93,132	940,008	664,945	1,176,288	-	808,884	6,243,540
LIABILITIES															
Accounts payable	-	-	297,802	22,383	75,904	-	10,798	-	246	11,084	-	64,355	-	-	513,182
Accrued liabilities	-	-	3,723	6,330	12,850	-	2,654	-	-	-	-	-	-	-	25,557
Contract liabilities	-	-	39,097	20,283	-	-	-	-	-	-	-	17,850	-	-	56,747
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,283
Due to other governmental entities	-	-	-	-	7,155	-	-	-	-	-	-	-	-	-	7,155
Deferred revenue	-	-	511,282	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	851,884	49,006	95,909	13,452	-	246	11,084	-	-	112,005	-	-	1,134,188
FUND BALANCES															
Reserved for:															
Encumbrances	-	-	321,808	-	-	-	-	-	-	-	-	507,008	-	-	828,816
Prepaid care	-	-	-	-	-	-	-	-	-	-	-	-	-	-	864,945
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	808,884
Debt service	-	-	50,000	-	-	-	-	-	-	-	-	-	-	-	50,000
Debt service	-	-	(185,993)	32,253	-	359,670	641,289	20,803	92,886	928,324	-	559,273	-	-	2,766,709
Unreserved & undesignated	267,241	40,533	186,245	32,253	-	359,670	641,289	20,803	92,888	928,324	664,945	1,066,281	-	808,884	5,109,354
Total fund balance (deficit)	267,241	40,533	1,038,128	81,259	95,909	359,670	654,741	20,803	93,132	940,008	664,945	1,176,288	-	808,884	6,243,540
Total liabilities and fund balance	\$ 267,241	\$ 40,533	\$ 1,038,128	\$ 81,259	\$ 95,909	\$ 359,670	\$ 654,741	\$ 20,803	\$ 93,132	\$ 940,008	\$ 664,945	\$ 1,176,288	\$ -	\$ 808,884	\$ 6,243,540

CITY OF DECATUR
 NON-MAJOR GOVERNMENTAL FUNDS (by fund type)
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 For the Year Ended September 30, 2005

	Special Revenue Funds										Debt Service Funds	Total				
	7 Cent Gas Tax	4 & 5 Cent Gas Tax	Community Development	Personnel Board	Municipal Court	Heritage Trust	Corrections	Docket Fees	Duo Seizure	Room Occupancy			Perpetual Care	Capital Improvements Fund	2005 GO Warrants - Fall Capital Projects Fund	Public Port & Infrastructure Warrants Fund
REVENUE																
Other taxes																
Fines & forfeitures																
Revenues from money & property	6,052	1,072					363,933	19,635		\$ 357,654						\$ 357,654.00
Governmental	147,497	862,043				19,136		55,827	29,891	59,511	30,214	48,629		11		351,568
Other revenues		24,084		920		289,573					196,101					2,640,240
																837,745
																141,664
Total revenues	153,549	331,217	977,923	920		289,573	383,069	49,635	367,545	59,511	226,315	48,629		837,756		3,767,469
EXPENDITURES																
Current																
General government																
Public safety							176,513	16,798								193,311
Public works	35,142	360,451					184,005	22,038								206,043
Community development									84,408		22,641					418,234
Personnel board			1,503,289	500,389							321,386					405,784
Debt service																1,503,289
Principal																630,369
Interest and fiscal charges									106,949							760,000
Capital projects construction and outlay												4,257,550				173,214
	35,142	360,451	1,503,289	500,389			360,518	16,798	191,327		344,027	4,257,550		826,295		8,447,824
Total expenditures	110,407	(29,234)	(625,366)	(629,409)		289,573	22,551	2,837	33,789	59,511	(115,712)	(4,208,921)		11,461		(4,680,355)
Excess (deficiency) of revenues over expenditures																
			156,736	511,000					(152,735)	(18,236)	1,797,562	(89,219)				2,465,289
									(152,735)	(18,236)	(815,570)	(89,219)				(655,060)
OTHER FINANCING SOURCES (USES)																
Transfers in																
Transfers (out)																
Total other financing sources (uses)																
			156,736	511,000					(152,735)	(18,236)	1,181,993	(89,219)				1,629,439
Net change in fund balance	116,407	(29,234)	(398,630)	(16,469)		289,573	22,551	2,837	33,789	43,483	1,066,281	(4,278,240)		11,461		(3,070,916)
Fund balance (deficit), beginning	148,834	69,767	554,875	50,722		70,097	618,738	47,866	884,841	629,670		4,278,240		797,423		8,180,270
Fund balance (deficit), ending	\$ 267,241	\$ 40,533	\$ 156,245	\$ 32,253	\$ -	\$ 359,670	\$ 641,289	\$ 20,803	\$ 92,666	\$ 528,324	\$ 1,066,281	\$ -	\$ -	\$ 808,884	\$ -	\$ 5,109,354

**CITY OF DECATUR
7 CENT GAS TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2005**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 146,138	\$ 146,138	\$ 147,497	\$ 1,359
Revenues from money and property	1,031	1,031	6,052	5,021
Total revenues	147,169	147,169	153,549	6,380
Expenditures				
Operating expenses	147,169	147,169	35,142	112,027
Total expenditures	147,169	147,169	35,142	112,027
Net change in fund balance	-	-	118,407	118,407
Fund balance, beginning	148,834	148,834	148,834	-
Fund balance, ending	\$ 148,834	\$ 148,834	\$ 267,241	\$ 118,407

**CITY OF DECATUR
4 & 5 CENT GAS TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Year Ended September 30, 2005**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 326,853	\$ 326,853	\$ 305,281	\$ (21,572)
Revenues from money and property	1,792	1,792	1,072	720
Other revenue	-	-	24,864	24,864
Total revenues	328,645	328,645	331,217	2,572
Expenditures				
Operating expenses	328,645	361,000	360,451	549
Total expenditures	328,645	361,000	360,451	549
Net change in fund balance	-	(32,355)	(29,234)	3,121
Fund balance, beginning	69,767	69,767	69,767	-
Fund balance, ending	\$ 69,767	\$ 37,412	\$ 40,533	\$ 3,121

CITY OF DECATUR
PERSONNEL BOARD FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other	\$ -	\$ -	\$ 920	\$ 920
Total revenues	-	-	920	920
Expenditures				
Personal services	384,546	360,464	356,400	4,064
Operating expenses	225,500	150,506	173,989	(23,483)
Total expenditures	610,046	510,970	530,389	(19,419)
Excess (deficiency) of revenues over expenditures	(610,046)	(510,970)	(529,469)	(18,499)
Other financing sources (uses)				
Operating transfers in	610,046	651,046	511,000	140,046
Total other financing sources (uses)	610,046	651,046	511,000	140,046
Net change in fund balance	-	140,076	(18,469)	(158,545)
Fund balance, beginning	50,722	50,722	50,722	-
Fund balance, ending	\$ 50,722	\$ 190,798	\$ 32,253	\$ (158,545)

CITY OF DECATUR
 HERITAGE TRUST FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL
 For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 289,573	\$ 289,573	\$ 289,573	\$ -
Revenues from money and property	-	-	-	-
Total revenues	289,573	289,573	289,573	-
Expenditures				
Personal services	-	-	-	-
Operating expenses	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balance	289,573	289,573	289,573	-
Fund balance, beginning	70,097	70,097	70,097	-
Fund balance, ending	\$ 359,670	\$ 359,670	\$ 359,670	\$ -

CITY OF DECATUR
CORRECTIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 366,641	\$ 366,641	\$ 363,933	\$ (2,708)
Revenues from money and property	7,771	7,771	19,136	11,365
Total revenues	374,412	374,412	383,069	8,657
Expenditures				
Personal services	148,799	148,799	176,513	27,714
Operating expenses	205,000	227,000	184,005	(42,995)
Total expenditures	353,799	375,799	360,518	(15,281)
Net change in fund balance	20,613	(1,387)	22,551	23,938
Fund balance, beginning	618,738	618,738	618,738	-
Fund balance, ending	\$ 639,351	\$ 617,351	\$ 641,289	\$ 23,938

CITY OF DECATUR
DOCKET FEE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 18,027	\$ 18,027	\$ 19,635	\$ 1,608
Revenues from money and property	-	-	-	-
Total revenues	18,027	18,027	19,635	1,608
Expenditures				
Operating expenses	20,000	20,000	16,798	(3,202)
Total expenditures	20,000	20,000	16,798	(3,202)
Net change in fund balance	(1,973)	(1,973)	2,837	4,810
Fund balance, beginning	17,966	17,966	17,966	-
Fund balance, ending	\$ 15,993	\$ 15,993	\$ 20,803	\$ 4,810

**CITY OF DECATUR
DRUG SEIZURE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2005**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Fines and forfeitures	\$ 13,518	\$ 13,518	\$ -	\$ (13,518)
Revenues from money and property	742	742	55,827	55,085
Total revenues	14,260	14,260	55,827	41,567
Expenditures				
Operating expenses	55,000	55,000	22,038	(32,962)
Capital outlay	7,823	7,823	-	(7,823)
Total expenditures	62,823	62,823	22,038	(40,785)
Net change in fund balance	(48,563)	(48,563)	33,789	82,352
Fund balance, beginning	59,097	59,097	59,097	-
Fund balance, ending	\$ 10,534	\$ 10,534	\$ 92,886	\$ 82,352

CITY OF DECATUR
ROOM OCCUPANCY TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
For the Year Ended September 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and Payments in lieu of taxes	\$ 324,883	\$ 324,883	\$ 357,654	\$ 32,771
Revenues from money and property	9,596	9,596	29,891	20,295
Total revenues	334,479	334,479	387,545	53,066
Expenditures				
Personal services	-	-	-	-
Operating expenses	106,919	106,919	106,919	-
Capital outlay	1,980,000	184,820	84,408	(100,412)
Total expenditures	2,086,919	291,739	191,327	(100,412)
Excess (deficiency) of revenues over expenditures	(1,752,440)	42,740	196,218	153,478
Other financing sources (uses)				
Operating transfers in	1,752,440	-	-	-
Operating transfers (out)	-	(152,735)	(152,735)	-
Total other financing sources (uses)	1,752,440	(152,735)	(152,735)	-
Net change in fund balance	-	(109,995)	43,483	153,478
Fund balance, beginning	884,841	884,841	884,841	-
Fund balance, ending	\$ 884,841	\$ 774,846	\$ 928,324	\$ 153,478

**CITY OF DECATUR
NON-MAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
September 30, 2005**

	Enterprise Funds		
	Point Mallard	Sanitary Landfill	Total Nonmajor Enterprise Funds
ASSETS			
Current assets			
Cash & investments, at cost	\$ 80,315	\$ 6,945,972	\$7,026,287
Investments, at cost	-	3,134,781	3,134,781
Receivables (net of allowance)			
Accounts	17,537	424,656	442,193
Accrued interest	-	6,645	6,645
Inventories, at cost	11,836	8,313	20,149
Total current assets	109,688	10,520,367	10,630,055
Noncurrent assets			
Capital assets:			
Land	173,940	1,241,799	1,415,739
Buildings	6,546,870	361,490	6,908,360
Improvements other than buildings	6,452,082	8,091,054	14,543,136
Furniture & equipment	797,213	3,076,245	3,873,458
Construction work in progress	-	514,229	514,229
Less accumulated depreciation	(6,742,491)	(8,414,680)	(15,157,171)
Total capital assets (net of accumulated depreciation)	7,227,614	4,870,137	12,097,751
Total noncurrent assets	7,227,614	4,870,137	12,097,751
Total assets	7,337,302	15,390,504	22,727,806
LIABILITIES			
Current liabilities			
Accounts payable	62,047	1,047,424	1,109,471
Accrued liabilities	42,557	9,708	52,265
Contract retainages	-	48,378	48,378
Compensated absences	12,390	10,011	22,401
Capital leases payable - current	-	45,000	45,000
Total current liabilities	116,994	1,160,521	1,277,515
Noncurrent liabilities			
Landfill closure and post-closure care costs	-	1,682,441	1,682,441
Compensated absences	111,505	90,102	201,607
Total noncurrent liabilities	111,505	1,772,543	1,884,048
Total liabilities	228,499	2,933,064	3,161,563
NET ASSETS			
Invested in capital assets, net of related debt	7,227,614	4,825,137	12,052,751
Unrestricted	(118,811)	7,632,303	7,513,492
Total net assets	\$ 7,108,803	\$ 12,457,440	\$ 19,566,243

