

CITY OF CULLMAN, ALABAMA
BASIC FINANCIAL STATEMENTS
With Supplementary Information
September 30, 2004

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cullman, Alabama, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller 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 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 provides a reasonable basis for our opinions.

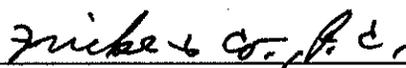
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cullman, Alabama, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the City of Cullman, Alabama, as of September 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and Members
of the City Council
City of Cullman, Alabama
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In accordance with Government Auditing Standards, we have issued our report dated July 29, 2005, on our consideration of the City of Cullman, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis, Schedule of Funding Progress for Retirement Plan, Budgetary Comparison Information, and Notes to the Required Supplementary Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily 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 Cullman's basic financial statements. The combining and individual fund financial statements and schedules and the statistical data 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 combining and individual fund financial statements and schedules listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The statistical data as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



CERTIFIED PUBLIC ACCOUNTANTS

July 29, 2005



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Management's Discussion and Analysis Concerning the Audited Financial Statements for the Fiscal Year Ended September 30, 2004

The City of Cullman, county seat of Cullman County, is located in north central Alabama, north of Birmingham and southwest of Huntsville, Alabama.

The City was founded in 1873 by Colonel John G. Cullmann as a colony designed to attract German immigrants. Cullman County was created by the Alabama Legislature in 1877 from sparsely settled areas more or less separated from the adjacent counties by natural boundaries.

The City of Cullman operates under a Mayor-Council form of government. The City's elected officials consist of a full-time mayor and five part-time council members, each elected by city-wide vote to serve concurrent four-year terms.

Mayor Donald E. Green serves as executive officer and is responsible for the general management of the city.

The Council is the legislative body which determines the policies to be followed in the administration of the city government. Council members (for terms expiring October 6, 2008) are:

Place No. 1	Wayne Walker
Place No. 2	Garlan E. Gudger, Jr.
Place No. 3	Ernest W. Hauk
Place No. 4	Kevin Morrow
Place No. 5	Woody Jacobs

Officers of the Council are Council President Woody Jacobs and President Pro-tem Kevin Morrow.

The City Clerk/Treasurer is appointed by the City Council and authenticates and records official acts of the City and maintains all records and documents. The Clerk attends all meetings of the Council and is responsible for preparing the agendas and recording the minutes of each meeting. The City Clerk serves as liaison between the Mayor and Council and performs the duties

prescribed by law and assigned by the Mayor and Council. As Treasurer, she is responsible for the financial records of the City and the management of funds. She assists with preparation of the budget, approves purchases and the issuance of payments for the lawful expenditures of city funds.

The City Council also appoints a Police Chief and a Fire Chief, Supervisors and Directors of other City Departments and other non-classified personnel. The City employs approximately 270 people (full-time and part-time) in the various departments. The City does not collectively bargain with any union or association representing City employees.

Classified employees are grouped by job title and description in various classifications, each class having the same financial relationship to the classes above and below it, and having a minimum and maximum pay spread over a finite number of steps.

The City of Cullman participates in the State of Alabama Retirement System. Contributions are made to the Retirement System by the employees and the City, with the State acting only in an administrative capacity. The City pays all of the employee's share of health insurance costs and a portion of the family coverage.

The costs of general government, streets and sanitation, public safety, as well as appropriations to various public agencies and non-profit groups, debt service for governmental purposes and most matching funds for federal and state grants are paid from the General Fund.

FINANCIAL HIGHLIGHTS

The City's net assets increased 5.0 million over the course of this year's operation: approximately 3.4 million in the net assets of the governmental activities and 1.6 million in the business-type activities.

Revenues budgeted in the general fund for FY 2004 were based on the previous year's receipts; however, sales tax revenues improved during the year and other revenues exceeded expectations, so that revenues were almost 1.6 million more than budgeted; while at the same time general fund expenditures were less than \$500,000 more than budgeted.

The most important source of revenue for the General Fund is sales taxes, which produced \$11,292,190 in FY2004. Other major sources of revenue were: Property Taxes in the amount of \$948,150; Business Licenses: \$1,512,900; Garbage Collection Fees: \$2,385,140; and other local and state-shared revenues.

The City of Cullman receives varying percentages of four gross receipts or sales taxes levied in the County by separate legislative acts adopted from 1963 through 1993. The Alabama Legislature has the continuing power to change the allocation of the taxes, or to repeal any one or all of these taxes. However the City has authority under the general laws of Alabama to levy

within its corporate limits taxes substantially identical to the taxes levied by the 1963, 1975, 1981 and 1993 Acts at any regular meeting of the City Council.

The City levies a five mill ad valorem tax for General Fund purposes, a three mill school tax and a seven and one-half mill school tax. The school taxes are deposited in a special fund (Property Tax Fund) and transferred to the City School System. During FY 2002 the City also collected for school purposes a one-half percent sales tax, which expired September 30, 2002. After a proposed advalorem tax increase was defeated by the voters in May 2003, the City Council adopted an ordinance again levying a one-half percent sales tax for the City Schools effective September 1, 2003. Proceeds from this tax are also deposited in the special school fund and remitted to the City School System. The revenue from this tax during FY2004 was \$2,063,401.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts--managements discussion and analysis, the basic financial statements, required supplementary information and an optional section that presents combining statements for non-major governmental funds and the water system. Major governmental funds are the general fund, the property and sales tax fund for schools (school tax fund), and debt service fund. The basic financial statements include two kinds of statements that present different views of the City.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the City's water and sewer systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds which are added together and presented in single columns in the basic financial statements.

The following summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of City of Cullman's Government-wide and Fund Financial Statements

	Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (Except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary such as police, fire and public works	Activities the City operates similar to private businesses: the water and sewer systems
Required financial statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expense during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets--the difference between the City's assets and liabilities--is one way to measure the City's financial health.

Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. In order to assess the overall health of the City, however, additional factors such as changes in property tax base, economic growth, unemployment, new and/or expanded businesses and industries, and the condition of the City's assets and infrastructure must be considered.

The government-wide financial statements of the City are divided into three categories:

Governmental activities -- Most of the City's basic services are included here, such as police, fire,

public works, parks and recreation and general administration. Property taxes, sales taxes, fees for certain services and state-shared revenues finance most of these activities.

Business-type activities -- The City charges fees to customers to cover most of the costs of certain services it provides. The City's water and sewer systems are self-sustaining. Fees help cover the costs of operating the airport and the golf course.

Component units -- The City includes the Cullman Parks and Recreation Department in its report. Although operated by a board appointed by the City Council, this component unit is important because the City is financially accountable for it. Financial information of the Cullman County Museum Board is reported, since the City appoints the five-member board and contributes most of the Board's budget.

Also included in the City's report is the Airport Board. The Cullman Airport is owned jointly by the City of Cullman and Cullman County, and operated by a board appointed by the two governments. The City and County provide local funds for capital improvements, and operating expenses in excess of revenues are paid by them on a 50-50 basis. Fifty percent of the Board's assets, liabilities, net assets, revenues and expenses are reported under enterprise funds of the City.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds--not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes

The City of Cullman has two kinds of funds: Governmental Funds and Proprietary Funds.

Most of the City's basic services are included in **governmental funds** which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that could be spent in the near future to finance the City's operations. Additional information is furnished in the notes to the financial statements. The City has three major funds - the general fund, school tax fund, and debt service fund.

The distribution and sale of water and the collection and disposal of wastewater for which customers are charged fees are accounted for and reported in **enterprise funds**, one type of Proprietary Fund, as are the Municipal Golf Course, which is operated by the Parks & Recreation Board, and the Cullman Airport.

The Sanitation Department, for which customers are charged fees, has traditionally been included in the **governmental funds**.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City of Cullman completed the year, its general fund reported a combined fund balance of \$17,221,802, as compared with the previous year's balance of \$17,188,088. Revenues increased 6.2%, but expenditures increased approximately 8.1%. Fund balance increased, but only slightly, increasing by \$33,175 as opposed to \$1,382,458 in 2003. Virtually all governmental functions reflected an increase in expenditures, with the major increase being a 67.5% increase in capital outlay.

General Fund Budgetary Highlights

Over the course of the year the budget was revised several times:

- (1) To move budgeted amounts from one line item to another to accurately reflect the category to which the expenditure was charged;
- (2) During the year where increases or decreases in the cost of various items made it necessary to adjust the budget, or where the city council found it necessary or expedient to approve an expenditure which was not contemplated when the budget was adopted.
- (3) Increases in appropriations to prevent budget overruns.

Even with these adjustments, expenditures were approximately \$454,664 above final budget amounts.

The major unfavorable differences in budgeted and actual expenditures in the general fund are attributable to the following:

(1) Health and social services - approximately \$400,000 a year generated from one particular sales tax goes directly to the Cullman Regional Medical Center, with the remainder of that tax divided equally between Cullman County and the City of Cullman. For that reason \$200,004 of the tax is shown as revenue to the City and as an expenditure for health care. The City also received federal grant funds during the year in the amount of \$72,243 for the Child Advocacy Center of Cullman, Inc., a social services agency. The budget was not adjusted for these transactions.

(2) The audited financial statements include program charges and miscellaneous revenues totaling approximately \$740,000 by the parks & recreation department and the museum as revenue and purchases from these funds as expenditures. The budget did not include these amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets are reported at actual or estimated historic cost.

The City's infrastructure (streets) reported includes those improvements constructed after September 30, 2001. Infrastructure constructed from October 1, 1980 to September 30, 2001 will be reported subsequently.

Assets are depreciated on a straight-line basis over the estimated useful life.

Improvements to Olive Street SW were completed in 2004 at a total cost of \$616,320, with a portion of the cost of the project assessed to the adjacent property owners. The City also initiated a project (completed in 2005) for construction of an extension to St. Joseph Street NW, providing safer access to Highway 157 and I-65 from businesses and residences on the north side of the highway.

During 2004 the City of Cullman and Cullman County continued planning and preliminary engineering for widening and improvements to County Road 222 from Highway 69 to the City's Industrial Park No. 3, to be funded with an Alabama Industrial Access Road Grant already obligated for the project.

Funds were appropriated from the City's general fund in 2004 for additions to the gymnastics academy operated by the Parks and Recreation Department, which was completed in 2005, and for an addition to the senior citizens center also operated by the Department. Plans were also developed for a 4-field baseball complex to include a "miracle field" to be used by the handicapped and developmentally disabled.

State revolving fund loans for drinking water improvements in the amount of \$2,830,000 and wastewater facilities in the amount of \$3,925,000 were issued in January 2004.

An SRF wastewater loan dated 4-1-04 in the amount of \$1,370,000 was issued to reduce the interest rate on the City's 1993 SRF Loan which was refunded by the State, with the interest savings being shared with entities which had received loans from the original bond issue.

A General Obligations Warrant in the amount of \$900,000 was issued by the City on 2-17-04 to provide funds for purchase of certain property to be used as an industrial site.

Additionally, a G.O. Warrant was issued by the City in March 2004 in the amount of \$372,000 to construct hangers at Folsom Field, with payments on the loan to be made from Airport Funds.

Applications were filed during FY2004 for state revolving loan funds for additional water and wastewater improvements.

Further information on capital assets and long-term debt can be found in the Notes to the Financial Statements.

CONDENSED FINANCIAL STATEMENTS

The following condensed financial statements serve as indicators for management:

CONDENSED STATEMENT
CITY OF CULLMAN,
September 30,

		<u>Governmental Activities</u>	
		<u>2003</u>	<u>2004</u>
Current assets		\$ 30,779,210	\$ 29,350,701
Restricted assets		168,650	2,324,591
Capital assets:			
Land and other assets not depreciated		5,219,517	7,500,630
Buildings, improvements, and equipment net of depreciation		12,104,118	12,873,038
Other assets		1,128,809	1,217,741
	TOTAL ASSETS	<u>\$ 49,400,304</u>	<u>\$ 53,266,701</u>
Current liabilities		\$ 1,978,356	\$ 1,777,138
Liabilities payable from restricted assets		-	1,665,747
Long-term liabilities		12,718,039	11,666,901
Other liabilities		3,199,930	3,182,697
	TOTAL LIABILITIES	<u>\$ 17,896,325</u>	<u>\$ 18,292,483</u>
Net assets:			
Invested in capital assets, net of related liabilities		\$ 5,417,989	\$ 15,536,250
Restricted		875,976	1,467,320
Unrestricted		25,210,014	17,970,648
	TOTAL NET ASSETS	<u>\$ 31,503,979</u>	<u>\$ 34,974,218</u>
	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 49,400,304</u>	<u>\$ 53,266,701</u>

OF NET ASSETS

ALABAMA

2004 and 2003

Business-type Activities		Total	
2003	2004	2003	2004
\$ 7,111,673	\$ 7,315,840	\$ 37,890,883	\$ 36,666,541
9,523,267	15,830,156	9,691,917	18,154,747
7,301,254	5,409,690	12,520,771	12,910,320
62,276,813	63,367,723	74,380,931	76,240,761
3,724,932	3,801,893	4,853,741	5,019,634
<u>\$ 89,937,939</u>	<u>\$ 95,725,302</u>	<u>\$139,338,243</u>	<u>\$148,992,003</u>
\$ 616,250	\$ 663,512	\$ 2,594,606	\$ 2,440,650
3,163,397	3,337,273	3,163,397	5,003,020
46,273,165	50,216,571	58,991,204	61,883,472
21,127	16,487	3,221,057	3,199,184
<u>\$ 50,073,939</u>	<u>\$ 54,233,843</u>	<u>\$ 67,970,264</u>	<u>\$ 72,526,326</u>
\$ 27,926,538	\$ 29,850,843	\$ 33,344,527	\$ 45,387,093
1,202,146	1,200,933	2,078,122	2,668,253
10,735,316	10,439,683	35,945,330	28,410,331
<u>\$ 39,864,000</u>	<u>\$ 41,491,459</u>	<u>\$ 71,367,979</u>	<u>\$ 76,465,677</u>
<u>\$ 89,937,939</u>	<u>\$ 95,725,302</u>	<u>\$139,338,243</u>	<u>\$148,992,003</u>

CULLMAN AIRPORT BOARD

Management's Discussion and Analysis Concerning the Audited Financial Statements for the Fiscal Year Ended September 30, 2004

The Cullman Airport Board is a public board organized in accordance with resolutions adopted by the City of Cullman and Cullman County in November 1956.