CITY OF DECATUR
NON-MAJOR PROPRIETARY FUNDS
COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2005

	Enterprise Funds		
	Point Mallard	Sanitary Landfill	Total Nonmajor Enterprise Funds
Operating revenue			
Charges for services	\$ -	\$ 3,840,554	\$ 3,840,554
Premiums & fees	2,615,778	-	2,615,778
Total operating revenue	2,615,778	3,840,554	6,456,332
Operating expenses			
Personnel, operations & maintenance	2,813,273	2,383,519	5,196,792
Closure and postclosure costs	-	124,067	124,067
Depreciation and amortization	473,512	593,655	1,067,167
Total operating expenses	3,286,785	3,101,241	6,388,026
Operating income (loss)	(671,007)	739,313	68,306
Nonoperating revenue (expenses)			
Interest income	-	295,099	295,099
Interest expense	(2,897)	(3,182)	(6,079)
Intergovernmental	-	(33,121)	(33,121)
Gain (loss) on disposition of assets	11,242	92,042	103,284
Miscellaneous revenue (expense)	2,354	33,820	36,174
Total nonoperating revenue (expenses)	10,699	384,658	395,357
Income before contributions, transfers & special items	(660,308)	1,123,971	463,663
Transfers in	280,982	-	280,982
Transfers (out)	-	(33,121)	(33,121)
Change in net assets	634,083	1,090,850	1,724,933
Total net assets, beginning	6,474,720	11,366,590	17,841,310
Total net assets, ending	\$ 7,108,803	\$ 12,457,440	\$ 19,566,243

CITY OF DECATUR
NON-MAJOR PROPRIETARY FUNDS
COMBINING SCHEDULE OF CASH FLOWS
For the Year Ended September 30, 2005

	Point Mallard	Sanitary Landfill	Total Nonmajor Enterprise Funds
Operating activities			
Receipts from customers and users	\$ 2,603,306	\$ 3,780,929	\$ 6,384,235
Other operating cash receipts	11,242	33,819	45,061
Payments to suppliers	(1,978,713)	(800,440)	(2,779,153)
Payments to employees	(853,112)	(613,244)	(1,466,356)
Payments for interfund services	(66,089)	(31,911)	(98,000)
Net cash provided (used) by operating activities	(283,366)	2,369,153	2,085,787
Noncapital financing activities			
Operating transfers in	411,725	-	411,725
Operating transfers (out)	-	(33,121)	(33,121)
Net cash provided (used) by noncapital financing activities	411,725	(33,121)	378,604
Capital and related financing activities			
Acquisition and construction of capital assets	(140,118)	(1,934,790)	(2,074,908)
Proceeds from sale of capital assets	-	92,042	92,042
Proceeds from capital leases	-	90,000	90,000
Principal payments on capital leases	(29,251)	(45,000)	(74,251)
Interest paid on capital leases	(2,897)	(3,182)	(6,079)
Net cash provided (used) by capital and related financing activities	(172,266)	(1,800,930)	(1,973,196)
Investing activities			
Interest received	2,354	295,099	297,453
Net cash provided (used) by investing activities	2,354	295,099	297,453
Net increase in cash and cash equivalents	(41,553)	830,201	788,648
Cash and cash equivalents, beginning	121,868	6,115,771	6,237,639
Cash and cash equivalents, ending	\$ 80,315	\$ 6,945,972	\$ 7,026,287
Operating income (loss)	\$ (671,007)	\$ 739,313	\$ 68,306
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	473,512	593,655	1,067,167
Landfill postclosure costs	-	124,067	124,067
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:			
Change in assets and liabilities:			
Receivables	(12,472)	(59,625)	(72,097)
Accounts payable	(30,046)	948,926	918,880
Contract retainages	-	48,378	48,378
Inventory	4,657	3,000	7,657
Due to (from) other funds	(66,089)	(31,911)	(98,000)
Accrued liabilities	6,836	2,651	9,487
Other items	11,243	699	11,942
Net cash provided (used) by operating activities	\$ (283,366)	\$ 2,369,153	\$ 2,085,787
Supplemental information			
Noncash activities			
Acquisition of fixed assets through contributions from other funds	\$ 882,666	\$ -	\$ 882,666



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

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

Compliance

We have audited the compliance of the City of Decatur, Alabama (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that 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 05-1.

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Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Decatur, Alabama as of and for the year ended September 30, 2005, and have issued our report thereon dated January 30, 2006.

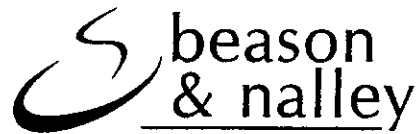
Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose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

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

Beason & Valley, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2006



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

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

We have audited the financial statements of City of Decatur, Alabama (the City) as of and for the year ended September 30, 2005, and have issued our report thereon dated January 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 05-1.

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

Beason & Talley, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2006

City of Decatur, Alabama
Schedule of Expenditures of Federal Awards
For the year ended September 30, 2005

Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant or Pass-Through Grantor's Number	Grant Expenditures
<u>U.S. Department of Agriculture</u>			
Passed Through Alabama Department of Education			
Summer Food Service Program	10.559	AGQ-000	\$ 107,006
Passed Through Auburn University			
Development of Landscape Plan for Public Property on Dry Branch	10.664	05-ACES-539525-DEC	5,000
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant	14.218	B04MC0-10011	303,822
		B05MC0-10011	40,521
HUD EDI – Technical Center	14.246	B-03-SP-AL-0016	9,774
			354,117
<u>U.S. Department of the Interior</u>			
Passed Through Alabama Department of Economic and Community Affairs:			
Delano Waterplay System Grant	15.916	04-LW-845	89,357
Passed Through Alabama State Council of the Arts			
Landscape Design for Delano Park	15.904	FY2005-0218	5,250
<u>U.S. Department of Justice</u>			
Direct Program:			
Bulletproof Vest Partnership Grant Program	16.607		6,992
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0643	21,928
Cops in School	16.710	2002SHWX0162	155,459
			184,379
Passed Through National Police Athletic League:			
Police Athletic League Youth Enrichment Program Grant		2002-MU-MU-0010	18,432
<u>U.S. Department of Transportation</u>			
Passed Through North Alabama Highway Safety Office			
Click-it-or-Ticket Program	20.605	05-DT163012	17,795
<u>Executive Office of the President</u>			
The City of Huntsville, AL			
Madison/Morgan County HIDTA	07	I3PGCP596	9,695

See accompanying notes to Schedule.

City of Decatur, Alabama
Schedule of Expenditures of Federal Awards - Continued
For the year ended September 30, 2005

U.S. Department of Homeland Security

Passed Through Alabama Department of Homeland Security

SHSGP Equipment Grant	97.004	EDE2	42,397
Cooperative Agreement Training Grant	97.005	3DT2	<u>59,838</u>

102,235

Total Federal Awards

\$ 893,266

City of Decatur, Alabama
Notes to Schedule of Expenditures of Federal Awards
September 30, 2005

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Decatur, Alabama and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general-purpose financial statements.

Note 2 - Entity Definition

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

City of Decatur, Alabama
Schedule of Findings and Questioned Costs
For the year ended September 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

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

Noncompliance material to financial statements
noted? yes ✓ no

Federal Awards

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant

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

Auditee qualified as low-risk auditee? ✓ Yes No

Section II - Financial Statement Findings

05-1 New World Financials Access Control

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

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

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

05-2 Purchase Order Approval Process

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

Section III - Federal Award Findings and Questioned Costs

05-1 Reasonable Costs

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

Criteria/Specific Requirement: Reasonable Costs

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

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

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

Financial Statement Findings

04-1 New World Financials Access Control

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

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

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

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

City of Decatur, Alabama
Summary Schedule of Prior Year Audit Findings - Continued
For the year ended September 30, 2005

Federal Award Findings and Questioned Costs

04-1 Procurement and Suspension and Debarment

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

Criteria/Specific Requirement: Activities Allowed or Unallowed

Condition: There was a lack of supporting documentation for an expenditure. A timecard supporting payroll expenditures was not signed by the employee who charged time to the grant.

Cause/Effect: Adequately supported documentation should be maintained for each expenditure in order to determine whether or not an expenditure is allowable or unallowable.

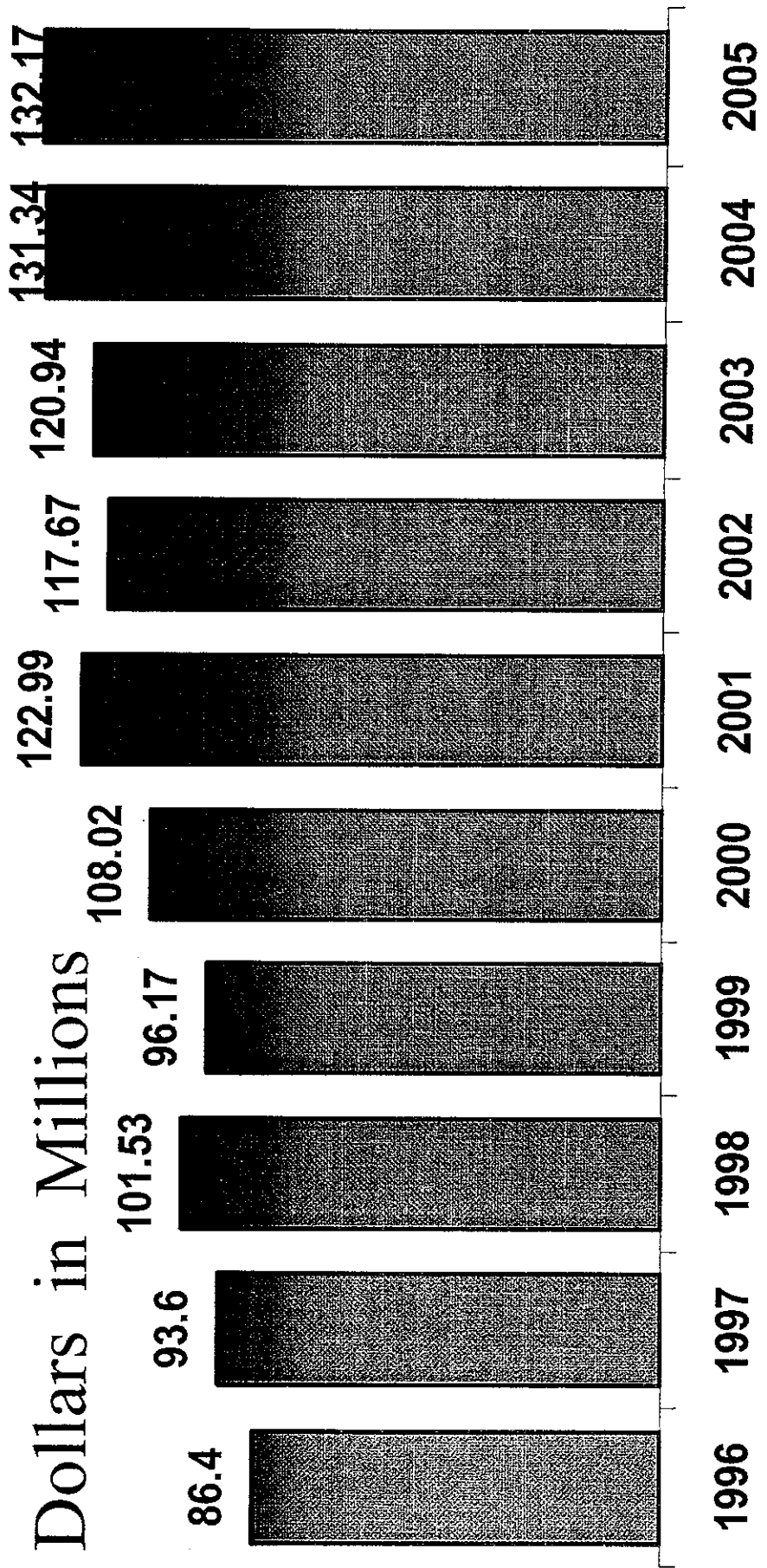
Recommendation: The City should ensure that each transaction is adequately supported by documentation.

Management's Response: We concur with the recommendation. Timesheets for the individual noted were required during the time the employee was on vacation. In order to submit all time in a timely manner, the prepared time sheet was submitted without the signature. In the future, all time sheets of vacationing employees will be signed and submitted prior to leave and additional attention will be focused on all time sheets to ensure completeness and accuracy.

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City of Decatur

General Governmental Expenditures



CITY OF DECATUR

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)

Last Ten Fiscal Years Ended September 30th

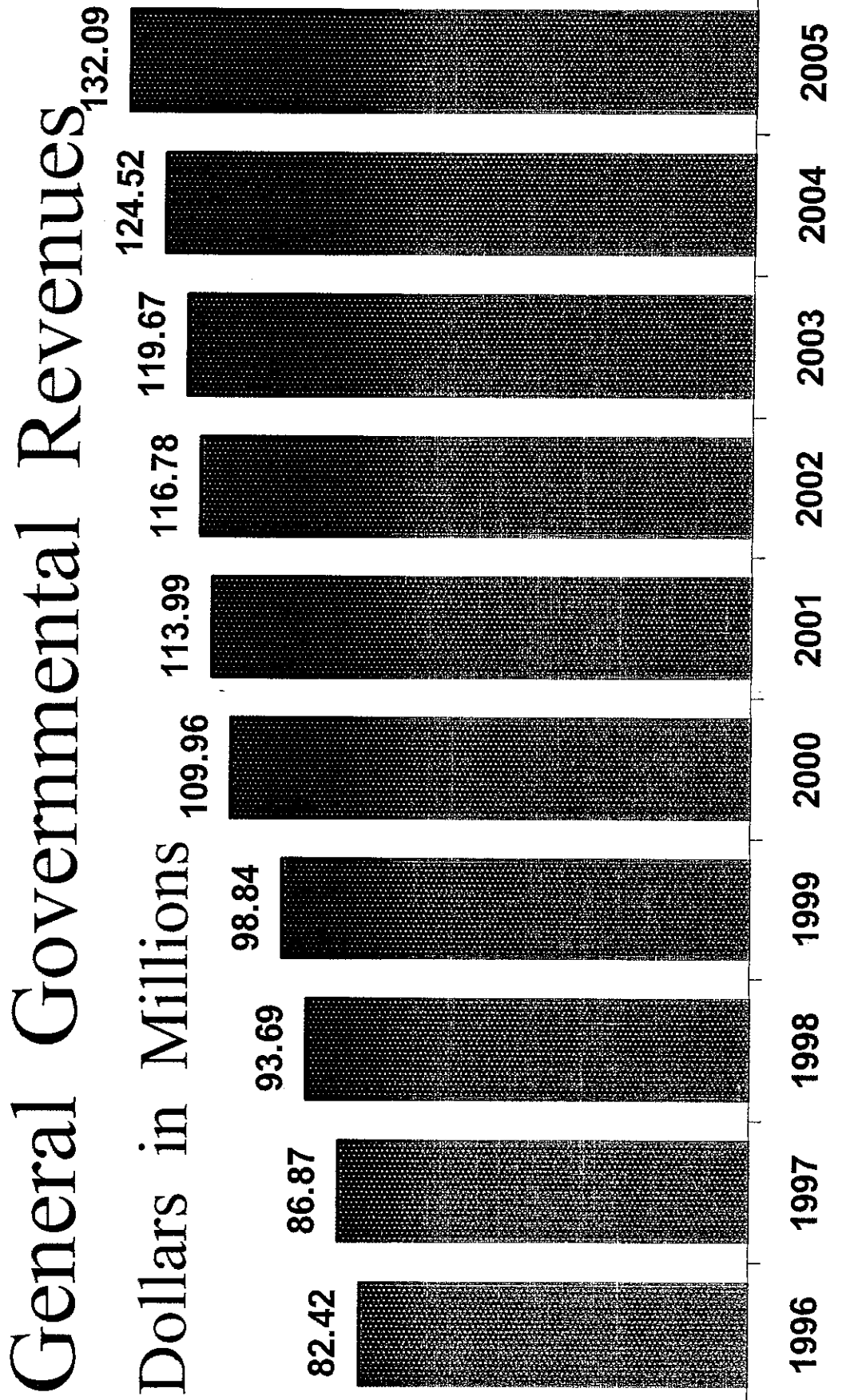
Includes all Governmental Fund Types

Description	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Government	\$2,458,566	\$2,454,133	\$2,511,936	\$2,519,060	\$3,198,257	\$2,889,673	\$3,322,636	\$3,223,379	\$3,417,204	\$3,324,352
Public Safety	11,075,991	11,936,514	12,569,009	12,880,066	14,007,398	14,911,594	15,275,963	16,744,547	17,750,748	18,031,194
Public Works	8,771,237	7,447,752	7,142,473	7,153,324	8,266,606	8,648,025	8,761,422	8,696,689	7,767,477	7,580,606
Public Services	3,317,786	3,139,641	3,634,046	4,066,922	3,902,505	6,800,510	5,977,921	5,482,307	6,032,400	7,169,487
Intragovernmental Assistance	2,658,703	2,328,125	2,324,525	3,250,476	3,168,655	2,682,620	3,632,020	3,879,202	3,870,936	4,149,898
Community Serv. Contracts	3,791,741	1,312,005	3,254,146	1,470,644	1,705,872	1,968,267	2,155,390	2,191,438	2,358,965	2,425,783
Community Development	1,968,390	954,862	851,264	1,033,375	1,464,768	2,307,737	1,713,979	1,171,443	2,114,283	1,503,289
Personnel Board	0	0	373,679	370,595	349,089	440,843	394,697	457,214	469,260	530,389
Education	47,692,283	54,619,458	56,673,527	55,683,048	62,380,528	63,198,772	65,431,746	66,423,473	68,768,615	74,682,780
Capital Projects	0	4,222,004	4,829,244	804,483	2,471,940	9,324,997	2,546,345	4,350,143	9,308,953	4,257,550
Debt Service	4,708,199	5,211,979	6,479,794	6,941,528	6,933,667	9,815,712	8,458,045	8,011,246	9,117,247	8,514,150
Other	0	0	881,510	0	174,430	0	0	313,276	365,635	0
TOTALS	\$86,442,896	\$93,626,473	\$101,525,153	\$96,173,521	\$108,023,715	\$122,988,750	\$117,670,164	\$120,944,357	\$131,341,723	\$132,169,478

(1) Includes all Governmental Funds of the Primary Government and the Board of Education, a discretely presented component unit.

Source: Audited General Purpose Financial Statements

City of Decatur



CITY OF DECATUR

General Governmental Revenues by Source ⁽¹⁾

Last Ten Fiscal Years Ended September 30th

Fiscal Year	Taxes	Licenses & Permits	Inter-Governmental	Charges for Services	Fines & Forfeits	Special Assessment	Misc.	TOTALS
1996	27,529,472	2,446,006	46,145,206	2,437,075	667,358	56,016	3,141,434	82,422,567
1997	29,201,507	2,781,622	50,138,650	2,412,700	716,041	39,056	1,584,115	86,873,691
1998	32,044,875	3,196,458	51,178,443	2,771,636	955,409	49,213	3,489,379	93,685,413
1999	33,762,092	3,409,251	55,918,523	2,509,450	975,240	75,219	2,193,470	98,843,245
2000	36,890,961	4,409,129	62,586,746	2,622,406	1,232,335	38,581	2,182,876	109,963,034
2001	37,607,992	4,593,171	65,168,118	2,586,989	1,290,807	22,465	2,723,374	113,992,916
2002	42,609,770	4,135,339	64,722,959	2,667,684	1,120,936	8,949	1,514,421	116,780,058
2003	44,855,763	4,326,519	65,055,611	2,752,786	1,038,611	845	1,642,834	119,672,969
2004	47,367,631	5,104,988	66,916,185	2,635,734	1,279,018	305	1,655,481	124,959,342
2005	48,628,374	5,260,874	72,521,399	2,853,277	1,353,878	0	1,926,003	132,543,805

(1) Includes All Governmental Funds of the Primary Government and the Board of Education, a Discretely Presented Component unit.

Source: Audited General Purpose Financial Statements

CITY OF DECATUR

General Governmental Tax Revenue By Source

Last Ten Fiscal Years

FISCAL YEAR	SALES & USE TAX										TOTAL
	PROPERTY TAX	AUTO TAX	GASOLINE TAX	TOBACCO TAX	LODGING TAX	FRANCHISE TAX	ALCOHOLIC BEVERAGE TAX	INSURANCE PREMIUM TAX	RENTAL TAX		
1996	17,607,772	4,748,740	645,316	809,205	336,946	474,369	211,207	1,750,825	474,534	470,557	\$27,529,471
1997	18,817,309	4,900,469	697,037	853,709	356,975	506,293	207,782	1,830,486	461,552	569,895	\$29,201,507
1998	20,075,300	5,748,147	836,737	870,743	345,158	611,265 ⁽²⁾	288,780 ⁽³⁾	2,045,870 ⁽⁴⁾	497,842	725,033	\$32,044,875
1999	20,844,570	6,385,766	908,846	857,132	327,891	658,213	420,574	2,083,752	503,192	772,156	\$33,762,092
2000	22,760,941	7,545,405	1,088,490	835,026	307,167	636,436	335,822	2,115,804	511,804	754,066	\$36,890,961
2001	22,786,858	7,864,917	1,280,845	828,659	316,769	651,968	434,374	2,114,320	472,293	856,989	\$37,607,992
2002	26,900,004 (1)	8,254,223	1,279,805	872,313	312,008	976,583	499,169	2,138,122	440,091	937,452	\$42,609,770
2003	29,817,226	7,625,178	1,256,098	903,686	333,968	943,295	534,412	2,048,797	510,417	882,686	\$44,855,763
2004	30,980,345	8,128,683	1,249,328	1,315,434	559,698	1,008,037	504,440	1,940,617	535,270	1,145,779	\$47,367,631
2005	31,822,887	8,506,525	1,280,830	1,324,890	538,738	1,101,824	509,195	1,899,066	542,804	1,101,615	\$48,628,374

(1) Tax Increased 1% (4%)
(2) Tax Increased 1% (6%)
(3) Tax Increased From 3-5%
(4) Tax Increased From 10-15%

CITY OF DECATUR

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years
Unaudited

FISCAL YEAR	TOTAL TAX LEVY 28 MILLS	TOTAL TAX COLLECTED	PERCENT OF LEVY COLLECTED
1996	7,910,165	7,831,063	99.000
1997	8,725,514	8,638,259	99.000
1998	9,484,424	9,389,580	99.000
1999	10,775,761	10,668,003	99.000
2000	12,432,063	12,822,428 *	99.000
2001	13,463,655	13,329,019	99.000
2002	14,107,022	13,965,952	99.000
2003	13,546,408	13,410,944	99.000
2004	13,964,555	13,824,909	99.000
2005	14,448,919	14,304,430	99.000

Source: Morgan County Revenue Commissioner
Morgan County License Commissioner

* Additional revenue created from reviews of business personal property accounts.