Control of the Cullman Airport is vested in a five-member Board whose members serve four-year terms which run concurrently with the terms of office of the Mayor and the Commission Chairman: one member being an elected official of the City; one who is a resident of the City of Cullman and appointed by the City Council; one member of the Cullman County Commission; one appointed by the County Commission from the County at Large; and a fifth member selected by the other four. The current members of the Board are:

Mayor Donald E. Green	Chairman
Commission Chairman Wiley Kitchens	Vice-Chairman
Vincent Karolewics, M.D.	
Rex Smith	
John Cabri	

Airport Manager is Robert C. Burns.

The Audited Financial Statements for the Cullman Airport Board for the Year Ended September 30, 2004, are attached. Since the Cullman Airport Board is a joint venture between the City of Cullman and Cullman County, 50 percent of the Board's financials are also included in the City's Basic Financial Statements.

Beginning in the mid to late 1950's, land for the airport was purchased by the City of Cullman and Cullman County, and runway and other improvements at Folsom Field were constructed by the Alabama Highway Department with assistance from the City and County. Since the late '70's when FAA funds became available, capital improvements which qualified have been financed with FAA grants, grants from the State Aeronautics Board, and with matching funds from the City and County. Other improvements such as hangers, maintenance facilities, the fuel system and the terminal building have been constructed jointly by the city and county.

The airport has a lighted runway 5500 feet long and 100 feet wide, with a full taxiway; 24 T hangers; 3 corporate hangers; a maintenance hanger and terminal building; precision approach path indicators, automatic weather observation station, ground communications outlet and non-directional beacon. It is the site of an Air Evac FBO; Sky Dive ALA FBO; 15,000 maintenance hanger FBO; Reed Aviation; Wallace Community College Flight School; and a Vinemont-Providence Fire Department Satellite Station. Planes operated by the City Police Department, the Sheriff's Office and the State are now housed at the airport.

1993-SRF, dated December 9, 1993, to lower the interest rate from 3.5% to 2.85%

An application for funds was submitted and approved in 2004 for the following improvements: existing sewer rehabilitation; elimination of two pump stations with gravity sewer; and installation of a wastewater treatment plant grit removal system. A General Obligation Sewer Warrant, Series 2005-CWSRF-DL in the amount of \$4,110,000, is to be issued in early 2005.

**SEWER IMPROVEMENTS
and
SCHEDULED DEBT**

The City of Cullman issued its General Obligation Sewer Warrant, Series 1999-SRF, dated July 1, 1999 in the amount of \$7,580,000, and its General Obligation Sewer Warrant, Series 2000 SRF, dated December 22, 1999, in the amount of \$11,330,000, for Wastewater Treatment Plant Upgrades.

A sludge dewatering addition to the plant has recently been completed, eliminating the need to land-apply liquid sludge and allowing the dried sludge to be disposed of at the local landfill. This project was constructed with proceeds from the issuance of a Series 2002-SRF Warrant in the amount of \$1,805,000 through the Alabama Water Pollution Control Authority.

Among improvements to the wastewater system being implemented or in the planning stages are: (1) the Mann Road Pump Station and Sewer Improvement Project to be constructed with a \$4,100,000 GO Sewer Warrant Series 2002-SRF, dated November 10, 2002; (2) the Highway 157 Sewer Extension with replacement/relocation and elimination of certain pump stations; and (3) Sewer Rehabilitation of existing sewer lines, elimination or repair of existing pump stations, together with construction of Grit Removal Improvements at the treatment plant.

In July 2003, the City of Cullman issued its General Obligation Warrants, Series 2003B, in the amount of \$3,400,000 and General Obligation Taxable Warrants, Series 2003C, in the amount of \$2,125,000.

The Series 2003B Warrants were issued for the purpose of refunding and redeeming the City's General Obligation Warrants dated October 1, 1993, and General Obligation Warrants dated November 1, 1993. The 10/1/93 Warrants included certain warrants which had been issued for Sewer Improvements, the principal and interest of which was being paid from the Sewer Fund. The Sewer Fund continues to provide monies for principal and interest payments on that portion of the Series 2003B Warrants attributable to Sewer improvements. The Sewer Fund's portion of the \$3,400,000 was \$1,241,891.

The Series 2003C Warrants were issued for the purpose of refunding the City's General Obligation Sewer Warrant, Series 1990 SRF, dated February 1, 1990.

The City of Cullman issued its General Obligation Sewer Warrant, Series 2004-CWSRF-DL, dated January 20, 2004, in the amount of \$3,925,000 to provide funds for the Highway 157 Sewer Extension. A contract for this work in the amount of \$3,369,730 was awarded in December 2004 to Jordan Excavating.

The City of Cullman issued its General Obligation Sewer Warrant, Series 2004-SRF, dated April 1, 2004, in the amount of \$870,000 to refinance its General Obligation Sewer Warrant, Series

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
SEWER FUND OF THE CITY OF CULLMAN, ALABAMA
For the years ended September 30, 2004 and 2003

	Year ended September 30		Variance	
	2004	2003	Dollar	%
			Favorable (Unfavorable)	
Operating Revenues:				
Charges for services	\$ 3,814,027	\$ 3,916,362	\$ (102,335)	(2.61)
Charges for service connection	86,540	186,720	(100,180)	(53.65)
Miscellaneous	32,670	45,346	(12,676)	(27.95)
TOTAL OPERATING REVENUES	\$ 3,933,237	\$ 4,148,428	\$ (215,191)	(5.19)
Expenses:				
Operating expenses	\$ 1,658,825	\$ 1,604,281	\$ (54,544)	(3.40)
Depreciation	1,443,888	1,429,325	(14,563)	(1.02)
TOTAL EXPENSES	\$ 3,102,713	\$ 3,033,606	\$ (69,107)	(2.28)
OPERATING INCOME	\$ 830,524	\$ 1,114,822	\$ (284,298)	(25.50)
Non-operating revenues (expenses)	(910,398)	(1,022,582)	112,184	10.97
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	\$ (79,874)	\$ 92,240	\$ (172,114)	(186.59)
Transfers (out)	(5,615)	(27,558)	21,943	79.62
Contributed capital	35,331	-	35,331	100.00
INCREASE (DECREASE) IN NET ASSETS	\$ (50,158)	\$ 64,682	\$ (114,840)	(177.55)
Net assets at beginning of year	18,835,579	18,770,897	64,682	0.34
NET ASSETS AT END OF YEAR	\$ 18,785,421	\$ 18,835,579	\$ (50,158)	(0.27)

CONDENSED BALANCE SHEET
SEWER FUND OF THE CITY OF CULLMAN, ALABAMA
September 30, 2004 and 2003

	September 30		Variance	
	2004	2003	Dollars	%
	Increase (decrease)			
Current assets	\$ 1,574,052	\$ 1,825,134	\$ (251,082)	(13.76)
Restricted assets	8,597,764	4,903,373	3,694,391	75.34
Deferred charges	1,805,868	1,704,292	101,576	5.96
Capital assets:				
Producing assets	36,910,573	35,970,366	940,207	2.61
Construction in progress	734,672	2,566,232	(1,831,560)	(71.37)
Other assets	639,222	647,231	(8,009)	(1.24)
TOTAL ASSETS	<u>\$50,262,151</u>	<u>\$47,616,628</u>	<u>\$2,645,523</u>	<u>5.56</u>
Current liabilities	\$ 186,311	\$ 217,091	\$ (30,780)	(14.18)
Liabilities payable from restricted assets	1,864,080	1,299,703	564,377	43.42
Deferred credits	7,727	11,867	(4,140)	(34.89)
Long-term debt	29,418,612	27,252,388	2,166,224	7.95
TOTAL LIABILITIES	<u>\$31,476,730</u>	<u>\$28,781,049</u>	<u>\$2,695,681</u>	<u>9.37</u>
Net assets:				
Invested in capital assets, net of related liabilities	\$17,739,401	\$17,042,299	\$ 697,102	4.09
Restricted for debt service	(142,518)	(182,019)	39,501	(21.70)
Unrestricted	1,188,538	1,975,299	(786,761)	(39.83)
TOTAL NET ASSETS	<u>\$18,785,421</u>	<u>\$18,835,579</u>	<u>\$ (50,158)</u>	<u>(0.27)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$50,262,151</u>	<u>\$47,616,628</u>	<u>\$2,645,523</u>	<u>5.56</u>

The balance sheet presents the financial position of the Sewer Fund on a full accrual historical cost basis. The balance sheet presents information on all of the System's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator whether the financial position of the Sewer Fund is improving or deteriorating.

While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the 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 related cash flows. The statement also provides certain information about the Sewer Fund's recovery of its costs. The method of determining sewer rates is reviewed in the previous section of this report.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information is also provided.

The following comparative condensed financial statements and other information serve as indicators for management:

Residential Rates Inside the City
Commercial Rates Inside the City
Industrial Rates Inside the City

Minimum Bill	\$19.40 for up to 3,000 gallons
Over 3,000 gallons	\$ 6.20 per thousand gallons

Residential Rates Outside the City
Commercial Rates Outside the City
Industrial Rates Outside the City

Minimum Bill	\$21.30 for up to 3,000 gallons
Over 3,000 gallons	\$6.90 per thousand gallons

Utilization data with respect to customers for the past two years is as follows:

	Year Ended 9/30/03	Year Ended 9/30/04
Customers	6,985	7,408
Total Volume	624,636,700	615,054,500
Annual Sales	\$3,889,319	\$3,786,803

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis serves as an introduction to and should be read in conjunction with the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Sewer Fund's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the System's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Sewer Fund, using full accrual accounting method as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements.

**THE CITY OF CULLMAN
WASTEWATER DIVISION**

Management's Discussion and Analysis

The City of Cullman, a Municipal Corporation, owns and operates a wastewater collection system and a wastewater treatment plant serving customers in the City of Cullman, and some customers adjacent to the city limits.

The wastewater collection system consists of approximately 125 miles of sewer line and 18 sewer lift or pumping stations.

The wastewater treatment plant is a two-stage trickling filter system with primary, intermediate and secondary clarifiers with primary and secondary anaerobic digesters. Work was completed in FY2001 on a \$17,500,000 improvement project to the plant funded with loans through the Alabama Water Pollution Control Authority.

Wastewater Collection Superintendent is Johnny J. Heaton, and Treatment Plant Superintendent is Jerry Paul.

Rates charged for sewage treatment by the City are established by the Cullman City Council, which has sole jurisdiction to set rates. Rates were increased effective January 1, 2001, and again on January 1, 2002. Current rates are as follows:

**Residential Rates Inside City
Commercial Rates Inside City
Industrial Rates Inside City**

Minimum Bill	\$18.50 for up to 3,000 gallons
Over 3,000 gallons	\$ 5.90 per 1,000 gallons

**Residential Rates Outside City
Commercial Rates Outside City
Industrial Rates Outside City**

Minimum Bill	\$20.25 for up to 3,000 gallons
Over 3,000 gallons	\$ 6.55 per 1,000 gallons

The City Council adopted an ordinance setting rates effective February 1, 2005, as follows:

A lawsuit alleging the permit should not have been issued was filed by the American Canoe Association in April 2000 in Washington, D.C.; was transferred to the U.S. District Court for the Northern District of Alabama in Huntsville, and finally to the District Court for the Northern District, Northeastern Division in Birmingham, where Judge Karon Bowdre subsequently ruled that the permit issued for the Duck River Project should be vacated. In her decision, she discussed three issues which needed to be reevaluated: (1) Downstream flows; (2) Downstream effects; and (3) Water Quality. This work has been accomplished and the project resubmitted for permitting. Once a permit is received, the Board anticipates that a construction contract could be awarded within 90 to 120 days. Completion of the project is expected to take 4-5 years.

The majority of the costs incurred in connection with the project was paid for from ARC Grants. To date the City of Cullman Water Department had advanced approximately \$766,000 at year end to the Utilities Board Water Division for engineering, testing, legal expenses and other costs associated with the proposed dam and reservoir, to be repaid from sale of bonds for the project.

Each Wholesale Customer (except the City of Hanceville) has entered into a contract with the City to pay a special reservoir surcharge in 12 equal installments annually based on its share of the current year's payments for principal and interest on the Reservoir Bonds when they are issued. Under the previous contracts the Wholesale Customers would pay debt service on the Reservoir Bonds retroactively.

**PLANT IMPROVEMENTS
and
SCHEDULED DEBT**

During the past three years the City of Cullman has undertaken the Center Hill Water Project, replacing an old existing water main which serves both wholesale and retail customers. Funding for Phase I, which has been completed, was provided by the new money portion of the City's Water Revenue Warrants issued in December 2001, which also refunded the existing 1992 Water Revenue Warrants.

Phase II of the Center Hill Project has recently been finished and Phase III is nearing completion. These projects were financed with a loan through the Alabama Drinking Water Finance Authority in August 2002 in the amount of \$2,705,000.

During FY2004 the City of Cullman issued a Water System Warrant, Series 2004-DWSRF-DL, in the amount of \$2,830,000 for improvements to an area with low pressure, reinforcing lines for an existing tank and a loop line interconnecting the water system on the east side of the City.

The City also made application for an additional loan from the Alabama Drinking Water Finance Authority for a Highway 69 Upgrade, a South Loop Extension and coating of an existing water tank. This loan was approved and the warrant will be issued in early 2005.

The City Water Department plans to upgrade to a radio-read meter reading system with the installation of new meters and conversion of part of the existing meters.

WATER RESERVOIR PROJECT

The Utilities Board Water Division proposes to issue approximately \$47,000,000 in Water Revenue Bonds for the purpose of acquiring, constructing and equipping an additional 650 acre water reservoir capable of furnishing 32 million gallons of water per day to be located on Duck River in Cullman County, together with a pumping station and 36" pipeline to transport water from the reservoir to the Board's existing water treatment plant in the City of Cullman.

Standard and Poors issued an A rating for the project, and FSA agreed to provide insurance, boosting the rating to AAA. Because of the time which has elapsed, the Board assumes that these will have to reaffirmed.

The Alabama Department of Environmental Management has approved the water quality monitoring plan that will result in the issuance of a 401 Water Quality Permit. A 404 construction permit was issued by the U.S. Army Corps of Engineers in January 2000.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
WATER FUND OF THE CITY OF CULLMAN, ALABAMA
For the years ended September 30, 2004 and 2003

	Years ended September 30		Variance	
	2004	2003	Dollar	%
	Favorable (Unfavorable)			
Operating Revenues:				
Water sales	\$ 6,401,797	\$ 6,327,348	\$ 74,449	1.18
Charges for service connection	76,940	73,290	3,650	4.98
Miscellaneous	10,236	21,133	(10,897)	(51.56)
TOTAL OPERATING REVENUES	\$ 6,488,973	\$ 6,421,771	\$ 67,202	1.05
Expenses:				
Cost of purchased water	\$ 3,294,226	\$ 3,090,228	\$ (203,998)	(6.60)
Operating expenses	\$ 939,665	885,887	(53,778)	(6.07)
Depreciation	490,823	522,764	31,941	6.11
TOTAL EXPENSES	\$ 4,724,714	\$ 4,498,879	\$ (225,835)	(5.02)
OPERATING INCOME	\$ 1,764,259	\$ 1,922,892	\$ (158,633)	(8.25)
Non-operating revenues (expenses)	(421,310)	(488,172)	66,862	13.70
INCREASE IN NET ASSETS BEFORE TRANSFERS	\$ 1,342,949	\$ 1,434,720	\$ (91,771)	(6.40)
Transfers in	8,751	-	8,751	100.00
INCREASE IN NET ASSETS	\$ 1,351,700	\$ 1,434,720	\$ (83,020)	(5.79)
Net assets at beginning of year	12,656,878	11,222,158	1,434,720	12.78
NET ASSETS AT END OF YEAR	\$ 14,008,578	\$ 12,656,878	\$ 1,351,700	10.68

CONDENSED BALANCE SHEET
WATER FUND OF THE CITY OF CULLMAN, ALABAMA
September 30, 2004 and 2003

	September 30		Variance	
	2004	2003	Dollars	%
			Increase (decrease)	
Current assets	\$ 9,476,287	\$ 8,964,737	\$ 511,550	5.71
Restricted assets	5,535,135	3,024,793	2,510,342	82.99
Deferred Charges	698,384	622,038	76,346	12.27
Capital assets:				
Producing assets	10,365,645	9,778,981	586,664	6.00
Construction in progress	1,621,018	1,965,093	(344,075)	(17.51)
Other assets	766,334	586,909	179,425	30.57
TOTAL ASSETS	<u>\$28,462,803</u>	<u>\$24,942,551</u>	<u>\$3,520,252</u>	<u>14.11</u>
Current liabilities	\$ 433,403	\$ 302,684	\$ 130,719	43.19
Liabilities payable from restricted assets	979,484	1,003,671	(24,187)	(2.41)
Long-term debt	13,041,338	10,979,318	2,062,020	18.78
TOTAL LIABILITIES	<u>\$14,454,225</u>	<u>\$12,285,673</u>	<u>\$2,168,552</u>	<u>17.65</u>
Net assets:				
Invested in capital assets, net of related liabilities	\$ 3,565,154	\$ 2,724,021	\$ 841,133	30.88
Restricted for capital activity and debt service	670,168	717,837	(47,669)	(6.64)
Unrestricted	9,773,256	9,215,020	558,236	6.06
TOTAL NET ASSETS	<u>\$14,008,578</u>	<u>\$12,656,878</u>	<u>\$1,351,700</u>	<u>10.68</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$28,462,803</u>	<u>\$24,942,551</u>	<u>\$3,520,252</u>	<u>14.11</u>

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis serves as an introduction to and should be read in conjunction with the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Water System's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the System's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Water Fund, using full accrual accounting method as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements.

The balance sheet presents the financial position of the Water Fund on a full accrual historical cost basis. The balance sheet presents information on all of the System's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator whether the financial position of the Water Fund is improving or deteriorating.

While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the 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 related cash flows. The statement also provides certain information about the System's recovery of its costs. The method of determining water rates is reviewed in the previous section of this report.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information is also provided.

The following comparative condensed financial statements and other information serve as indicators for management:

Sales in gallons to the City's Wholesale Customers during the same period were:

	FY2003	FY2004
Cullman County	1,568,620,100	1,524,850,100
Johnsons Crossing Water	128,936,000	114,602,000
City of Hanceville	198,262,600	78,532,000
Walter Water Authority	25,474,000	32,737,200
East Cullman Water Authority	429,829,000	430,017,000
VAW Water Authority	342,905,000	293,821,000

The wholesale customers have accounted for water sales by the City, on a percentage basis, as shown below:

	Percentage of Total City Sales	Percentage of Total City Revenues
FY2003	74.98%	42.11%
FY2004	73.27%	41.79%

The following shows the seven wholesale water customers (including the City of Cullman), the amounts paid for water during the fiscal year ended September 30 2004, and the percentage of annual purchases for the fiscal year:

Wholesale Customers	Annual Purchases In Dollars	Percentage of Total Annual Purchases
Cullman County	\$1,641,959	40.99%
VAW Water System	316,386	7.90
East Cullman Water	463,042	11.56
City of Hanceville	84,563	2.11
Johnson's Crossing Water	123,403	3.08
Walter Water Authority	35,251	0.88
City of Cullman	1,341,324	33.48

The amount of water furnished to the City in FY 2004 was 3,720,216,423 gallons. The amount furnished in FY 2003 was 4,403,736,789 gallons.

Reductions in the amount in FY2004 can be attributed mainly to four factors: (1) improvements to the metering system at the treatment plant which more accurately reflect sales to the City; (2) decrease in the sale of water by the City to one of its wholesale customers - the VAW Water Authority; and (3) that the City of Hanceville did not purchase water from Cullman after February 2004; and (4) milder weather and improved conservation measures by customers during FY 2004.

Residential Rates Outside City
 Commercial Rates Outside City
 Industrial Rates Outside City

Minimum Bill	\$16.50 for up to 3,000 gallons
Over 3,000 gallons	\$ 3.75 per 1,000 gallons

Rates were increased by the City Council effective February 1, 2005 as follows:

Residential Rates Inside City
 Commercial Rates Inside City
 Industrial Rates Inside City

Minimum Bill	\$14.20 for up to 3,000 gallons
Over 3,000 gallons	\$ 3.30 per 1,000 gallons

Residential Rates Outside City
 Commercial Rates Outside City
 Industrial Rates Outside City

Minimum Bill	\$17.40 for up to 3,000 gallons
Over 3,000 gallons	\$ 3.95 per 1,000 gallons

Utilization data with respect to retail customers for the past two years is as follows:

	Year Ended 9/30/03	Year Ended 9/30/04
Retail Customers	10,184 ⁽¹⁾	10,289
Total Volume	899,105,600	902,903,600
Annual Sales	\$3,661,771	\$3,696,045

⁽¹⁾ Figures for FY2003 have been corrected to accurately reflect the total number of customers, including those in apartment dwellings, housing authority complexes, office buildings, and other multiple-occupancy facilities, where there is a master meter installed and billings are based on the number of rental units times the minimum rate for the first 3,000 gallons, plus the rate per thousand for all water over the number of units times 3,000.

**THE CITY OF CULLMAN
WATER FUND**

Management's Discussion and Analysis

The City of Cullman, a Municipal Corporation, owns and operates a water distribution system, selling water purchased from the Utilities Board Water Plant to its retail customers as well as to six wholesale customers.

The system consists primarily of approximately 210 miles of two-inch to 30-inch water mains and 14,000,000 gallons of storage. Department Superintendent is Johnny J. Heaton.

The Water Fund of the City of Cullman is the sole customer of the water supply system operated by the Utilities Board of the City of Cullman - Water Division. The agreement for sale and purchase of water consists of a series of amended contracts, the latest of the amendments being dated February 1, 2003, which together provide that as payment for water delivered to the City, the City of Cullman Water Department will transfer sufficient funds to the Utilities Board Water Division to pay operating costs and debt service incurred by the Water Division.

The wholesale rate paid to the City by six water systems serving Cullman County, is established annually, as provided in their contracts with the City, based on applicable expenses and the quantity of water furnished by the Utilities Board. The rate during FY2004 was \$1.0768 cents per 1000 gallons. The rate for FY2005 is estimated to be \$1.37 per 1000 gallons, based on FY2004 audited expenses and certain FY2005 water debt obligations divided by the quantity of water furnished to the City by the plant during the 2004 fiscal year. The new rate will be applied retroactively to October 1, 2004.

Rates charged for water furnished to retail customers are established by the Cullman City Council, which has sole jurisdiction to set retail rates. Rates were increased effective January 1, 2001, and again on January 1, 2002. Rates charged during FY2004 were as follows:

Residential Rates Inside City
Commercial Rates Inside City
Industrial Rates Inside City

Minimum Bill	\$13.50 for up to 3,000 gallons
Over 3,000 gallons	\$ 3.15 per 1,000 gallons

OF ACTIVITIES
ALABAMA
2004 and 2003

Business-type Activities		Total	
2003	2004	2003	2004
\$ 11,262,616	\$ 11,177,924	\$ 17,135,997	\$ 17,341,160
82,121	13,671	227,002	157,047
104,664	31,720	126,906	705,553
-	-	2,543,471	3,235,501
-	-	10,730,609	13,435,594
-	-	316,123	322,463
-	-	464,565	506,006
117,715	74,259	404,472	281,788
(235,920)	472	(288,959)	21,333
-	-	1,377,766	1,420,797
<u>\$ 11,331,196</u>	<u>\$ 11,298,046</u>	<u>\$ 33,037,952</u>	<u>\$ 37,427,242</u>
\$ -	\$ -	\$ 3,162,295	\$ 2,960,590
-	-	5,897,560	6,162,279
-	-	1,879,014	2,202,907
-	-	2,686,689	2,807,035
-	-	412,637	417,247
-	-	2,082,539	2,286,300
-	-	2,649,820	5,202,939
-	-	33,919	41,814
-	-	29,787	29,356
-	-	479,749	383,746
4,025,097	4,036,041	4,025,097	4,036,041
4,552,652	4,754,737	4,552,652	4,754,737
675,050	624,678	675,050	624,678
420,386	426,041	420,386	426,041
<u>\$ 9,673,185</u>	<u>\$ 9,841,497</u>	<u>\$ 28,987,194</u>	<u>\$ 32,335,710</u>
\$ 1,658,011	\$ 1,456,549	\$ 4,050,758	\$ 5,091,532
(20,000)	-	(20,000)	-
144,739	170,910	-	-
<u>\$ 1,782,750</u>	<u>\$ 1,627,459</u>	<u>\$ 4,030,758</u>	<u>\$ 5,091,532</u>
38,081,250	39,864,000	67,337,221	71,374,145
<u>\$ 39,864,000</u>	<u>\$ 41,491,459</u>	<u>\$ 71,367,979</u>	<u>\$ 76,465,677</u>

CONDENSED STATEMENT
CITY OF CULLMAN,
For the year ended September 30,

	Governmental Activities	
	2003	2004
Program Revenues:		
Charges for services	\$ 5,873,381	\$ 6,163,236
Operating grants and contributions	144,881	143,376
Capital grants and contributions	22,242	673,833
General Revenues:		
Property taxes	2,543,471	3,235,501
Sales taxes	10,730,609	13,435,594
Other taxes	316,123	322,463
City Board of Education for debt service payments	464,565	506,006
Unrestricted investment earnings	286,757	207,529
Sale of capital assets	(53,039)	20,861
Miscellaneous	1,377,766	1,420,797
TOTAL REVENUES	\$ 21,706,756	\$ 26,129,196
Expenses:		
General government	\$ 3,162,295	\$ 2,960,590
Public safety	5,897,560	6,162,279
Highways and streets	1,879,014	2,202,907
Sanitation	2,686,689	2,807,035
Health and social services	412,637	417,247
Culture and recreation	2,082,539	2,286,300
Education	2,649,820	5,202,939
Conservation	33,919	41,814
Miscellaneous	29,787	29,356
Interest on long-term debt	479,749	383,746
Sewer	-	-
Water	-	-
Golf course	-	-
Airport	-	-
TOTAL EXPENSES	\$ 19,314,009	\$ 22,494,213
EXCESS BEFORE EXTRAORDINARY ITEMS AND TRANSFERS	\$ 2,392,747	\$ 3,634,983
Extraordinary item - buyout of lease	-	-
Transfers	(144,739)	(170,910)
INCREASE IN NET ASSETS	\$ 2,248,008	\$ 3,464,073
Net assets at beginning of year	29,255,971	31,510,145
NET ASSETS AT END OF YEAR	\$ 31,503,979	\$ 34,974,218

For a number of years Folsom Field was managed by a fixed base operator; however, beginning in 1996 the Board decided it was time to employ an airport manager to be responsible for operation of the airport.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis serves as an introduction to and should be read in conjunction with the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Board's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Board's strategic plan, budget and other management tools were used for this analysis.

The financial statements report information about the Board, using the full accrual accounting method as utilized by similar business activities in the private sector. The financial statements include a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

The balance sheet presents the financial position of the Board on a full accrual historical cost basis. The balance sheet presents information on all of the Board's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator whether the financial position of the Board is improving or deteriorating.