CITY OF DECATUR

ASSESSED AND ACTUAL APPRAISED VALUE OF PROPERTY

Last Ten Fiscal Years
Unaudited

FISCAL YEAR	<i>Real Personal & Public Utility</i>			<i>Automobile</i>			TOTAL ASSESSED VALUE	TOTAL APPRAISED VALUE
	ASSESSED VALUE	APPRAISED VALUE	ASSESSED VALUE	APPRAISED VALUE	ASSESSED VALUE			
1996	334,715,309	2,165,076,812	36,422,420	242,816,133	371,137,729	2,407,892,945		
1997	373,983,800	2,371,735,966	40,097,820	267,318,800	414,081,620	2,639,054,766		
1998	438,388,860	2,703,571,040	45,805,480	305,369,867	484,194,340	3,008,940,907		
1999	517,719,404	3,192,111,520	46,317,300	308,782,000	564,036,704	3,500,893,520		
2000	525,519,540	3,245,935,333	61,538,600	410,257,333	587,058,140	3,656,192,666		
2001	572,109,480	3,493,117,800	73,757,620	491,717,467	645,867,100	3,984,835,267		
2002	503,701,920	3,157,018,700	74,200,240	494,668,267	577,902,160	3,651,686,967		
2003	545,079,240	3,453,373,433	73,165,280	487,719,757	618,244,520	3,941,093,190		
2004	570,881,860	3,618,979,233	72,247,460	481,649,685	643,129,320	4,100,628,918		
2005	595,540,340	3,775,088,867	75,410,800	502,738,616	670,951,140	4,277,827,483		

Property Assessed as Follows:

Residential 10%, Commercial 20%, Utilities 30%, Auto Personal 15%, Auto Business 20%

Source: License Commissioner, Morgan County
Revenue Commissioner, Morgan County

CITY OF DECATUR

PROPERTY TAX RATES

DIRECT AND OVERLAPPING GOVERNMENTS

Last Ten Fiscal Years Ended September 30th

Unaudited

FISCAL YEAR	CITY OF DECATUR	CITY SCHOOLS	COUNTY SCHOOLS	MORGAN COUNTY	STATE OF ALABAMA	TOTAL TAX
1996	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
1997	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
1998	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
1999	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
2000	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
2001	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
2002	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
2003	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
2004	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills
2005	6.0 Mills	16.2 Mills	5.8 Mills	10.8 Mills	6.5 Mills	45.3 Mills

Source: Revenue Commissioner, Morgan County

CITY OF DECATUR

Principal Taxpayers

Fiscal Year Ended September 30, 2005
Unaudited

<u>Business Name</u>	<u>Total Assessed Value of Property In City Limits</u>	<u>City AdValorem Taxes Paid In Dollars</u>	<u>Percent of Total Assessed Value City</u>
Nucor Steel	\$67,380,360	\$863,825	11.30
Bunge Corp.	10,699,380	156,737	1.80
Meow Mix	9,214,840	129,124	1.55
Bellsouth	8,883,200	165,228	1.49
O.C.I. Chemical Corp.	5,182,780	67,527	0.87
Colonial Realty Limited	5,014,740	93,274	0.84
General Electric Appliance	4,483,180	82,264	0.75
Goodyear Tire & Rubber Co.	4,348,720	78,639	0.73
Hexcel	3,794,280	63,440	0.64
Charter Communications	3,090,380	57,481	0.52
	\$122,091,860	\$1,757,539	20.49

The Ten Largest Ad Valorem Taxpayers In the City Accounted for Approximately 20.5% of All Ad Valorem Taxes Collected By The City During the Tax year Ended September 30, 2005 (Total Tax Collected \$8,506,525) (18.6 Mills)

Source: Revenue Commissioner of Morgan County (Total Assessed Value \$595,540,340 Exclusive of Automobile License Commissioner of Morgan County)

CITY OF DECATUR

Special Assessment Billings and Collections

Last Ten Fiscal Years Ended September 30, 2005
Unaudited

YEAR	AMOUNT OF SPECIAL ASSESSMENT BILLINGS*	AMOUNT OF SPECIAL ASSESSMENT COLLECTIONS	INTEREST COLLECTED ON SPECIAL ASSESSMENTS	UNCOLLECTED PRINCIPAL END OF FISCAL YEAR
	PRINCIPAL	PRINCIPAL		
1996	0	56,016	16,712	125,883
1997	0	39,056	15,133	86,827
1998	75,795	8,516	1,574	154,106
1999	0	75,219	31,837	78,887
2000	0	38,581	327	40,306
2001	0	29,277	927	11,029
2002	0	9,880 (1)	6,046	1,149
2003	0	845	61	305
2004	0	305	31	0
2005	0	0	0	0

*These amounts represent assessments made final during the fiscal year indicated.
The property owner can choose to pay in full within thirty days or over a ten year period.
(1) \$931 of this amount abated by the City Council

Source: City Records

CITY OF DECATUR

COMPUTATION OF LEGAL DEBT MARGIN

Unaudited

YEAR	ASSESSED VALUE OF REAL AND PERSONAL PROPERTY	DEBT LIMIT 20%	OUTSTANDING FUNDED DEBT	DEBT NOT CHARGEABLE TO LEGAL LIMIT	DEBT APPLICABLE TO DEBT LIMIT	LEGAL DEBT MARGIN
1996	371,137,729	74,227,546	77,075,000	56,315,000	20,760,000	53,467,546
1997	414,081,620	82,816,324	90,560,000	61,215,000	29,345,000	53,471,324
1998	484,194,340	96,838,868	94,775,000	65,645,000	29,130,000	67,708,868
1999	517,719,404	103,543,881	106,940,000	80,125,000	26,815,000	76,728,881
2000	525,519,540	105,103,908	131,245,000	90,940,000	40,305,000	64,798,908
2001	572,109,480	114,421,896	124,215,000	85,995,000	38,220,000	76,201,896
2002	503,701,920	100,740,384	115,709,999	80,289,999	35,420,000	65,320,384
2003	545,079,240	109,015,848	106,295,000	70,830,000	35,465,000	73,550,848
2004	570,881,860	114,176,372	113,515,000	65,145,000	48,370,000	65,806,372
2005	595,540,340	119,108,068	*129,385,000	*83,900,000	45,485,000	73,623,068

* Decatur Board of Education issued \$26,000,000 Capital Outlay Warrants to be repaid from property tax

CITY OF DECATUR

Computation of Legal Debt Margin

Fiscal Year Ended September 30, 2005

Unaudited

ASSESSED VALUE OF REAL AND PERSONAL PROPERTY (EXCLUDING EXEMPTIONS)	\$595,540,340
DEBT LIMIT (20% OF ASSESSED VALUE)	119,108,068
OUTSTANDING FUNDED DEBT	* 129,385,000
LESS DEBT NOT CHARGEABLE TO LEGAL LIMIT:	
SCHOOL	\$13,080,000
SCHOOL CAPITAL OUTLAY WARRANTS	\$26,000,000
MUNICIPAL UTILITIES	44,820,000
TOTAL	83,900,000
TOTAL AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT	\$45,485,000
LEGAL DEBT MARGIN	\$73,623,068

* Decatur Board of Education issued \$26,000,000 in Capital Outlay Warrants to be repaid from property tax

CITY OF DECATUR

RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA

Last Ten Fiscal Years
Unaudited

FISCAL YEAR	POPULATION (1)	ASSESSED VALUE	GROSS BONDED DEBT	LESS SINKING FUNDS	DEBT PAYABLE FROM ENTERPRISE FUND	NET BONDED DEBT	RATIO OF NET BONDED DEBT TO ASSESSED VALUATION	BONDED DEBT PER CAPITA
1996	54,300	371,137,729	44,070,000	846,189	1,335,000	41,888,811	11.29%	828
1997	54,815	414,081,620	59,645,000	955,097	1,100,000	57,589,903	13.91%	771
1998	55,087	484,194,340	57,730,000	911,410	850,000	55,968,590	11.56%	1051
1999	56,138	517,719,404	53,180,000	797,947	585,000	51,797,053	10.01%	1,016
2000	53,929*	525,519,540	64,330,000	697,572	300,000	63,332,428	12.05%	923
2001	54,723	572,109,480	59,945,000	718,579	300,000	58,926,421	10.30%	1174
2002	54,723	503,701,920	54,740,000	734,667	0	54,005,333	10.72%	1077
2003	55,809	545,079,240	52,945,000	856,565	0	52,088,435	9.56%	987
2004	56,136	570,881,860	63,685,000	797,423	0	62,887,577	11.02%	1120
2005	56,866	595,540,340	58,565,000	808,884	0	57,756,116	9.70%	1016

(1) Planning Dept. City of Decatur (Est.)
*Federal Census

Source: Audited General Purpose Financial Statements
Revenue Commissioner, Morgan County
License Commissioner, Morgan County

CITY OF DECATUR

Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures

Last Ten Fiscal Years

FISCAL YEAR	PRINCIPAL	INTEREST (1)	TOTAL DEBT SERVICE	TOTAL GENERAL EXPENDITURES	RATIO TO GENERAL EXPENDITURES (%)
1996	2,315,000	2,382,113	4,697,113	84,917,470	5.53
1997	1,870,000	1,396,344	3,266,344	93,626,473	3.49
1998	3,672,317	2,807,251	6,479,568	101,525,153	6.38
1999	4,290,465	2,651,063	6,941,528	96,173,521	7.22
2000	4,485,000	2,448,667	6,933,667	108,023,715	6.42
2001	6,715,000	3,100,712	9,815,712	122,988,750	7.98
2002	5,450,272	3,007,773	8,458,045	117,760,164	7.18
2003	5,346,671	2,664,575	8,011,246	120,944,358	6.62
2004	6,321,257	2,795,990	9,117,247	131,341,723	6.94
2005	5,674,464	2,839,686	8,514,150	132,169,478	6.44

(1) Excludes Bond Issuance Costs

Source: Audited General Purpose Financial Statements

CITY OF DECATUR

Pro Forma Statement of Direct and Overlapping Tax Supported Debt

September 30, 2005
Unaudited

	GROSS DEBT	PERCENT APPLICABLE TO CITY	CITY'S SHARE OF DEBT
Direct Debt			
General Obligation Bonds & Warrants	\$58,565,000	100.00%	\$58,565,000
*Decatur Board of Education Capital Outlay Warrants	\$26,000,000	100.00%	\$26,000,000
Overlapping Debt			
Morgan County, Alabama, General Obligation Debt as of Sept. 30, 2005	26,215,000	40.92%	\$10,727,178
Morgan County Board of Education debt funded by county-wide ad valorem tax, as of Sept. 30, 2005	<u>26,345,000</u>	40.92%	<u>\$10,780,374</u>
Total Overlapping Debt	52,560,000		21,507,552
Total Direct and Overlapping Debt	\$137,125,000		\$106,072,552

The percentage of overlapping debt applicable to the City is calculated on the basis of the ratio of the estimated 2005 assessed valuation of all taxable property in the City (\$595,540,340) [exclusive of taxable property outside the boundaries of Morgan County] to that of all taxable property in Morgan County (\$1,368,888,340).