While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the 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 related cash flows. The statement also provides certain information about the Board's recovery of its costs. The statement of cash flows presents changes in cash and cash equivalents, resulting from operational financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Board's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information is also provided.

The following comparative condensed financial statements and other information serve as indicators for management:

CONDENSED BALANCE SHEET
CULLMAN AIRPORT BOARD
September 30, 2004 and 2003

	September 30		Variance	
	2004	2003	Dollars	%
Current assets	\$ 169,656	\$ 169,288	\$ 368	0.22
Deferred charges	1,857	-	1,857	100.00
Capital assets:				
Producing assets	4,431,421	4,031,152	400,269	9.93
Construction in progress	43,129	312,888	(269,759)	(86.22)
TOTAL ASSETS	<u>\$ 4,646,063</u>	<u>\$ 4,513,328</u>	<u>\$ 132,735</u>	<u>2.94</u>
Current liabilities	\$ 111,286	\$ 118,258	\$ (6,972)	(5.90)
Long-term debt	472,239	70,278	401,961	571.96
TOTAL LIABILITIES	<u>\$ 583,525</u>	<u>\$ 188,536</u>	<u>\$ 394,989</u>	<u>209.50</u>
Net assets:				
Invested in capital assets, net of related liabilities	\$ 4,065,391	\$ 4,249,037	\$ (183,646)	(4.32)
Unrestricted	(2,853)	75,755	(78,608)	(103.77)
TOTAL NET ASSETS	<u>\$ 4,062,538</u>	<u>\$ 4,324,792</u>	<u>\$ (262,254)</u>	<u>(6.06)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,646,063</u>	<u>\$ 4,513,328</u>	<u>\$ 132,735</u>	<u>2.94</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

CULLMAN AIRPORT BOARD

For the years ended September 30, 2004 and 2003

	Year ended September 30		Variance	
	2004	2003	Dollar	%
			Favorable (Unfavorable)	
Operating Revenues:				
Sale of fuel	\$ 357,354	\$ 305,298	\$ 52,056	17.05
Hangar rental	52,110	38,720	13,390	34.58
Terminal space rental	7,135	6,677	458	6.86
Ramp tie down fees	2,612	2,849	(237)	(8.32)
Miscellaneous	1,589	1,660	(71)	(4.28)
TOTAL OPERATING REVENUES	\$ 420,800	\$ 355,204	\$ 65,596	18.47
Cost of operating revenue	\$ 245,416	\$ 202,593	\$ (42,823)	(21.14)
Operating expenses:				
Operating expenses	259,654	298,469	38,815	13.00
Depreciation	341,166	339,710	(1,456)	(0.43)
TOTAL COST OF OPERATING REVENUE AND OPERATING EXPENSES	\$ 846,236	\$ 840,772	\$ (5,464)	(0.65)
OPERATING (LOSS)	\$ (425,436)	\$ (485,568)	\$ 60,132	12.38
Non-operating revenues (expenses)	(5,144)	25,250	(30,394)	(120.37)
LOSS BEFORE CONTRIBUTIONS, EXTRAORDINARY ITEMS, AND TRANSFERS	\$ (430,580)	\$ (460,318)	\$ 29,738	6.46
Capital Contributions	63,440	209,328	(145,888)	(69.69)
Extraordinary item - buyout of lease	-	(40,000)	40,000	(100.00)
Transfers in - City of Cullman	52,443	92,297	(39,854)	(43.18)
Transfers in - Cullman County	52,443	92,297	(39,854)	(43.18)
(DECREASE) IN NET ASSETS	\$ (262,254)	\$ (106,396)	\$ (155,858)	146.49
Net assets at beginning of year	4,324,792	4,431,188	(106,396)	(2.40)
NET ASSETS AT END OF YEAR	\$ 4,062,538	\$ 4,324,792	\$ (262,254)	(6.06)

AIRPORT IMPROVEMENTS

In FY2004 the contract for site preparation and taxiway for new T-hanger construction and for installation of runway end identifier lights awarded in FY2003 to Richards & Sons was completed at a cost of \$313,883, with \$258,627 in Federal funds and the balance in local funds.

During FY2004 the Airport Board also constructed 16 T-hangers at a cost of \$413,251 with a loan from a local bank in the amount of \$371,000, payable in installments of \$2,500 per month, supplemented with funds from the City and County. The outstanding balance of the loan as of 9/30/04 was \$362,703.

In August 2004, the Airport received an FAA grant in the amount of \$191,627, matched with a state grant for \$5,043 and \$5,043 in local funds. Manning Construction was awarded a bid in the amount of \$100,810 for expansion of the North apron to be paid from these funds. This project was completed in FY2005. Additionally, grant funds were used to procure an Instrument Approach Procedure Study done by Jepperson Dataplan at a cost of \$14,300, and for upgrading the Weather Observation System.

OPERATIONS

The Board's operating revenues in FY2004 increased over 18 percent. In FY2004, operating loss decreased approximately 12% and net assets decreased by \$262,000.

The decrease in operating loss resulted from the increase in sale of fuel and hangar rental revenues and the decrease in operating expenses due to engineering services decreasing for the year. Net assets decreased primarily due to reductions in capital contributions and transfers from the city and county.

Monthly operating expenses in excess of operating revenues are paid on a 50-50 basis by the city and the county. The Board anticipates that, with the planned construction of additional hangers, revenue from rental fees and the sale of fuel will increase to the point where the day-to-day operations of the airport will become self-supporting.

EVENTS

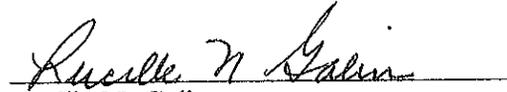
We have no knowledge of any events which should have been disclosed.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Separate audited financial statements for the sewer fund, water fund and airport board are available upon request. If you have questions about this report or need additional financial information, contact the Office of the City Clerk, 204 Second Avenue NE (P.O. Box 278), Cullman, AL 35055, Telephone: (256) 775-7103; FAX (256) 775-7132.



Donald E. Green
Mayor



Lucille N. Galin
City Clerk/Treasurer

CITY OF CULLMAN, ALABAMA
STATEMENT OF NET ASSETS

September 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash equivalents	\$ 3,221,212	\$ 6,151,601	\$ 9,372,813
Certificates of deposit	15,797,197	3,416,173	19,213,370
Interest receivable	30,661	6,087	36,748
Accounts receivable (net)	120,790	145,623	266,413
Assessments receivable (net)	135,000	1,000	136,000
Interfund balances	3,855,802	(3,855,802)	-
Due from other governmental units	5,925,439	933,845	6,859,284
Inventories	70,303	438,133	508,436
Prepaid expenses	194,297	79,180	273,477
TOTAL CURRENT ASSETS	<u>\$ 29,350,701</u>	<u>\$ 7,315,840</u>	<u>\$ 36,666,541</u>
Restricted assets:			
Cash equivalents	\$ 449,591	\$ 4,425,543	\$ 4,875,134
Interest receivable	-	766	766
State revolving funds receivable	-	11,403,847	11,403,847
Advances to other governments	1,875,000	-	1,875,000
TOTAL RESTRICTED ASSETS	<u>\$ 2,324,591</u>	<u>\$ 15,830,156</u>	<u>\$ 18,154,747</u>
Capital assets:			
Land and other assets not being depreciated	\$ 7,500,630	\$ 5,409,690	\$ 12,910,320
Buildings, improvements, and equipment, net of depreciation	12,873,038	63,367,723	76,240,761
TOTAL CAPITAL ASSETS	<u>\$ 20,373,668</u>	<u>\$ 68,777,413</u>	<u>\$ 89,151,081</u>
Other assets:			
Deferred debt expense	\$ 308,966	\$ 3,162,671	\$ 3,471,637
Alabama Municipal Insurance Corporation	113,307	-	113,307
Assessments receivable - noncurrent	795,468	639,222	1,434,690
TOTAL OTHER ASSETS	<u>\$ 1,217,741</u>	<u>\$ 3,801,893</u>	<u>\$ 5,019,634</u>
TOTAL ASSETS	<u>\$ 53,266,701</u>	<u>\$ 95,725,302</u>	<u>\$ 148,992,003</u>

(Continued)

STATEMENT OF NET ASSETS - CONTINUED

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable	\$ 530,239	\$ 475,249	\$ 1,005,488
Utility tax payable	-	12,801	12,801
Accrued interest payable	-	2,548	2,548
Due to other governmental units	500,871	27,514	528,385
Accrued payroll	232,734	59,318	292,052
Current maturities on long-term debt	165,983	36,801	202,784
Estimated compensated absences - current portion	347,311	49,281	396,592
TOTAL CURRENT LIABILITIES	\$ 1,777,138	\$ 663,512	\$ 2,440,650
Liabilities payable from restricted assets:			
Accounts payable - contractor	\$ -	\$ 25,215	\$ 25,215
Accrued interest payable	60,747	337,058	397,805
Current maturities on long-term debt	1,605,000	2,975,000	4,580,000
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 1,665,747	\$ 3,337,273	\$ 5,003,020
Long-term liabilities:			
Warrants/bonds payable	\$ 11,059,795	\$ 49,986,659	\$ 61,046,454
Notes payable	-	37,620	37,620
Estimated compensated absences	607,106	192,292	799,398
TOTAL LONG-TERM LIABILITIES	\$ 11,666,901	\$ 50,216,571	\$ 61,883,472
Other liabilities:			
Deferred debt premium	\$ 14,947	\$ 16,487	\$ 31,434
Deferred revenue	3,167,750	-	3,167,750
TOTAL OTHER LIABILITIES	\$ 3,182,697	\$ 16,487	\$ 3,199,184
TOTAL LIABILITIES	\$ 18,292,483	\$ 54,233,843	\$ 72,526,326
Net assets:			
Invested in capital assets, net of related liabilities	\$ 15,536,250	\$ 29,850,843	\$ 45,387,093
Restricted for:			
Debt service and capital activity	658,844	1,200,933	1,859,777
Landfill improvements	633,574	-	633,574
Realty improvements and Ingle Park	154,718	-	154,718
Endowments	3,899	-	3,899
Municipal Court equipment and training	16,285	-	16,285
Unrestricted	17,970,648	10,439,683	28,410,331
TOTAL NET ASSETS	\$ 34,974,218	\$ 41,491,459	\$ 76,465,677
TOTAL LIABILITIES AND NET ASSETS	\$ 53,266,701	\$ 95,725,302	\$ 148,992,003

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

CITY OF
STATEMENT OF
Year ended

<u>Functions/Programs:</u>	<u>Expenses</u>
Primary government:	
Governmental activities:	
General government:	
Administrative	\$ 2,133,275
Building and housing	199,632
Garage	210,937
Public works	416,746
Public safety:	
Police	3,867,038
Fire	1,886,555
Miscellaneous and dispatch	408,686
Highways and streets	2,202,907
Sanitation	2,807,035
Health and social services	417,247
Culture and recreation	2,286,300
Education	5,202,939
Conservation	41,814
Miscellaneous	29,356
Interest on long-term debt	383,746
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 22,494,213</u>
Business-type activities:	
Sewer	\$ 4,036,041
Water	4,754,737
Golf course	624,678
Airport	426,041
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 9,841,497</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 32,335,710</u></u>

(Continued)

CULLMAN, ALABAMA

ACTIVITIES

September 30, 2004

Program Revenues			
<u>Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
\$ 1,562,390	\$ -	\$ 329,278	\$ (241,607)
131,257	-	-	(68,375)
-	-	-	(210,937)
370,072	-	-	(46,674)
251,354	42,728	-	(3,572,956)
489	750	-	(1,885,316)
18,950	-	-	(389,736)
757,423	-	344,555	(1,100,929)
2,383,257	-	-	(423,778)
-	72,243	-	(345,004)
643,537	27,055	-	(1,615,708)
44,507	-	-	(5,158,432)
-	600	-	(41,214)
-	-	-	(29,356)
-	-	-	(383,746)
<u>\$ 6,163,236</u>	<u>\$ 143,376</u>	<u>\$ 673,833</u>	<u>\$(15,513,768)</u>
\$ 3,933,237	\$ -	\$ -	\$ (102,804)
6,489,592	13,333	-	1,748,188
544,695	-	-	(79,983)
210,400	338	31,720	(183,583)
<u>\$ 11,177,924</u>	<u>\$ 13,671</u>	<u>\$ 31,720</u>	<u>\$ 1,381,818</u>
<u>\$ 17,341,160</u>	<u>\$ 157,047</u>	<u>\$ 705,553</u>	<u>\$(14,131,950)</u>

STATEMENT OF ACTIVITIES - CONTINUED

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense) revenue	\$(15,513,768)	\$ 1,381,818	\$(14,131,950)
General revenues:			
Taxes:			
Property taxes, levied for general purposes	\$ 960,651	\$ -	\$ 960,651
Property taxes, levied for education	2,274,850	-	2,274,850
Sales taxes, levied for general purposes	11,350,787	-	11,350,787
Sales taxes, levied for education	2,084,807	-	2,084,807
Tobacco taxes	136,665	-	136,665
Lodging taxes	152,223	-	152,223
Other taxes	33,575	-	33,575
City Board of Education for debt service payments	506,006	-	506,006
Unrestricted investment earnings	207,529	74,259	281,788
Sale of capital assets	20,861	472	21,333
Miscellaneous	1,420,797	-	1,420,797
Transfers - internal activities	(170,910)	170,910	-
TOTAL GENERAL REVENUES AND TRANSFERS	<u>\$ 18,977,841</u>	<u>\$ 245,641</u>	<u>\$ 19,223,482</u>
CHANGE IN NET ASSETS	<u>\$ 3,464,073</u>	<u>\$ 1,627,459</u>	<u>\$ 5,091,532</u>
Net assets - beginning	31,510,145	39,864,000	71,374,145
Net assets - ending	<u>\$ 34,974,218</u>	<u>\$ 41,491,459</u>	<u>\$ 76,465,677</u>

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

CITY OF CULLMAN,
BALANCE SHEET -
September 30,

	General	School Tax
<u>ASSETS</u>		
Cash equivalents	\$ 1,301,229	\$ 4,123
Certificates of deposit	14,237,363	-
Receivables (net of allowance for uncollectibles):		
Accounts	120,790	-
Assessments	930,468	-
Interest	28,049	-
Interfund receivables	128,495	29,314
Due from other governmental units	3,049,360	2,594,001
Inventories	70,303	-
Prepaid expenditures	194,297	-
Interfund receivables - long-term	1,250,243	-
Restricted assets:		
Cash equivalents	-	-
Advances to other governmental units	-	-
Interfund receivables - long-term	-	-
Alabama Municipal Insurance Corporation	113,307	-
TOTAL ASSETS	\$ 21,423,904	\$ 2,627,438

(Continued)

ALABAMA
GOVERNMENTAL FUNDS
 2004

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 197,574	\$ 1,718,286	\$ 3,221,212
312,530	1,247,304	15,797,197
-	-	120,790
-	-	930,468
170	2,442	30,661
8,359	15,377	181,545
-	282,078	5,925,439
-	-	70,303
-	-	194,297
-	-	1,250,243
449,591	-	449,591
1,875,000	-	1,875,000
3,104,919	-	3,104,919
-	-	113,307
<u>\$ 5,948,143</u>	<u>\$ 3,265,487</u>	<u>\$ 33,264,972</u>

BALANCE SHEET -

	General	School Tax
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 337,504	\$ -
Accrued liabilities	264,550	-
Interfund payables	266,307	-
Due to other governmental units	84,849	385,140
Interfund payables - long-term	286,713	-
Deferred revenues	2,832,208	2,411,335
Estimated liability for compensated absences	129,971	-
TOTAL LIABILITIES	\$ 4,202,102	\$ 2,796,475
Fund balances:		
Reserved for:		
Inventory	\$ 70,303	\$ -
Prepaid expenditures and investment - insurance	307,604	-
Landfill improvements	633,574	-
Recycling	23,872	-
Interfund receivables - long-term	1,250,243	-
Advances to other governmental units	61,724	-
Realty improvements and Ingle Park	53,810	-
Endowments	-	-
Municipal Court equipment and training	16,285	-
Unreserved	14,804,387	(169,037)
Unreserved, reported in nonmajor:		
Special revenue funds	-	-
Capital project funds	-	-
TOTAL FUND BALANCES (DEFICIT)	\$ 17,221,802	\$ (169,037)
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,423,904	\$ 2,627,438

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

GOVERNMENTAL FUNDS - CONTINUED

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 160,919	\$ 498,423
-	-	264,550
10,662	32,223	309,192
30,882	-	500,871
-	85,000	371,713
-	115,705	5,359,248
-	-	129,971
<u>\$ 41,544</u>	<u>\$ 393,847</u>	<u>\$ 7,433,968</u>
\$ -	\$ -	\$ 70,303
-	-	307,604
-	-	633,574
-	-	23,872
3,104,919	-	4,355,162
1,875,000	-	1,936,724
-	100,908	154,718
-	3,899	3,899
-	-	16,285
926,680	-	15,562,030
-	1,313,216	1,313,216
-	1,453,617	1,453,617
<u>\$ 5,906,599</u>	<u>\$ 2,871,640</u>	<u>\$ 25,831,004</u>
<u>\$ 5,948,143</u>	<u>\$ 3,265,487</u>	<u>\$ 33,264,972</u>

CITY OF CULLMAN, ALABAMA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO STATEMENT OF NET ASSETS
September 30, 2004

Total fund balances - total governmental funds (page 47) \$ 25,831,004

Amounts reported for governmental activities in the statement of net assets
(pages 39-40) are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds.

Capital assets	\$ 28,235,454	
Accumulated depreciation	<u>(7,861,786)</u>	20,373,668

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	2,191,498
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Long-term liabilities applicable to the City's governmental activities are not due
and payable in the current period and accordingly are not reported as fund
liabilities. Interest on long-term debt is not accrued in governmental funds, but
rather is recognized as an expenditure when due. All liabilities - both current
and long-term - are reported in the statement of net assets. In addition, the
deferred interest on refunding, the deferred issuance costs and discounts, and
the deferred premium are expenditures and revenues at the fund level, but are
deferred and amortized in the statement of net assets.

Balances at September 30, 2004, were:

General Obligation Warrants	\$ 12,830,778	
Less deferred interest from refunding	(211,347)	
Less deferred issuance costs and discounts	(97,619)	
Plus deferred premium	14,947	
Notes payable	-	
Accrued interest	60,747	
Compensated absences	<u>824,446</u>	<u>(13,421,952)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 40)	<u>\$ 34,974,218</u>
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The accompanying notes to the financial statements are an integral part of this statement.

CITY OF CULLMAN,
STATEMENT OF REVENUES,
FUND BALANCES -
Year ended

	General	School Tax
Revenues:		
Taxes	\$ 12,640,497	\$ 4,338,251
Licenses and permits	2,012,448	-
Intergovernmental revenues	1,279,806	-
Charges for services	3,241,772	-
Fines and forfeits	234,074	-
Miscellaneous revenues:		
Interest revenue	\$ 183,603	\$ 1,940
Miscellaneous	194,005	-
TOTAL MISCELLANEOUS REVENUES	\$ 377,608	\$ 1,940
TOTAL REVENUES	\$ 19,786,205	\$ 4,340,191
Expenditures:		
Current:		
General government	\$ 2,818,634	\$ -
Public safety	5,869,766	-
Highways and streets	1,456,359	-
Sanitation	2,584,055	-
Health and social services	417,247	-
Culture and recreation	2,042,865	-
Education	792,192	4,360,968
Conservation	41,733	-
Miscellaneous	-	-
Capital outlay	1,380,598	-
Debt service:		
Principal retirement	17,253	-
Interest and fiscal charges	21,356	-
Debt issuance costs	-	-
TOTAL EXPENDITURES	\$ 17,442,058	\$ 4,360,968
REVENUES OVER (UNDER) EXPENDITURES	\$ 2,344,147	\$ (20,777)
Other financing sources (uses):		
Sale of capital assets	\$ 33,707	\$ -
Capital contributions	26,993	-
Warrant issued	-	-
Operating transfers in	1,255,165	-
Operating transfers (out)	(3,626,837)	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ (2,310,972)	\$ -
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 33,175	\$ (20,777)
Fund balances (deficit) at October 1	17,188,627	(148,260)
FUND BALANCES (DEFICIT) AT SEPTEMBER 30	\$ 17,221,802	\$ (169,037)

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

ALABAMA
EXPENDITURES, AND CHANGES IN
GOVERNMENTAL FUNDS
September 30, 2004

<u>Debt</u> <u>Service</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
\$ -	\$ 152,553	\$ 17,131,301
-	-	2,012,448
506,006	712,358	2,498,170
-	-	3,241,772
-	90,763	324,837
\$ 5,951	\$ 14,421	\$ 205,915
-	14,216	208,221
<u>\$ 5,951</u>	<u>\$ 28,637</u>	<u>\$ 414,136</u>
<u>\$ 511,957</u>	<u>\$ 984,311</u>	<u>\$ 25,622,664</u>
\$ -	\$ 4,933	\$ 2,823,567
-	-	5,869,766
-	619,873	2,076,232
-	-	2,584,055
-	-	417,247
-	-	2,042,865
-	41,580	5,194,740
-	-	41,733
60	29,296	29,356
-	2,695,413	4,076,011
750,000	-	767,253
341,692	-	363,048
-	4,192	4,192
<u>\$ 1,091,752</u>	<u>\$ 3,395,287</u>	<u>\$ 26,290,065</u>
\$ (579,795)	\$ (2,410,976)	\$ (667,401)
\$ -	\$ -	\$ 33,707
-	-	26,993
-	900,000	900,000
741,890	1,647,856	3,644,911
(28,000)	(125,653)	(3,780,490)
<u>\$ 713,890</u>	<u>\$ 2,422,203</u>	<u>\$ 825,121</u>
\$ 134,095	\$ 11,227	\$ 157,720
5,772,504	2,860,413	25,673,284
<u>\$ 5,906,599</u>	<u>\$ 2,871,640</u>	<u>\$ 25,831,004</u>

CITY OF CULLMAN, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended September 30, 2004

Net change in fund balances - total governmental funds (page 50) \$ 157,720

Amounts reported for governmental activities in the statement of activities (pages 41-43) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$4,076,011) exceeded depreciation (\$983,428) in the current period. 3,092,583

In the statement of activities, the gain on sale of capital assets is reported, whereas in the governmental funds, only the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold (12,846) and the cost of capital assets transferred to proprietary funds (35,331). (48,177)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 457,064

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment is a combination of the following items:

Compensated absences	\$	(37,186)	
Accrued interest on warrants at beginning of year (\$62,598)			
less accrued interest on warrants at end of year (\$60,747)		1,851	(35,335)

(Continued)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - CONTINUED

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Debt premiums, discounts and issuance costs, and defeasance costs are shown as other financing sources (uses) and expenditures in governmental funds, but are deferred and amortized over the life of the new debt in the statement of net assets. Interest is an expenditure at the fund level when legally due, but is reported on the full accrual basis in the statement of net assets.

Debt issued:		
Warrants issued	\$	900,000
Less:		
Debt discount and issuance costs (\$4,192)		(3,901)
less (\$291) amortization		<u>(3,901)</u>
TOTAL DEBT ISSUED	\$	<u>896,099</u>
Amortizations on previously issued debt:		
Debt discount and issuance costs	\$	10,001
Deferred loss on refunding		22,549
Debt premium		<u>(1,614)</u>
TOTAL AMORTIZATIONS ON PREVIOUSLY ISSUED DEBT	\$	<u>30,936</u>
Repayments:		
To bondholders	\$	<u>(767,253)</u>
NET ADJUSTMENT	\$	<u>159,782</u>
		<u>(159,782)</u>
CHANGE IN NET ASSETS OF THE GOVERNMENTAL ACTIVITIES (PAGE 43)		<u>\$ 3,464,073</u>

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

CITY OF CULLMAN
BALANCE SHEET -
September 30,

	Business-Type	
	Sewer Operation	Water System
ASSETS		
Current assets:		
Cash equivalents	\$ 178,531	\$ 5,861,520
Certificates of deposit	800,000	2,616,173
Interest receivable	1,817	4,270
Accounts receivable, net of allowance	35,671	100,894
Assessments receivable, net of allowance	1,000	-
Interfund receivables	141,612	242,882
Due from other governmental units	362,950	534,484
Inventories	35,936	393,534
Prepaid expenses	16,535	50,521
TOTAL CURRENT ASSETS	\$ 1,574,052	\$ 9,804,278
Restricted assets:		
Cash equivalents	\$ 1,079,400	\$ 3,269,827
State revolving funds receivable	7,518,364	3,885,483
Interest receivable	-	766
TOTAL RESTRICTED ASSETS	\$ 8,597,764	\$ 7,156,076
Capital assets:		
Land	\$ 51,292	\$ 675,978
Buildings	6,725,127	6,539,446
Improvements other than buildings	44,781,114	28,081,497
Machinery and equipment	1,092,686	8,071,249
Accumulated depreciation	(15,739,646)	(19,059,547)
	\$ 36,910,573	\$ 24,308,623
Construction in progress	734,672	3,303,343
TOTAL CAPITAL ASSETS	\$ 37,645,245	\$ 27,611,966
Other assets:		
Deferred debt expense	\$ 1,805,868	\$ 1,270,498
Assessments receivable - noncurrent	639,222	-
Interfund receivables - long-term	-	766,334
TOTAL OTHER ASSETS	\$ 2,445,090	\$ 2,036,832
TOTAL ASSETS	\$ 50,262,151	\$ 46,609,152

(Continued)

ALABAMA
 PROPRIETARY FUNDS
 2004

Activities		
Golf Course	Airport	TOTALS
\$ 89,134	\$ 22,416	\$ 6,151,601
-	-	3,416,173
-	-	6,087
812	8,246	145,623
-	-	1,000
8,761	-	393,255
-	36,411	933,845
-	8,663	438,133
3,032	9,092	79,180
<u>\$ 101,739</u>	<u>\$ 84,828</u>	<u>\$ 11,564,897</u>
\$ 76,316	\$ -	\$ 4,425,543
-	-	11,403,847
-	-	766
<u>\$ 76,316</u>	<u>\$ -</u>	<u>\$ 15,830,156</u>
\$ 281,791	\$ 341,049	\$ 1,350,110
1,071,050	975,172	15,310,795
452,357	1,778,367	75,093,335
667,548	163,887	9,995,370
(1,189,819)	(1,042,765)	(37,031,777)
<u>\$ 1,282,927</u>	<u>\$ 2,215,710</u>	<u>\$ 64,717,833</u>
-	21,565	4,059,580
<u>\$ 1,282,927</u>	<u>\$ 2,237,275</u>	<u>\$ 68,777,413</u>
\$ 85,376	\$ 929	\$ 3,162,671
-	-	639,222
-	-	766,334
<u>\$ 85,376</u>	<u>\$ 929</u>	<u>\$ 4,568,227</u>
<u>\$ 1,546,358</u>	<u>\$ 2,323,032</u>	<u>\$ 100,740,693</u>