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

CITY OF DECATUR

Pro Forma

Percentage Direct and Overlapping Tax-Supported Debt To Assessed Value Per Capita

September 30, 2005

Unaudited

General Obligation Bonds & Warrants	\$58,565,000
*Decatur Board of Education Capital Outlay Warrants	26,000,000
Total Assessed Value of City Property As of September 30, 2005	595,540,340
2000 U. S. Census Population of the City of Decatur	53,929
Ratio of Direct General Obligation Debt to City's Estimated Assessed Value	14.20%
Per Capita Direct General Obligation Debt (Based on City's 2000 Population)	1,568
Total Overlapping Debt	52,560,000
Total Assessed Value of Morgan County Property as of September 30, 2003	1,368,888,340
City's Share of Overlapping Debt	21,507,552
City's Direct and Overlapping Debt	106,072,552
Ratio of City's Direct and Overlapping Debt to City's Estimated 2004 Assessed Value	17.81%
Per Capita Direct and Overlapping Debt (Based on City's 2000 Population)	1967

*Decatur Board of Education issued \$26,000,000 of Capital Outlay Warrant to be repaid from property tax

CITY OF DECATUR

Revenue Bond Coverage

Municipal Utilities Board

Last Ten Fiscal Years

FISCAL YEAR	GROSS REVENUES	OPERATING EXPENSE	NET REVENUE AVAILABLE FOR DEBT SERVICE	DEBT SERVICE REQUIREMENT	COVERAGE
1996	96,093,037	85,381,921	4,761,742	2,018,781	2.36
1997	93,536,940	83,714,393	3,522,429	3,206,423	1.10
1998	103,145,480	91,104,316	6,068,203	3,214,079	1.89
1999	104,644,753	90,681,097	7,018,623	3,837,211	1.83
2000	110,090,289	96,236,991	7,568,243	3,856,206	1.96
2001	134,744,262	120,763,228	9,340,865	4,139,797	2.26
2002	109,008,808	95,359,155	6,011,772	5,127,707	1.17
*2003	144,515,069	129,262,558	3,745,937	5,789,000	0.65
2004	117,445,093	104,414,709	3,588,961	5,788,552	0.62
2005	117,869,302	104,660,128	4,399,565	5,159,606	0.85

Source: Audited General Purpose Financial Statements

* Decatur Utilities changed their fiscal year end from 6/30 to 9/30 to correspond with the City of Decatur's fiscal year end. These totals reflect 15 months of activity.

CITY OF DECATUR

Demographic Statistics

Unaudited

YEAR	POPULATION (1)	PUBLIC SCHOOL ENROLLMENT (2)	GRADUATED (2)	MEDIAN AGE (3)	RETAIL SALES (4)	UNEMPLOYMENT RATE (%) (5)
1996	54,300	8,670	466	35.0	1,414,387,574	4.7
1997	54,815	8,699	449	35.8	1,560,735,872	4.8
1998	55,087	8,764	454	36.4	1,611,753,762	3.7
1999	56,138	8,799	437	37.0	1,678,093,655	4.0
2000	53,929 *	8,947	418	37.0	1,737,538,250	3.8
2001	54,723	8,841	425	37.0	1,616,151,935	5.2
2002	54,723	8,839	406	36.3	1,640,910,756	6.4
2003	55,809	8,840	451	36.3	1,660,721,870	6.0
2004	56,136	8,806	449	37.5	1,787,843,977	6.1
2005	56,866	8,815	442	38.1	1,931,920,426	3.9

(1) City Planning Department (Est.)
 (2) School District
 (3) Economic Development Association
 (4) City Financial Records
 (5) Morgan County
 * Federal Census

CITY OF DECATUR

Property Value, Construction, and Bank Deposits Last Ten Fiscal Years Ended September 30 Unaudited

Fiscal Year	Real & Personal Property Appraised Value (1)	Commercial & Industrial Construction Value (2) (Repairs Over \$5,000)	Residential Construction Value (2)		Value	Bank Deposits(3)	
			# Single Family	#Apts.			
1996	2,407,892,945	40,308,186	214	20,680,374	274	8,439,340	921,222,000
1997	2,639,054,766	112,308,952	194	21,017,714	156	4,335,000	N/A
1998	3,008,940,907	100,032,433	232	24,281,764	184	6,559,016	N/A
1999	3,500,893,520	391,787,600	184	25,178,136	26	1,031,000	1,193,248,000
2000	3,656,192,666	72,006,697	225	27,090,590	16	546,000	1,191,362,000
2001	3,984,835,267	193,449,174	188	25,873,768	14	3,193,087	1,297,032,000
2002	3,651,686,967	47,101,128	203	27,341,256	14	3,193,087	1,318,037,000
2003	3,941,093,190	62,706,977	199	28,109,346	4	325,000	1,334,484,000
2004	4,100,628,918	102,305,870	221	34,866,047	0	2,261,125	1,383,794,000
2005	4,277,827,483	118,293,001	220	35,740,208	1	325,000	1,410,957,000

Source: (1) Revenue Commissioner, Morgan County,
License Commissioner, Morgan County
(2) Building Department, City of Decatur
(3) First American Bank, Decatur thru 1996
(4) Federal Reserve Bank, Atlanta 6/30 1999-2003

CITY OF DECATUR

Miscellaneous Statistical Data

September 30, 2005
Unaudited

<u>Date of Incorporation</u>	December 8, 1826	<u>Construction Permits</u>	
		Permits Issued	3969
<u>Form of Government</u>	Mayor / Council	Permit Valuation	\$150,784,329
Mayor Popularly Elected 4 Year Term			
5 Councilmen Elected By Districts,			
Each for 4 Year Terms		<u>Employees</u>	
		Full Time	525
		Part Time	70
<u>Area</u>	60 Square Miles		
		<u>Landfill</u>	541 Acres
<u>Miles of Streets</u>		<u>Public Schools</u>	
Paved	333	Elementary (K-5)	12
Unpaved	7	Middle (6-8)	3
		High (9-12)	2
<u>Miles of Sewers</u>		Enrollment (September 2005)	8,815
Sanitary	331	Graduated (May 2005)	442
Paved Invert Drainage Channels	48		
Storm Drainage Conduits	143	<u>Libraries</u>	
		Wheeler Basin	1
<u>Fire Protection</u>		Member Libraries	3
Number of Stations	8	Books By Mail Program	1
Number of Employees	107		
Fire Insurance Classification	3	<u>Municipal Utilities</u>	
		Number of Accounts	
<u>Police Protection</u>		Electric	26,348
Number of Stations	3	Water	24,495
Number of Employees	149	Wastewater	19,900
		Gas	13,925
<u>Recreation</u>		Rated Plant Capacities	
Number of Parks	24	Water	68 Million Gal./Day
Acres of Parks	1263	Sewer	36 Million Gal./Day
Golf Courses (Public & Private)	4		
Tennis Courts	34	Miles of Water Mains	472
Recreation Centers	4	Miles of Gas Mains	407
Senior Citizen Center	2	Miles of Electric Lines	585
Ball Fields In Use	32	Number of Fire Hydrants	1939
Enclosed Swimming Pool	1		
Open Air Swimming Pools	3		
Soccer Fields	31		
Ice Rinks	1		
Campground	1		
		<u>Population Information</u>	
		1900	7,551
		1930	16,411 (+2.1%)
		1960	29,217 (+39.0%)
		1990	48,761 (+16.1%)
		2000	53,929 (+10.6%)
		2003	55,809 (+2%)
		1970	38,044 (+30.2%)
		2000	56,136 (+6%)
		1980	42,002 (+10.4%)
		2002	54,723 (0%)
		2005	56,866 (+1.3%)

CITY OF DECATUR

Retail Sales

Taxable Net Unaudited

CALENDAR YEAR	GROSS SALES	DEDUCTIONS	TAXABLE NET
1996	1,414	694	720
1997	1,561	738	823
1998	1,612	720	892
1999	1,678	756	922
2000	1,738	791	947
2001	1,616	684	932
2002	1,641	690	951
2003	1,661	686	975
2004	1,787	766	1021
2005	1,932	869	1063