BALANCE SHEET -

	Business-Type	
	Sewer Operation	Water System
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 106,344	\$ 297,394
Utility tax payable	-	12,801
Accrued interest payable	-	-
Interfund payables	14,898	250,571
Due to other governmental units	27,514	-
Accrued payroll	19,837	29,162
Estimated compensated absences - current portion	17,718	27,574
Current maturities on long-term liabilities	-	-
TOTAL CURRENT LIABILITIES	\$ 186,311	\$ 617,502
Liabilities payable from restricted assets:		
Accounts payable - contractor	\$ -	\$ 25,215
Accrued interest payable	113,288	221,079
Current maturities on long-term liabilities	1,300,000	1,675,000
Interfund payables	450,792	-
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 1,864,080	\$ 1,921,294
Deferred credits:		
Debt premium	\$ 7,727	\$ -
Long-term liabilities:		
Warrants/bonds payable	\$ 27,860,000	\$ 21,955,000
Notes payable	-	-
Estimated compensated absences	71,627	90,944
Interfund payables	1,486,985	816,710
TOTAL LONG-TERM LIABILITIES	\$ 29,418,612	\$ 22,862,654
TOTAL LIABILITIES	\$ 31,476,730	\$ 25,401,450
Net assets:		
Invested in capital assets, net of related liabilities	\$ 17,739,401	\$ 9,996,237
Restricted for debt service and capital activity	(142,518)	1,349,299
Unrestricted	1,188,538	9,862,166
TOTAL NET ASSETS	\$ 18,785,421	\$ 21,207,702
TOTAL LIABILITIES AND NET ASSETS	\$ 50,262,151	\$ 46,609,152

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

PROPRIETARY FUNDS - CONTINUED

<u>Activities</u>		
<u>Golf Course</u>	<u>Airport</u>	<u>TOTALS</u>
\$ 27,679	\$ 43,832	\$ 475,249
-	-	12,801
2,548	-	2,548
-	139	265,608
-	-	27,514
8,341	1,978	59,318
3,989	-	49,281
27,108	9,693	36,801
<u>\$ 69,665</u>	<u>\$ 55,642</u>	<u>\$ 929,120</u>
\$ -	\$ -	\$ 25,215
2,691	-	337,058
-	-	2,975,000
79,473	-	530,265
<u>\$ 82,164</u>	<u>\$ -</u>	<u>\$ 3,867,538</u>
\$ 8,760	\$ -	\$ 16,487
\$ -	\$ 171,659	\$ 49,986,659
37,620	-	37,620
26,985	2,736	192,292
1,854,098	61,725	4,219,518
<u>\$ 1,918,703</u>	<u>\$ 236,120</u>	<u>\$ 54,436,089</u>
<u>\$ 2,079,292</u>	<u>\$ 291,762</u>	<u>\$ 59,249,234</u>
\$ 82,509	\$ 2,032,696	\$ 29,850,843
(5,848)	-	1,200,933
(609,595)	(1,426)	10,439,683
<u>\$ (532,934)</u>	<u>\$ 2,031,270</u>	<u>\$ 41,491,459</u>
<u>\$ 1,546,358</u>	<u>\$ 2,323,032</u>	<u>\$ 100,740,693</u>

CITY OF CULLMAN,
STATEMENT OF REVENUES,
NET ASSETS -
Year ended

	Business-Type	
	Sewer Operation	Water System
Operating revenues:		
Charges for sales and services	\$ 3,814,027	\$ 6,401,797
Charges for service connections	86,540	76,940
Miscellaneous	32,670	10,855
TOTAL OPERATING REVENUES	\$ 3,933,237	\$ 6,489,592
Cost of operating revenue	\$ -	\$ -
Operating expenses:		
Salaries and wages	690,280	958,573
Payroll taxes	54,139	73,187
Employees retirement	49,875	81,317
Employees insurance	101,484	171,188
Telephone	11,734	18,646
Utilities	301,761	580,904
Billing, accounting, and collection fees	53,760	57,722
Office supplies and expenses	7,561	23,710
Professional services	16,796	22,250
Engineering services	4,346	47,379
Other contracted services	6,786	8,450
Testing services	14,062	11,678
Landfill fees	33,196	-
Dues and subscriptions	160	4,896
Travel, registrations, and education	8,125	10,625
Permits and licenses	1,620	8,175
Printing and advertising	162	71
Uniforms	6,365	15,513
Small tools and equipment	11,222	12,206
Chemicals and supplies	34,978	272,871
Repairs and maintenance - system and equipment	208,512	503,718
Insurance	32,051	62,400
Miscellaneous	9,850	12,215
Depreciation	1,443,888	1,053,931
TOTAL COST OF OPERATING REVENUE AND OPERATING EXPENSES	\$ 3,102,713	\$ 4,011,625
OPERATING INCOME (LOSS)	\$ 830,524	\$ 2,477,967

(Continued)

ALABAMA
EXPENSES, AND CHANGES IN
PROPRIETARY FUNDS
September 30, 2004

<u>Activities</u>		
<u>Golf</u>		
<u>Course</u>	<u>Airport</u>	<u>TOTALS</u>
\$ 530,099	\$ 209,606	\$ 10,955,529
-	-	163,480
14,596	794	58,915
<u>\$ 544,695</u>	<u>\$ 210,400</u>	<u>\$ 11,177,924</u>
\$ 22,342	\$ 122,708	\$ 145,050
271,251	63,242	1,983,346
20,601	4,764	152,691
12,445	2,778	146,415
26,881	5,326	304,879
1,615	2,850	34,845
35,810	8,286	926,761
-	-	111,482
1,191	1,020	33,482
3,500	5,134	47,680
-	676	52,401
266	3,250	18,752
-	-	25,740
-	-	33,196
6,786	614	12,456
-	913	19,663
-	-	9,795
-	219	452
-	-	21,878
451	277	24,156
44,184	895	352,928
39,217	16,042	767,489
5,382	10,811	110,644
164	2,730	24,959
99,842	170,583	2,768,244
<u>\$ 591,928</u>	<u>\$ 423,118</u>	<u>\$ 8,129,384</u>
<u>\$ (47,233)</u>	<u>\$ (212,718)</u>	<u>\$ 3,048,540</u>

CITY OF CULLMAN,
STATEMENT OF REVENUES,
NET ASSETS -
Year ended

	Business-Type	
	Sewer Operation	Water System
Nonoperating revenues (expenses):		
Interest earned	\$ 22,685	\$ 50,743
Operating grants	-	13,333
Interest expense	(828,149)	(673,410)
Amortization of debt expense	(104,226)	(56,597)
Paying agent/trustee fees	(954)	(13,105)
Sale of assets	246	213
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ (910,398)	\$ (678,823)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	\$ (79,874)	\$ 1,799,144
Capital contributions	35,331	-
Transfers in (out)	(5,615)	8,751
NET INCREASE (DECREASE) IN NET ASSETS	\$ (50,158)	\$ 1,807,895
Net assets (deficit) - October 1	18,835,579	19,399,807
NET ASSETS (DEFICIT) AT SEPTEMBER 30	\$ 18,785,421	\$ 21,207,702

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

ALABAMA
EXPENSES, AND CHANGES IN
PROPRIETARY FUNDS - CONTINUED
September 30, 2004

Activities		
<u>Golf</u>		<u>TOTALS</u>
<u>Course</u>	<u>Airport</u>	
\$ 831	\$ -	\$ 74,259
-	338	13,671
(27,695)	(2,852)	(1,532,106)
(2,598)	(71)	(163,492)
(2,457)	-	(16,516)
-	13	472
<hr/>		
\$ (31,919)	\$ (2,572)	\$ (1,623,712)
<hr/>		
\$ (79,152)	\$ (215,290)	\$ 1,424,828
-	31,721	67,052
80,000	52,443	135,579
<hr/>		
\$ 848	\$ (131,126)	\$ 1,627,459
(533,782)	2,162,396	39,864,000
<hr/>		
\$ (532,934)	\$ 2,031,270	\$ 41,491,459
<hr/>		

CITY OF CULLMAN,
STATEMENT OF CASH FLOWS -
Year ended
Increase (Decrease)

	Business-Type	
	Sewer Operation	Water System
Cash flows provided by (used in) operating activities:		
Cash received from customers	\$ 3,953,862	\$ 6,476,130
Cash payments for merchandise sold	-	-
Cash payments for operating expenses	(834,436)	(2,116,545)
Cash payments to employees	(695,114)	(956,403)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 2,424,312	\$ 3,403,182
Cash flows from (used in) noncapital and related financing activities:		
Grants	\$ -	\$ 51,794
Transfers	(5,615)	8,751
NET CASH PROVIDED BY (USED IN) NONCAPITAL AND RELATED FINANCING ACTIVITIES	\$ (5,615)	\$ 60,545
Cash flows (used in) capital and related financing activities:		
Proceeds from capital contributions	\$ 35,331	\$ -
Interest and fiscal charges paid	(805,071)	(615,866)
Debt issuance costs	(225,000)	(130,000)
Interfund payables - long-term	(68,750)	-
Proceeds from long-term debt	1,138,053	247,802
Principal payments of long-term debt	(1,990,000)	(1,640,000)
Acquisition and construction of capital assets	(664,607)	(1,223,016)
Proceeds from sale of assets	246	836
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (2,579,798)	\$ (3,360,244)
Cash flows from investing activities:		
Proceeds from certificates of deposit	\$ 1,600,000	\$ 4,727,631
Interest received	18,080	49,676
Payments for purchase of certificates of deposit	(1,600,000)	(4,730,778)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 18,080	\$ 46,529
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	\$ (143,021)	\$ 150,012
Cash equivalents at beginning of year	1,400,952	8,981,335
CASH EQUIVALENTS AT END OF YEAR	\$ 1,257,931	\$ 9,131,347

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

ALABAMA
 PROPRIETARY FUNDS
 September 30, 2004
 in Cash Equivalents

Activities		
Golf Course	Airport	TOTALS
\$ 541,553	\$ 208,346	\$ 11,179,891
(22,342)	(112,454)	(134,796)
(195,171)	(65,014)	(3,211,166)
(267,456)	(62,721)	(1,981,694)
\$ 56,584	\$ (31,843)	\$ 5,852,235
\$ -	\$ 1,836	\$ 53,630
80,000	40,526	123,662
\$ 80,000	\$ 42,362	\$ 177,292
\$ -	\$ 39,538	\$ 74,869
(23,268)	(2,852)	(1,447,057)
-	(1,000)	(356,000)
74,118	28,778	34,146
32,408	186,000	1,604,263
(33,280)	(4,648)	(3,667,928)
(54,158)	(259,183)	(2,200,964)
-	13	1,095
\$ (4,180)	\$ (13,354)	\$ (5,957,576)
\$ -	\$ -	\$ 6,327,631
331	-	68,087
-	-	(6,330,778)
\$ 331	\$ -	\$ 64,940
\$ 132,735	\$ (2,835)	\$ 136,891
32,715	25,251	10,440,253
\$ 165,450	\$ 22,416	\$ 10,577,144

CITY OF CULLMAN,
SCHEDULE OF CASH FLOWS FROM
Year ended
Increase (Decrease)

	<u>Business-Type</u>	
	<u>Sewer Operation</u>	<u>Water System</u>
Cash flows provided by (used in) operating activities:		
Operating income (loss)	\$ 830,524	\$ 2,477,967
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,443,888	1,053,931
Accounts receivable	8,616	(80)
Interfund receivables	48,778	(122,165)
Due from other governments	8,203	(9,918)
Assessments receivable	12,009	-
Inventories	2,963	(210,388)
Prepaid expenses	(1,478)	8,088
Accounts payable	83,000	120,119
Interfund payables	(15,540)	83,458
Due to other governments	8,182	-
Accrued payroll	5,325	8,927
Compensated absences	(10,158)	(6,757)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 2,424,312</u>	<u>\$ 3,403,182</u>

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

ALABAMA
OPERATING ACTIVITIES - PROPRIETARY FUNDS
 September 30, 2004
 in Cash Equivalents

<u>Activities</u>		
<u>Golf</u>		
<u>Course</u>	<u>Airport</u>	<u>TOTALS</u>
\$ (47,233)	\$ (212,718)	\$ 3,048,540
99,842	170,583	2,768,244
(49)	(2,055)	6,432
(3,093)	-	(76,480)
-	-	(1,715)
-	-	12,009
-	2,104	(205,321)
(500)	(809)	5,301
3,236	9,988	216,343
-	-	67,918
-	-	8,182
3,795	521	18,568
586	543	(15,786)
<u>\$ 56,584</u>	<u>\$ (31,843)</u>	<u>\$ 5,852,235</u>

CITY OF CULLMAN, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I.A. REPORTING ENTITY

The City of Cullman was incorporated under the laws of the State of Alabama in 1875 and operates under an elected Mayor-Council form of government. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Blended Component Units

The Utilities Board of the City of Cullman – Water Division, an entity legally separate from the City, is governed by a five-member board appointed by the City Council. For financial reporting purposes, the Utilities Board – Water Division is reported as if it were part of the City's operations because, by contract, the only customer of the Utilities Board – Water Division is the City of Cullman. The City's 50% interest in the Airport Board, which is a joint venture with Cullman County, is also reported as part of the City's operations (see Note VIII). The City of Cullman Parks and Recreation Board is not a legally separate entity and is, therefore, reported as part of the City's operations. Separate financial statements of the Utilities Board of the City of Cullman – Water Division and of the Cullman Airport Board may be obtained from the Cullman City Clerk's office.

Excluded Entities

The following **related** organizations are **excluded** from the financial reporting entity because the City's accountability does not extend beyond making appointments. The City Council appoints all or a voting majority of the members of the Utilities Board – Power Division of the City of Cullman and to the City of Cullman Industrial Development Board. The Mayor appoints the members of the Cullman Housing Authority. The City of Cullman Parks and Recreation Board appoints all members of the Cullman Parks and Recreation Foundation. The City Council appoints directors to the City of Cullman Public Education and Governmental Access Television, Inc., a non-profit organization. The City Council also appoints four members to the nine-member Cullman-Jefferson Counties Gas District.

I.B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

I.B.1. Basis of Presentation

Government-wide Statements

The statement of net assets and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I.B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING - CONTINUED

I.B.1. Basis of Presentation - Continued

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. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component units. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund

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

School Tax

This fund accounts for the collections and disbursements of the 3 mill ad valorem tax, 7.5 mill ad valorem tax, and .5 percent sales tax collected for the City School System.

Debt Service

This fund accounts for the resources accumulated and payments made for the principal, interest, and other expenses on general long-term debt associated with the City's governmental activities.

The City reports the following major proprietary funds:

Sewer Operation

This fund accounts for the system maintenance and the sewage disposal service provided to its customers.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I.B.1. Basis of Presentation - Continued

Water System

The Water System accounts for the activities of the two separate units – the Utilities Board – Water Division of the City of Cullman, Alabama (Utilities Board) and the Water Department. The Utilities Board's primary activity is the gathering, collecting, or impounding of water and filtering said water to sell to the Water Department. The Water Department's primary activity is the system maintenance and distribution of water to wholesale and retail customers.

Golf Course

This fund accounts for the maintenance and operations of the Golf Course and its facilities for the general public.

Airport

This fund accounts for the construction, maintenance, and operation of the airport facilities for the general public.

I.B.2. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Financial Statements

The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgements, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I.B.2. Measurement Focus, Basis of Accounting - Continued

Governmental Fund Financial Statements - Continued

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

The financial statements of the City are presented in accordance with accounting principles generally accepted in the United States of America. The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All proprietary funds of the City follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements.

I.C. ASSETS AND LIABILITIES

I.C.1. Cash Equivalents and Certificates of Deposit

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are reported at carrying amount, which reasonably estimates fair value. Certificates of deposit are carried at cost, which approximates market value.

I.C.2. Accounts Receivable and Assessments Receivable

Accounts and assessments receivable are presented net of allowances for doubtful accounts. The allowances for doubtful accounts are presented below:

<u>Allowance for Doubtful Accounts</u>	<u>General Fund</u>	<u>Sewer Operation</u>	<u>Water System</u>
Accounts receivable at September 30, 2004	<u>\$ 8,258</u>	<u>\$ ---</u>	<u>\$ ---</u>
Assessments receivable at September 30, 2004	<u>\$130,106</u>	<u>\$100,750</u>	<u>\$ ---</u>

I.C.3. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In addition, short-term interfund loans are made as necessary from one fund to another.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I.C.4. Interfund Receivables – Long-term

Long-term interfund loan receivables are reported as “interfund receivables – long-term” and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

I.C.5. Property Tax Calendar

Cullman County is responsible for the assessment, collection, and apportionment of property taxes for the City of Cullman. The County levies property taxes on October 1 on property values for the previous year ended September 30. Secured property tax payments are due by December 31. As prescribed by Governmental Accounting Standards Board (GASB) Statement 33, a receivable of \$3,165,770 has been accrued as a receivable as of September 30, 2004, for the bills sent out October 1, 2004, because the City has an enforceable legal claim on these property taxes. However, since these resources were not available for use during the year ended September 30, 2004, an offsetting balance of \$3,165,770 has also been reflected as deferred revenue in the financial statements.

I.C.6. Inventories

Inventories in governmental activities consist of expendable supplies held for consumption stated principally on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Business-type activities inventories are reported at cost on a first-in, first-out basis.

I.C.7. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2004, are recorded as prepaid items. Prepaid insurance is charged to expenditures/expenses over the term of the policies.

I.C.8. Restricted Assets

Certain proceeds of general long-term debt and proprietary fund warrants and bonds, as well as certain resources set aside for their repayment and other amounts are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and contractual obligations.

I.C.9. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The City's infrastructure – streets consists of new streets built subsequent to September 30, 2001. The City's major infrastructure that was acquired or that received substantial improvements subsequent to October 1, 1980, and prior to October 1, 2001, has not yet been reported. 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. The City's capitalization policy is \$2,500.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I.C.9. Capital Assets - Continued

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	15-75
Improvements other than buildings	10-15
Infrastructure – streets	50
Office equipment	5-10
Computer equipment	3-5
Communication equipment	3-5
Heavy equipment	20
Transportation equipment	5-20
Other general equipment	5-10

I.C.10: Capitalized Interest

Interest costs are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capitalized interest for the year ended September 30, 2004 was as follows:

<u>Proprietary Fund/Component Unit</u>	<u>Amount Capitalized</u>
Utilities Board – Water Division	\$187,617
Water Fund	26,709
Sewer Fund	21,984

I.C.11. Deferred Debt Expense and Bond Discount

Bond issuance costs, bond discounts, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using the straight-line method.

I.C.12. Payable from Restricted Assets

Certain proprietary fund assets are restricted for debt service and capital improvements. Liabilities payable from restricted assets in the various fund types are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable - contractor	\$ ---	\$ 25,215
Accrued interest payable	60,747	337,058
Current maturities on long-term liabilities	<u>1,605,000</u>	<u>2,975,000</u>
TOTAL	<u>\$1,665,747</u>	<u>\$3,337,273</u>

Of the \$2,975,000 shown as current maturities on long-term debt above in the business-type activities, \$1,400,000 is general obligation debt.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I.C.13. Compensated Absences

The liability for compensated absences in the governmental funds (current portion only) and the proprietary fund statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using only the vested vacation and sick leave amounts available to employees on September 30, 2004. Full-time, permanent employees are granted vacation benefits in varying amounts depending on tenure with the City. Limited vacation benefits may be carried from one year to the next and paid upon employee's termination. Sick leave accrues to these employees to specified maximums and a percentage of sick leave is payable upon termination in accordance with guidelines established in the City's personnel policies. If an employee does not use his sick leave during the year and would otherwise lose any accumulated time, the employee is paid one-half of the hours accumulated in excess of the maximum allowed to be carried over from year to year. The estimated liabilities include required salary-related payments.

I.C.14 Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues and expenses. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted net assets; and unrestricted net assets. Invested in capital assets, net of related liabilities, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvements of those assets; debt related to unspent proceeds and restricted cash equivalents are excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

I.C.15. Use of Estimates

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - DEFICIT BALANCE

The \$169,037 deficit of the School Tax Fund is a result of expenditures accrued in excess of resources available within the City's 30 day availability period. The deficit is expected to be covered by resources accrued, but not received within the 30 day availability period.

The \$532,934 deficit of the Golf Course is a result of revenues inadequate to cover expenses, including depreciation and interest expense. The Golf Course is expected to acquire additional appropriations to fund its deficit.

The \$74,361 deficit of the Corrections/Court Fund (Special Revenue Nonmajor Governmental Fund) is a result of capital outlay expenditures in excess of resources. The deficit is expected to be covered through payment of the interfund payable to the General Fund of \$85,000 as resources are available.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

III. CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The City is allowed by State law to invest funds in obligations of the United States of America, in bonds of the State of Alabama, any Alabama county or any Alabama municipality, or in U.S. dollar denominated deposit accounts and certificates of deposit with banks or savings institutions organized under the laws of the United States or any state thereof which are fully insured or otherwise collateralized.

The City of Cullman's deposits at year end were secured as follows:

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Insured (Federal depository insurance)	\$ 1,795,046	\$ 1,804,123
Type I collateral	2,964,926	2,964,302
Collateralized – SAFE Program	<u>28,698,662</u>	<u>29,230,591</u>
TOTAL DEPOSITS	<u>\$33,458,634</u>	<u>\$33,999,016</u>

Type I collateral is securities held by the pledging financial institution's trust department or agent in the City's name.

The SAFE program was established by the Security for Alabama Funds Enhancement Act under Section 41-14A of the Code of Alabama 1975, as amended. Under the SAFE program, Alabama banks accepting public funds deposits must pledge collateral under a "pooled" system to the State Treasurer to cover all public deposits held in excess of the FDIC insured amount.

There is a difference in the total deposits carrying amount shown above and the total cash equivalents and certificates of deposit in the balance sheets of the governmental funds and proprietary funds of \$2,683. This difference represents cash on hand in various locations throughout the City's facilities.

NOTES TO THE FINANCIAL

IV. CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2004 was as follows:

	<u>Balance at Sept. 30, 2003</u>
Governmental activities:	
Capital assets not being depreciated:	
Land	\$ 4,566,076
Historical buildings	209,420
Construction in progress	444,021
	444,021
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 5,219,517
Capital assets being depreciated:	
Buildings	\$ 5,682,607
Improvements other than buildings	3,568,677
Infrastructure - streets	288,282
Machinery and equipment:	
Office equipment	\$ 150,208
Computer equipment	92,664
Communication equipment	173,265
Heavy equipment	1,362,231
Transportation equipment	5,794,372
Other general equipment	1,946,452
	9,519,192
TOTAL MACHINERY AND EQUIPMENT TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 19,058,758
Less accumulated depreciation for:	
Buildings	\$ 1,519,046
Improvements other than buildings	1,164,973
Infrastructure - streets	8,168
Machinery and equipment:	
Office equipment	\$ 91,255
Computer equipment	54,518
Communication equipment	91,973
Heavy equipment	498,061
Transportation equipment	2,604,638
Other general equipment	916,381
	4,256,826
TOTAL MACHINERY AND EQUIPMENT TOTAL ACCUMULATED DEPRECIATION	\$ 6,949,013
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	\$ 12,109,745
TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 17,329,262

The balance at September 30, 2003 has been increased by \$5,627 for the capital assets of the Cullman County Museum Board, which was reported as a component unit of the City until the year ended September 30, 2004, in which it became a department of general fund.

STATEMENTS - CONTINUED

<u>Additions</u>	<u>(Removals)</u>	<u>Balance at Sept. 30, 2004</u>
\$ 2,328,375	\$ (4,890)	\$ 6,889,561
-	-	209,420
839,311	(881,683)	401,649
<hr/>		
\$ 3,167,686	\$ (886,573)	\$ 7,500,630
\$ 6,800	\$ -	\$ 5,689,407
583,832	-	4,152,509
511,033	-	799,315
\$ 11,607	\$ -	\$ 161,815
-	-	92,664
13,300	-	186,565
-	-	1,362,231
288,696	(62,160)	6,020,908
339,409	(16,450)	2,269,411
\$ 653,012	\$ (78,610)	\$ 10,093,594
<hr/>		
\$ 1,754,677	\$ (78,610)	\$ 20,734,825
\$ 114,241	\$ -	\$ 1,633,287
150,505	-	1,315,478
9,941	-	18,109
\$ 11,873	\$ -	\$ 103,128
13,805	-	68,323
32,446	-	124,419
57,538	-	555,599
413,028	(54,264)	2,963,402
180,051	(16,390)	1,080,042
\$ 708,741	\$ (70,654)	\$ 4,894,913
\$ 983,428	\$ (70,654)	\$ 7,861,787
<hr/>		
\$ 771,249	\$ (7,956)	\$ 12,873,038
<hr/>		
\$ 3,938,935	\$ (894,529)	\$ 20,373,668
<hr/>		

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

IV. CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government:	
Administrative	\$ 95,573
Building and housing	5,312
Garage	15,504
Public works	15,014
Public safety:	
Police	184,846
Fire	75,184
Miscellaneous and dispatch	14,168
Highways and streets	124,118
Sanitation	218,630
Culture and recreation	<u>235,079</u>
TOTAL	<u>\$983,428</u>

NOTES TO THE FINANCIAL

IV. CAPITAL ASSETS - CONTINUED

Capital asset activity for the business-type activities for the year ended September 30, 2004 was as follows:

	<u>Balance at Sept. 30, 2003</u>
Business-type activities:	
Capital assets not being depreciated:	
Land	\$ 1,299,194
Construction in progress	<u>6,002,060</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 7,301,254
Capital assets being depreciated:	
Buildings	\$ 8,633,173
Improvements other than buildings	62,934,363
Source of supply	2,116,604
Pumping plant	717,398
Water treatment plant	17,638,924
Transmission and distribution system	1,454,061
Machinery and equipment:	
Office equipment	\$ 70,271
Computer equipment	16,664
Communication equipment	11,176
Heavy equipment	611,043
Transportation equipment	1,120,039
Other general equipment	<u>1,253,295</u>
TOTAL MACHINERY AND EQUIPMENT	\$ 3,082,488
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 96,577,011
Less accumulated depreciation for:	
Buildings	\$ 3,901,469
Improvements other than buildings	20,331,504
Source of supply	1,357,375
Pumping plant	505,317
Water treatment plant	5,390,199
Transmission and distribution system	700,823
Machinery and equipment:	
Office equipment	\$ 67,157
Computer equipment	11,718
Communication equipment	8,257
Heavy equipment	435,101
Transportation equipment	727,591
Other general equipment	<u>863,687</u>
TOTAL MACHINERY AND EQUIPMENT	\$ 2,113,511
TOTAL ACCUMULATED DEPRECIATION	\$ 34,300,198
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	\$ 62,276,813
TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 69,578,067</u>

STATEMENTS - CONTINUED

<u>Additions</u>	<u>(Removals)</u>	<u>Balance at Sept. 30, 2004</u>
\$ 50,916	\$ -	\$ 1,350,110
1,633,129	(3,575,609)	4,059,580
\$ 1,684,045	\$ (3,575,609)	\$ 5,409,690
\$ 206,626	\$ -	\$ 8,839,799
3,528,276	(731)	66,461,908
-	-	2,116,604
-	-	717,398
-	-	17,638,924
-	-	1,454,061
\$ 3,000	\$ (3,750)	\$ 69,521
3,107	-	19,771
-	(3,872)	7,304
-	-	611,043
34,790	-	1,154,829
83,978	(28,935)	1,308,338
\$ 124,875	\$ (36,557)	\$ 3,170,806
\$ 3,859,777	\$ (37,288)	\$ 100,399,500
\$ 279,464	\$ -	\$ 4,180,933
1,689,633	(495)	22,020,642
38,350	-	1,395,725
20,460	-	525,777
465,402	-	5,855,601
29,082	-	729,905
\$ 2,045	\$ (3,750)	\$ 65,452
1,060	-	12,778
1,837	(3,485)	6,609
37,783	-	472,884
102,781	-	830,372
100,347	(28,935)	935,099
\$ 245,853	\$ (36,170)	\$ 2,323,194
\$ 2,768,244	\$ (36,665)	\$ 37,031,777
\$ 1,091,533	\$ (623)	\$ 63,367,723
\$ 2,775,578	\$ (3,576,232)	\$ 68,777,413

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

IV. CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions as follows:

Sewer	\$1,443,888
Water System	1,053,931
Golf Course	99,842
Airport	<u>170,583</u>
TOTAL	<u>\$2,768,244</u>

V. LONG-TERM DEBT

The indentures with respect to the warrants and bonds payable as detailed in the supplementary schedules of this report contain pledges of revenues and pledges of the full faith and credit of the City as is applicable to each issue.