Expressed in Millions

City of Decatur

Retail Sales - Taxable Net

Dollars in Millions

Unaudited
1,561

1,414

1,612

1,678

1,738

1,616

1,641

1,661

1,787

1,932

720

823

892

922

947

932

951

975

1016

1021

694

738

720

756

791

684

690

686

766

889

1996

1997

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1999

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2002

2003

2004

2005

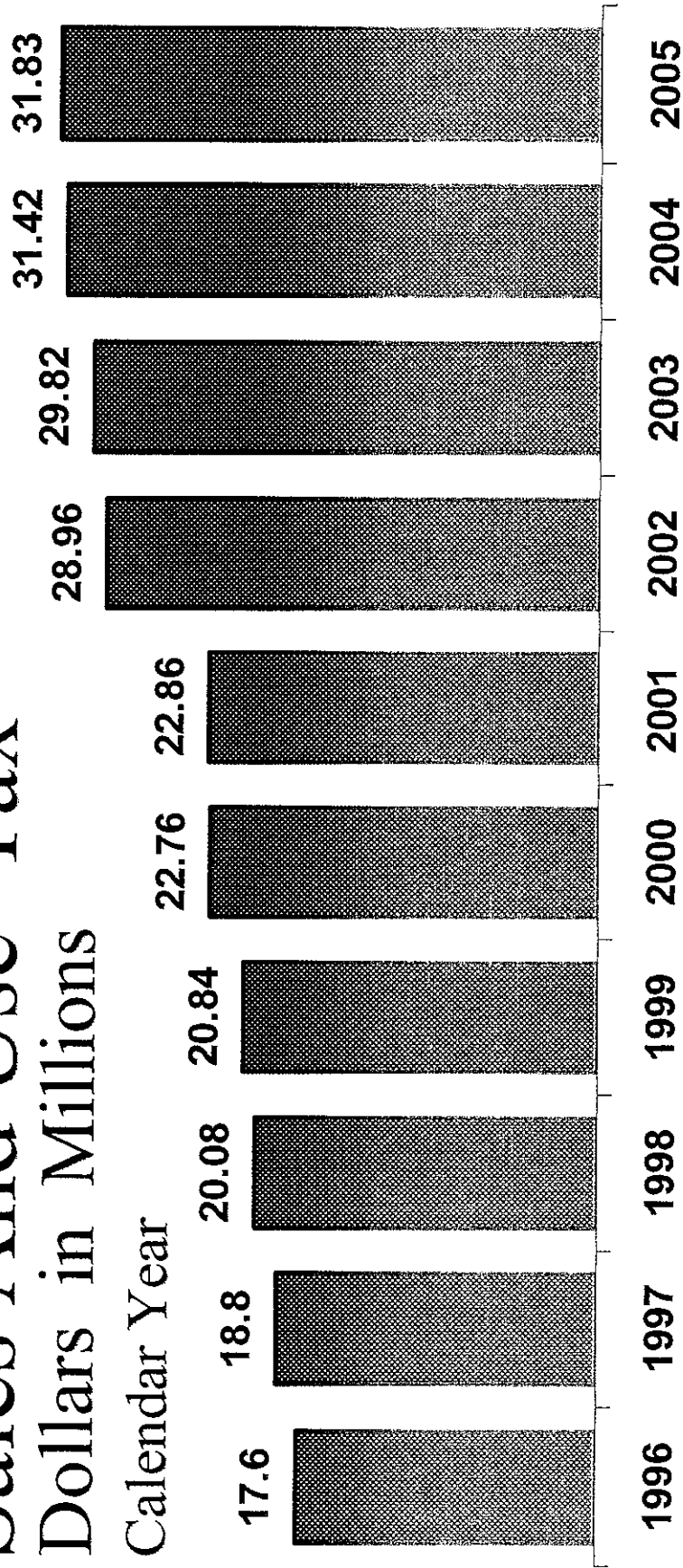
■ Deductions

■ Taxable Net

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City of Decatur

Sales And Use Tax Dollars in Millions Calendar Year



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CITY OF DECATUR

Schedule of Interest On Investments

Interest	2005	2004
General Fund	\$428,755	\$187,864
General Fund, Reserve	218,409	206,420
General Fund, Landfill Reserve	25,110	23,914
General Fund, Drug Enforcement Recovery Fund	2,206	742
General Fund, Corrections Fund	19,136	7,771
7 Cent Gasoline Tax	6,052	1,031
4 & 5 Cent Gasoline Tax	1,072	1,792
Public Port Warrant Fund (039)	12	79
Community Development Fund	249	337
Decatur Cemetary Trust (051)	18,236	16,609
Sanitary Landfill	295,099	138,461
2003 Capital Projects Fund (068)	0	0
2003E Capital Projects Fund (069)	48,630	113,392
Personnel Board Fund	0	567
Room Occupancy Fund	29,891	0
Capital Improvements Fund	30,214	0
Totals	\$1,123,071	\$698,979

Source: City of Decatur Finance Department

CITY OF DECATUR

Ad Valorem Tax - Property & Auto Unaudited

FISCAL YEAR	GENERAL FUND 6 MILLS	SCHOOL FUND 12.6 MILLS	SCHOOL DIRECT 9.4 MILLS	TOTAL 28 MILLS
1996	1,581,999	3,812,057	2,437,007	7,831,063
1997	1,782,688	3,814,817	2,664,149	8,261,654
1998	1,968,477	4,616,407	2,899,540	9,484,424
1999	1,983,372	5,311,240	3,373,391	10,668,003
2000	2,288,285	6,345,610	4,188,533	12,822,428
2001	2,420,368	6,725,394	4,183,257	13,329,019
2002	2,567,410	6,966,618	4,431,924	13,965,952
2003	2,688,121	6,619,210	4,226,959	13,534,290
2004	2,651,914	6,726,096	5,237,965	14,615,975
2005	2,746,967	7,040,388	5,285,272	15,072,627

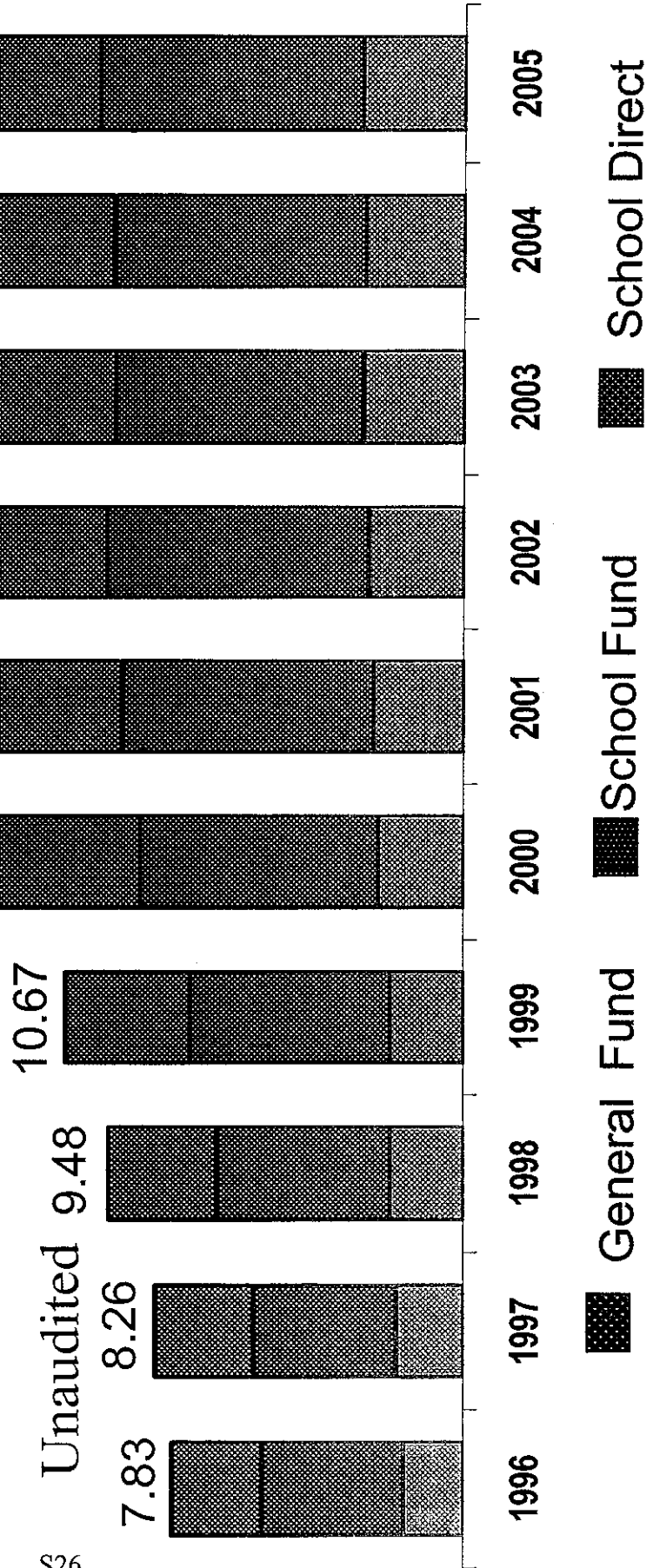
Source: City of Decatur Financial Records
Decatur City Schools Financial Statement

City of Decatur

Ad Valorem Tax - Property & Auto

Dollars in Millions

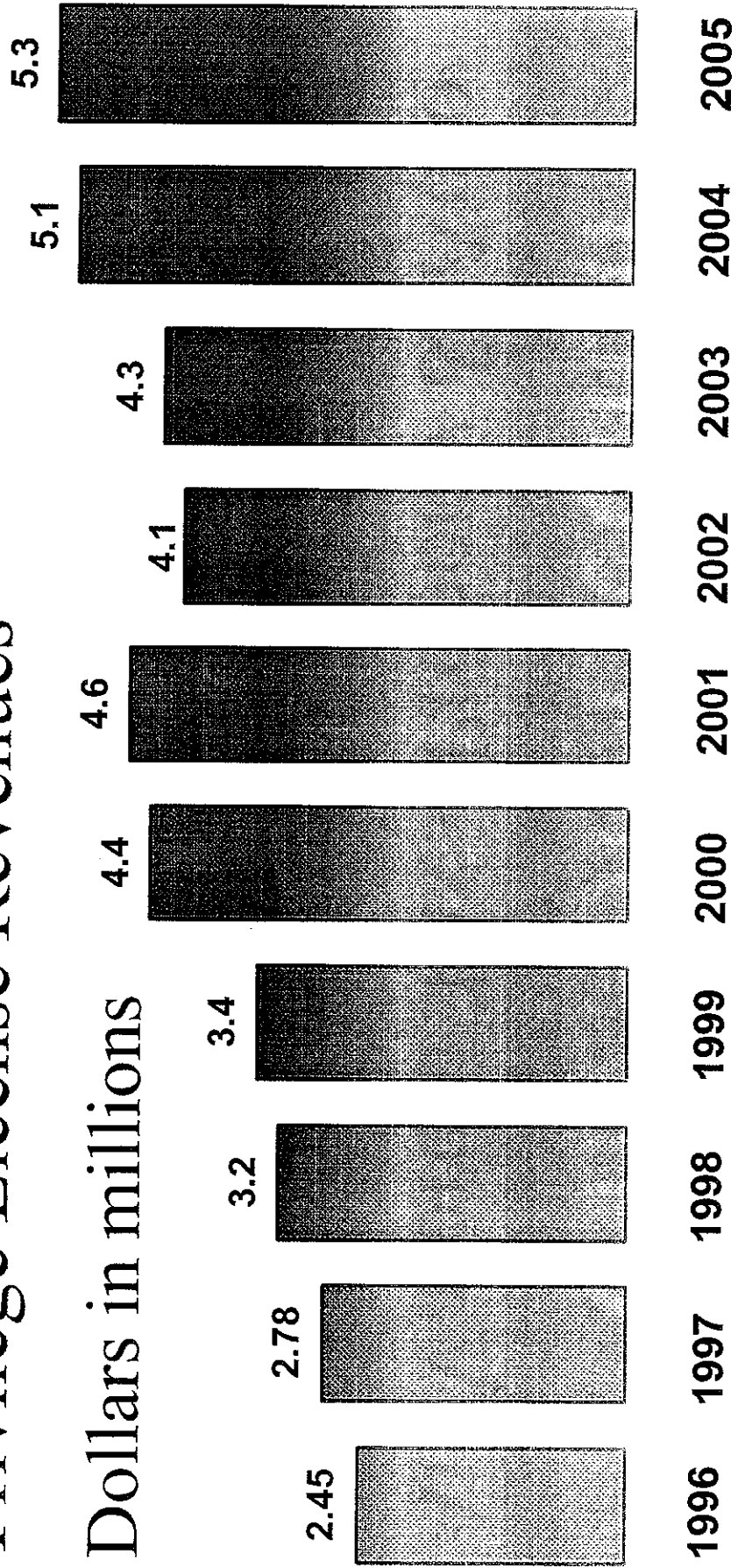
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City of Decatur

Privilege License Revenues

Dollars in millions

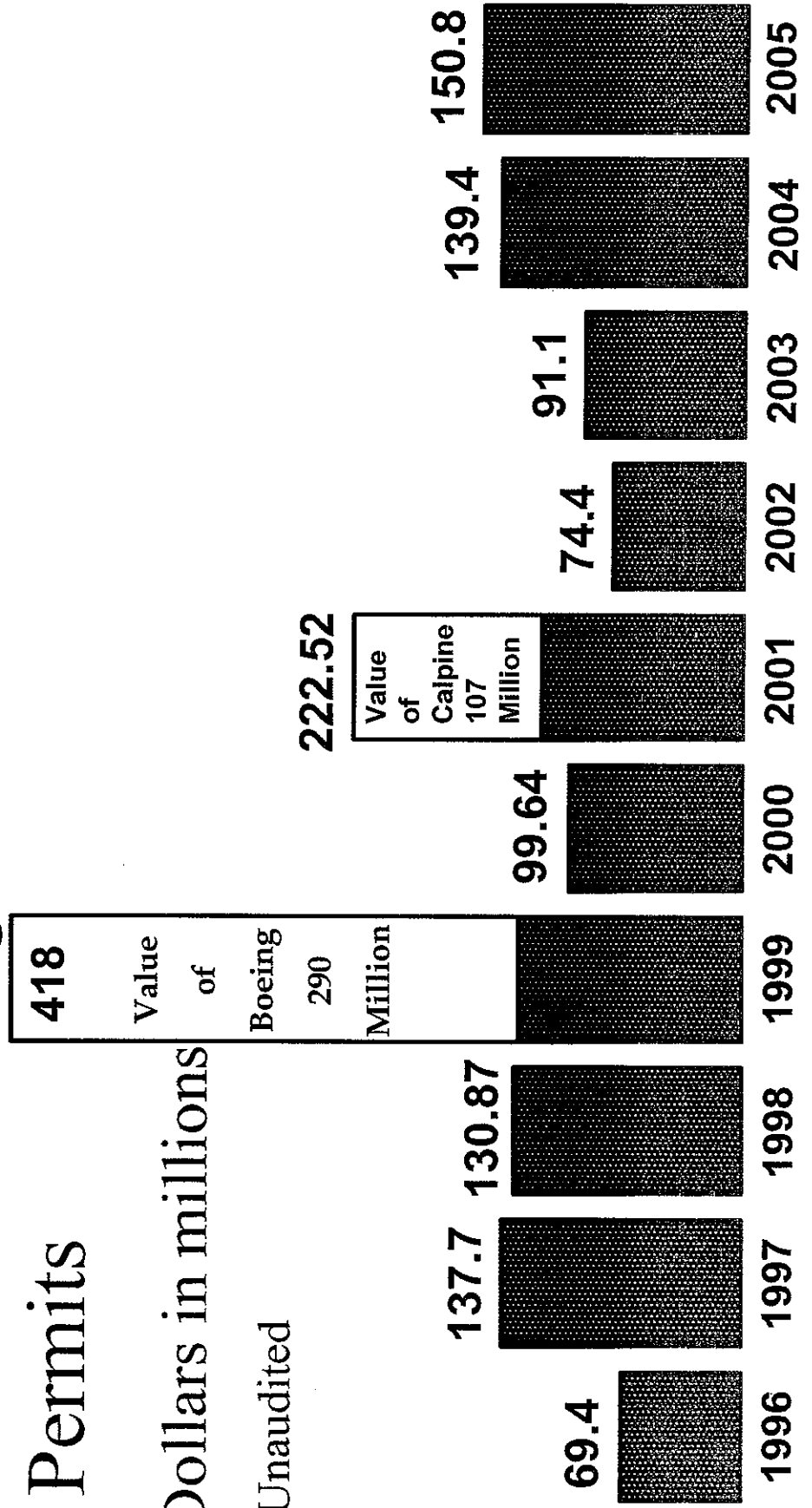


City of Decatur

Value of Building Permits

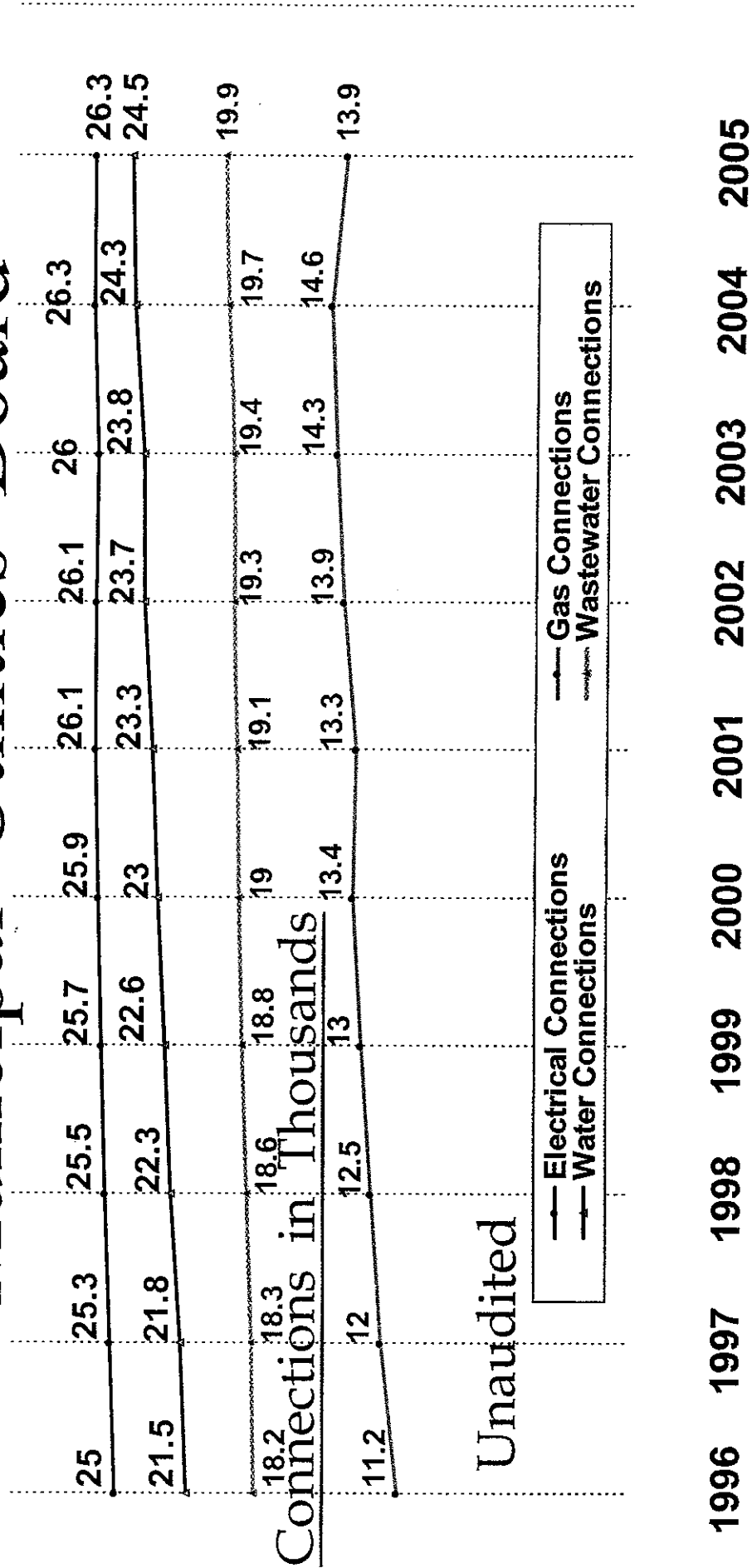
Dollars in millions

Unaudited



City of Decatur

Municipal Utilities Board



Unaudited

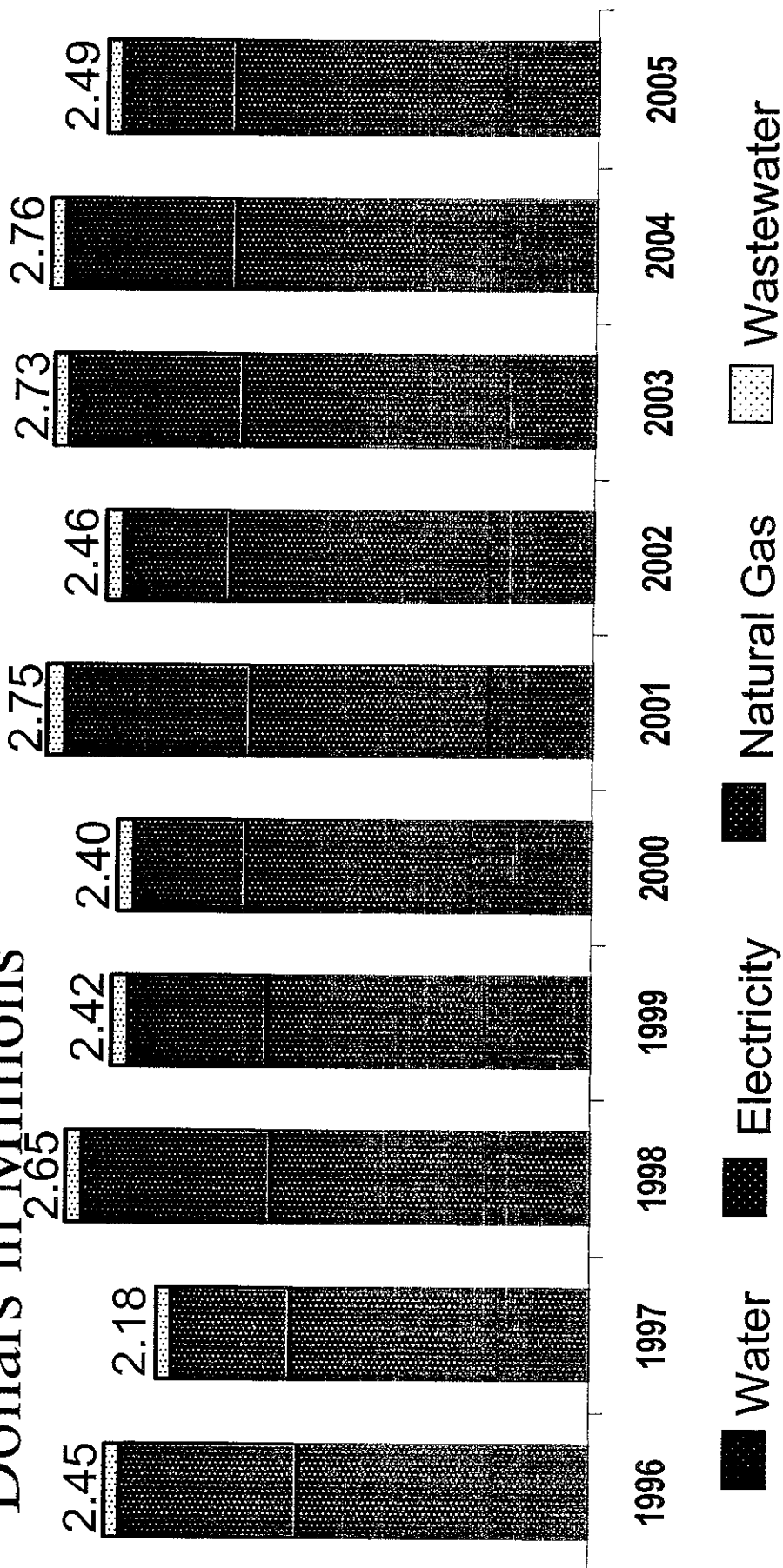
— Electrical Connections
 — Water Connections

— Gas Connections
 — Wastewater Connections

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City of Decatur

Tax Equivalent Paid by Utilities Dollars in Millions



CITY OF DECATUR

Tax Equivalent

Paid by Municipal Utilities

Last Ten Fiscal Years

Description	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Wastewater	\$77,278	\$77,480	\$85,013	\$84,892	\$85,492	\$85,173	\$83,999	\$78,529	\$77,797	\$81,167
Water (City General Fund)	196,101	182,409	211,446	214,445	244,957	210,517	213,626	188,511	188,000	184,072
Water (School Fund)	286,978	266,940	309,434	313,822	358,473	308,073	312,624	256,919	275,122	269,374
Electric (City General Fund)	793,555	850,018	874,468	890,599	915,971	972,631	1,051,194	1,069,256	1,086,178	1,106,240
Electric (School Fund)	198,389	212,504	218,617	222,650	228,993	243,158	262,798	267,314	270,555	276,560
Natural Gas	898,988	598,889	951,314	695,301	565,925	933,364	538,289	870,558	864,101	574,188
TOTALS	\$2,451,289	\$2,188,240	\$2,650,292	\$2,421,709	\$2,399,811	\$2,752,916	\$2,462,530	\$2,731,087	\$2,761,753	\$2,491,601

CITY OF DECATUR

Schedule of Tax Revenue

	2005		2004 TOTAL
	GENERAL	SPECIAL REVENUE	
TAXES			
Sales & Use	\$23,867,120	\$7,955,767	\$31,822,887
General Property	2,333,771	6,172,754	8,506,525
Automobile	413,196	867,634	1,280,830
Gasoline	872,112	452,778	1,324,890
Tobacco	288,191	250,547	538,738
Lodging	744,170	357,654	1,101,824
Franchise	509,195	- 0 -	509,195
Alcoholic Beverage	1,899,066	- 0 -	1,899,066
Insurance Premium Tax	542,804	- 0 -	542,804
Rental	1,101,615	- 0 -	1,101,615
TOTALS	\$32,571,240	\$16,057,134	\$48,628,374
			\$47,367,631

Source: City of Decatur Financial Records

CITY OF DECATUR

Tax Revenues Per Capita

Last Ten Years
Unaudited

FISCAL YEAR	POPULATION (1)	TAX COLLECTED (2)	DOLLARS PER CAPITA
1996	54,300	31,273,057	576
1997	54,815	33,106,542	604
1998	55,087	36,240,528	658
1999	56,138	38,321,009	683
2000	53,929 *	41,818,862	775
2001	54,723	41,920,257	766
2002	54,723	47,993,962	877
2003	55,809	49,937,832	895
2004	56,136	52,082,627	928
2005	56,866	53,538,258	942

Source: Revenue Commissioner, Morgan County
Finance Department, City of Decatur
(1) Planning Department, City of Decatur
*Federal Census

(2) Beginning July 1991, includes \$.01
Educational Tax levied by County
and distributed to school systems.
City Board of Education

CITY OF DECATUR

General Obligation Long-Term Debt September 30, 2005

The following schedule is a summary of the changes in general obligation long-term debt for the year ended September 30, 2005

(does not include long-term debt recorded on the books of the Municipal Utilities Board).

GENERAL OBLIGATION	BALANCE 9/30/2004	ISSUED FY2005	RETIRED FY2005	BALANCE 9/30/2005
Schools	15,315,000	0	2,235,000	13,080,000
Public Port & Infrastructure	3,180,000	0	760,000	2,420,000
Street Improvement	1,285,000	0	305,000	980,000
Municipal Capital Improvement	43,225,000	0	1,770,000	41,455,000
Carnegie	680,000	0	50,000	630,000
TOTAL	\$63,685,000	\$0	\$5,120,000	\$58,565,000
*Schools-Capital Outlay Warrant	0	\$26,000,000	0	\$26,000,000

*Decatur Board of Education issued \$26,000,000 of Capital Outlay Warrants to be repaid from property tax

CITY OF DECATUR

Debt Service

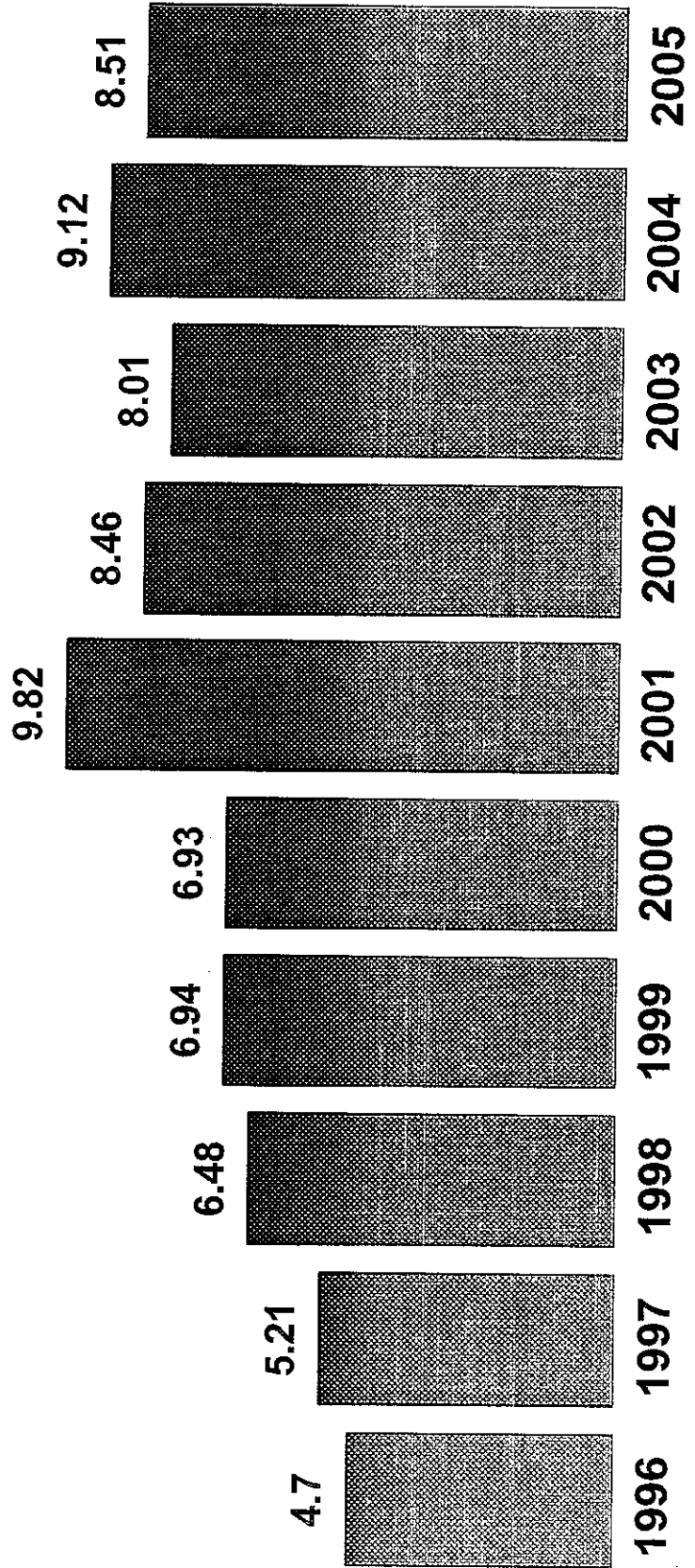
General Obligation Long-Term Debt

The following schedule shows debt service to maturity for general obligation bonds and warrants outstanding September 30, 2005. (does not include long-term debt recorded on the books of the Municipal Utilities Board).

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2006	5,875,000	2,634,414	8,509,414
2007	5,450,000	2,418,486	7,868,486
2008	4,845,000	2,220,745	7,065,745
2009	4,045,000	2,059,083	6,104,083
2010	2,950,000	1,886,282	4,836,282
2011	3,105,000	1,745,131	4,850,131
2012	2,460,000	1,595,793	4,055,793
2013	2,575,000	1,476,946	4,051,946
2014	1,955,000	1,352,153	3,307,153
2015	2,055,000	1,255,409	3,310,409
2016	2,165,000	1,151,552	3,316,552
2017	2,285,000	1,041,018	3,326,018
2018	2,410,000	923,867	3,333,867
2019	2,545,000	799,723	3,344,723
2020	2,695,000	667,993	3,362,993
2021	625,000	527,862	1,152,862
2022	660,000	499,112	1,159,112
2023	690,000	468,588	1,158,588
2024	725,000	435,812	1,160,812
2025	760,000	401,375	1,161,375
2026	800,000	365,275	1,165,275
2027	840,000	327,275	1,167,275
2028	885,000	287,375	1,172,375
2029	930,000	245,338	1,175,338
2030	980,000	201,162	1,181,162
2,031	1,030,000	154,613	1,184,613
2,032	1,085,000	105,687	1,190,687
2,033	1,140,000	54,150	1,194,150
Totals	\$58,565,000	\$27,302,219	\$85,867,219

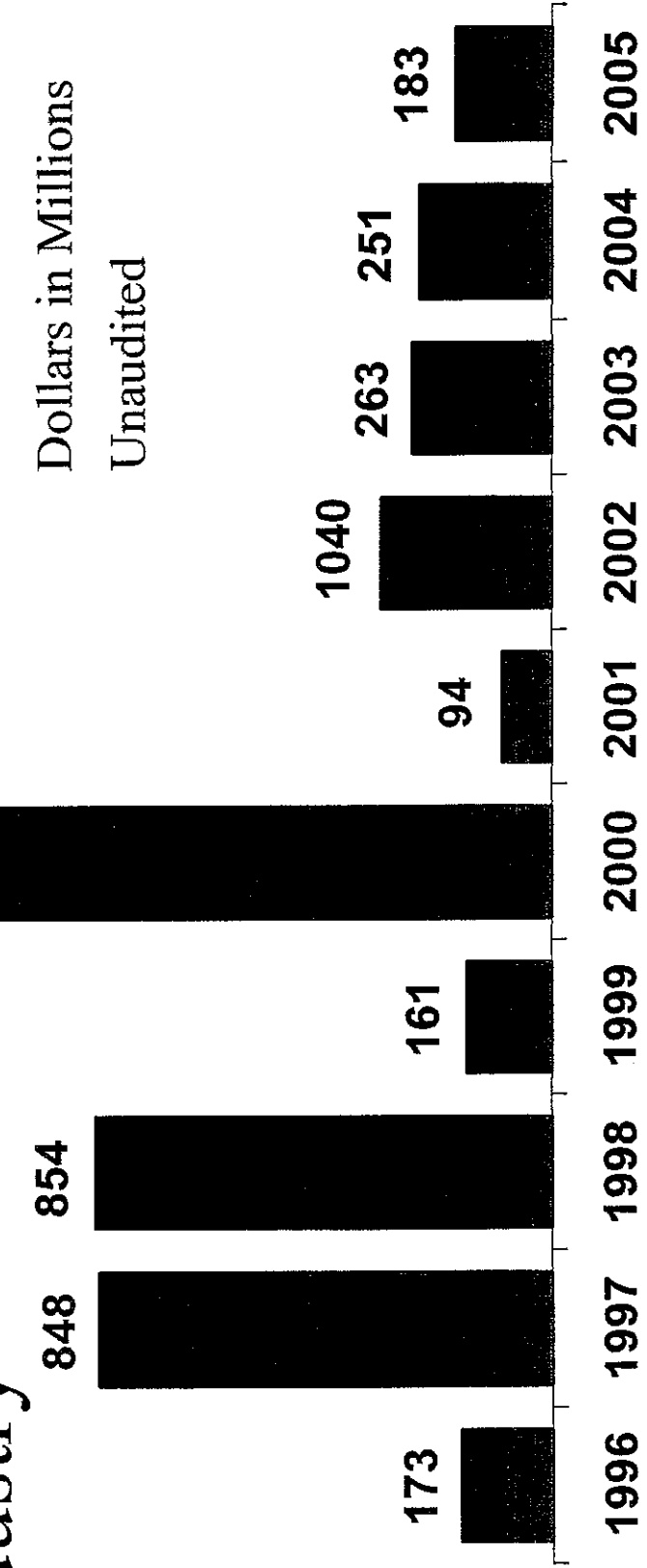
City of Decatur

Debt Service Expenditures Dollars in millions



Morgan County

Investments Created by New and Expanding Industry



Morgan County

Jobs Created by New and Expanding Industry

Unaudited