The restricted assets presented in the financial statements are monies set aside for the payment of the debt or construction of related projects of these entities as required by the respective indentures. Annual principal maturities and debt service requirements of the long-term debt during the next five years followed by five year increments to maturity are as follows:

<u>Governmental Activities</u>			
<u>Year ended</u>			<u>Total Debt</u>
<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Requirement</u>
2005	\$ 1,770,983	\$ 456,991	\$ 2,227,974
2006	1,562,139	416,270	1,978,409
2007	1,508,378	366,717	1,875,095
2008	1,144,706	317,094	1,461,800
2009	1,166,131	274,607	1,440,738
2010-2014	4,955,899	682,683	5,638,582
2015-2018	<u>722,542</u>	<u>84,106</u>	<u>806,648</u>
TOTALS	<u>\$12,830,778</u>	<u>\$2,598,468</u>	<u>\$15,429,246</u>

The amount of the interest for the Graham Property Warrants dated 7-1-94 is computed at 6% per annum for purposes of the above schedule. The interest rate is based on the New York Prime Rate as published by the Wall Street Journal on the day before (or the day after if not available) each quarterly due date. The interest is computed on a 365 or 366 day basis, as applicable, and is not to exceed 10% or go below 6% per annum.

<u>Business-Type Activities</u>			
<u>Year ended</u>			<u>Total Debt</u>
<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Requirement</u>
2005	\$ 3,011,802	\$ 1,588,305	\$ 4,600,107
2006	3,195,762	1,700,615	4,896,377
2007	3,442,102	1,690,998	5,133,100
2008	3,545,628	1,576,023	5,121,651
2009	3,660,927	1,451,758	5,112,685
2010-2014	14,499,859	5,462,699	19,962,558
2015-2019	12,760,000	3,027,484	15,787,484
2020-2024	8,230,000	698,037	8,928,037
2025-2026	<u>690,000</u>	<u>18,300</u>	<u>708,300</u>
TOTALS	<u>\$53,036,080</u>	<u>\$17,214,219</u>	<u>\$70,250,299</u>

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

V. LONG-TERM DEBT – CONTINUED

Changes in long-term debt during the year ended September 30, 2004 were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Governmental Activities</u>			<u>Balance at Sept. 30, 2004</u>	<u>Due Within One Year</u>
		<u>Balance Oct. 1, 2003</u>	<u>Issued</u>	<u>(Paid)</u>		
G.O. Warrants:						
07-01-94 – Graham Property	Variable	\$ 500,000	\$ ---	\$ (50,000)	\$ 450,000	\$ 50,000
12-01-98 – Refunding and Improvement	3.80-4.70%	4,810,000	---	(400,000)	4,410,000	415,000
11-28-01 – Lessman Property	7.00%	310,684	---	(14,906)	295,778	15,983
02-01-03 – School Refunding	2.00-4.00%	3,675,000	---	(300,000)	3,375,000	305,000
07-01-03 – Refunding Var. Purpose	1.00-4.00%	3,400,000	---	---	3,400,000	885,000
02-17-04 – Hartwig Property	6.00%	---	900,000	---	900,000	100,000
Notes payable:						
Xerox copier	9.50%	2,347	---	(2,347)	---	---
TOTAL G.O. WARRANTS AND NOTES PAYABLE		\$12,698,031	\$ 900,000	\$ (767,253)	\$12,830,778	\$1,770,983
Other liabilities:						
Compensated absences		919,705	965,319	(930,607)	954,417	347,311
		<u>\$13,617,736</u>	<u>\$1,865,319</u>	<u>\$(1,697,860)</u>	<u>\$13,785,195</u>	<u>\$2,118,294</u>
Less current portion					(2,118,294)	
					<u>\$11,666,901</u>	
TOTAL LONG-TERM LIABILITIES					<u>\$11,666,901</u>	

The General Obligation School Warrants, Series 2003, dated February 1, 2003, were issued for the purpose of refunding the General Obligation School Warrants dated March 1, 1994. Upon issuance of the Series 2003 Warrants, \$3,490,876 was transferred to an Escrow Fund to redeem the 1994 Warrants on March 1, 2004.

The General Obligation Warrants, Series 2003-B, dated July 1, 2003, were issued for the purpose of refunding the General Obligation Warrants dated October 1, 1993, and the General Obligation Golf Course Warrants dated November 1, 1993. The General Obligation Golf Course Warrants dated November 1, 1993, were considered a liability of the Golf Course, a proprietary fund in the business-type activities. Upon issuance of the Series 2003-B Warrants, \$4,634,619 (\$3,365,366 from Series 2003 Warrants and \$1,269,253 from the October 1, 1993 and November 1, 1993 Debt Service Funds) was transferred to an Escrow Fund to redeem the General Obligation Warrants dated October 1, 1993 on October 1, 2003 and the General Obligation Golf Course Warrants dated November 1, 1993 on November 1, 2003.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

V LONG-TERM DEBT – CONTINUED

Changes in long-term debt during the year ended September 30, 2004 were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Business-Type Activities</u>			<u>Balance at Sept. 30, 2004</u>	<u>Due Within One Year</u>
		<u>Balance Oct. 1, 2003</u>	<u>Issued</u>	<u>(Paid)</u>		
G.O. Sewer						
Warrants: (a)						
11-01-93 –						
1993 SRF	3.50%	\$ 870,000	\$ ---	\$ (65,000)	\$ 805,000	\$ 70,000
07-01-99 –						
1999 SRF	3.50%	7,040,000	---	(285,000)	6,755,000	295,000
12-22-99 –						
2000 SRF	3.85%	10,545,000	---	(415,000)	10,130,000	430,000
02-15-02 –						
2002 SRF	3.50%	1,675,000	---	(70,000)	1,605,000	70,000
11-10-02 –						
2002 SRF	3.50%	4,100,000	---	---	4,100,000	145,000
07-01-03 –						
2003-C	1.50-3.40%	2,125,000	---	(285,000)	1,840,000	290,000
01-20-04 –						
2004 CWSRF-DL	3.05%	---	3,925,000	---	3,925,000	---
Water Rev. Bonds –						
02-01-99	3.75%	5,035,000	---	(255,000)	4,780,000	265,000
Water Rev. Bonds –						
03-01-02	4.35%-5.00%	1,775,000	---	---	1,775,000	---
Water Rev. Warrants –						
12-01-01	3.00-5.00%	9,035,000	---	(650,000)	8,385,000	670,000
G.O. Warrant: (a)						
08-03-02 –						
2002 SRF	3.50%	2,610,000	---	(100,000)	2,510,000	100,000
Water Rev. Refunding						
Bonds 02-01-03:						
Series 2003-A	1.45-3.10%	3,205,000	---	(485,000)	2,720,000	490,000
Series 2003-B	2.625-4.00%	780,000	---	(150,000)	630,000	150,000
Water System Warrant –						
01-20-04						
2004 DWSRF-DL	3.05%	---	2,830,000	---	2,830,000	---
G.O. Warrant – (a)						
Airport T-Hangar –						
03-29-04	3.00%	---	186,000	(4,648)	181,352	9,693
Notes Payable:						
Golf Course						
Equipment	3.81-7.57%	65,600	32,408	(33,280)	64,728	27,108
TOTAL WARRANTS AND BONDS PAYABLE		\$48,860,600	\$6,973,408	\$(2,797,928)	\$53,036,080	\$3,011,801
Other liabilities:						
Compensated absences		257,359	123,893	(139,679)	241,573	49,281
		<u>\$49,117,959</u>	<u>\$7,097,301</u>	<u>\$(2,937,607)</u>	<u>\$53,277,653</u>	<u>\$3,061,082</u>
Less current portion					<u>(3,061,082)</u>	
					<u>\$50,216,571</u>	

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

V LONG-TERM DEBT – CONTINUED

(a) Proceeds of all General Obligation Warrants shown in the business-type activities were used by proprietary funds and are being repaid by those funds. However, they remain a contingent liability of the City's Governmental Activities.

VI. INTERFUND BALANCES AND ACTIVITY

VI.A. Interfund Receivables/Payables – Short-term

Interfund receivables/payables – short-term at September 30, 2004, consist of the following:

\$ 23,470	Payable to the General Fund from the Payroll Fund (part of the General Fund) representing payroll expenditures overpaid
61,750	Payable to the General Fund from the Park and Recreation Fund (part of the General Fund) representing expenditures paid by the General Fund over the appropriations allotted to the Park and Recreation Fund
8,442	Payable to the General Fund from the Sewer Fund representing expenditures paid by the General Fund for the Sewer Fund
12,027	Payable to the General Fund from the Water System representing expenditures paid by the General Fund for the Water System
139	Payable to the General Fund from the Airport representing expenditures paid by the General Fund for the Airport
18,007	Payable to the General Fund from nonmajor governmental funds representing highway and street expenditures to be paid by the 7 Cent Gas Tax Fund
4,393	Payable to the Payroll Fund (part of the General Fund) from the Sewer Fund representing payroll expenditures to be paid from the Sewer Fund
268	Payable to the Payroll Fund (part of the General Fund) from the Utilities Board – Water Division (part of the Water System) representing payroll expenditures to be paid by the Utilities Board – Water Division
29,314	Payable to the School Tax Fund from the General Fund representing education revenues mistakenly deposited to the General Fund
141,612	Payable to the Sewer Fund from the General Fund for Sewer Assessments
2,543	Payable to the Water Fund (part of the Water System) from the Payroll Fund (part of the General Fund) representing payroll expenditures overpaid
2,063	Payable to the Water System from the Sewer Fund representing expenditures paid by the Water System for the Sewer Fund
238,276	Payable to the Utilities Board – Water Division (part of the Water System) from the Water Fund (part of the Water System) representing water purchases by the Water Fund from the Utilities Board – Water Division
6,026	Payable to the Golf Course from the General Fund representing excess transfers to the General Fund from the Golf Course to cover interfund balances
432	Payable to the Golf Course from the Payroll Fund (part of General Fund) representing payroll expenditures overpaid
2,302	Payable to Golf Course from the Debt Service Fund representing the overpayment of debt service payments
<u>23,736</u>	Other balances
<u>\$574,800</u>	

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

VI. INTERFUND BALANCES AND ACTIVITY – CONTINUED

VI.A. Interfund Receivables/Payables – Short-term – Continued

The following is a summary of interfund receivables – short-term reported in the financial statements:

\$181,545	Interfund receivables, Balance Sheet – Governmental Funds
<u>393,255</u>	Interfund receivables, Balance Sheet – Proprietary Funds
<u>\$574,800</u>	

The following is a summary of interfund payables – short-term reported in the financial statements:

\$309,192	Interfund payables, Balance Sheet – Governmental Funds
<u>265,608</u>	Interfund payables, Balance Sheet – Proprietary Funds
<u>\$574,800</u>	

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

VI. INTERFUND BALANCES AND ACTIVITY – CONTINUED

VI.B. Interfund Receivables/Payables – Long-term

Interfund receivables/payables – long-term at September 30, 2004, consist of the following:

\$ 50,375	Payable to the General Fund from the Water System representing water system improvements paid by the General Fund
124,637	Payable to the General Fund from the Sewer Fund representing sewer system improvements paid by the General Fund
61,724	Payable to the General Fund from the Airport representing expenditures paid by the General Fund in excess of the City of Cullman's 50 percent ownership in the Airport
185,277	Payable to the General Fund from Park and Recreation (part of General Fund) representing payments made by General Fund to light the soccer field
101,437	Payable to the General Fund from the Payroll Fund (part of General Fund) representing transfers in excess of payroll expenditures
85,000	Payable to the General Fund from other governmental funds representing a loan to the Corrections/Court Fund for remodeling the City Hall's auditorium
1,813,141	Payable to the Debt Service Fund from the Sewer Fund representing the Sewer's portion of general obligation warrants
1,291,778	Payable to the Debt Service Fund from the Golf Course representing the Golf Course's portion of general obligation warrants
766,334	Payable to the Water Fund (part of the Water System) from the Utilities Board – Water Division (part of the Water System) representing expenditures related to the Duck River project
<u>641,793</u>	Payable to the Park & Recreation Fund from the Golf Course Fund representing expenditures paid by the Park & Recreation for Golf Course
<u>\$5,121,496</u>	

The following is a summary of interfund receivables – long-term in the fund financial statements:

\$1,250,243	Interfund receivables – long-term, Balance Sheet – Governmental Funds
3,104,919	Restricted interfund receivables – long-term, Balance Sheet – Governmental Funds
<u>766,334</u>	Interfund receivables – long-term, Balance Sheet – Proprietary Funds
<u>\$5,121,496</u>	

The following is a summary of interfund payables – long-term in the fund financial statements:

\$ 371,713	Interfund payables – long-term, Balance Sheet – Governmental Funds
530,265	Restricted interfund payables, Balance Sheet – Proprietary Funds
<u>4,219,518</u>	Interfund payables – long-term, Balance Sheet – Proprietary Funds
<u>\$5,121,496</u>	

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

VI. INTERFUND BALANCES AND ACTIVITY – CONTINUED

VI.C. Transfers to/from Other Funds

Transfers to/from other funds at September 30, 2004, consist of the following:

\$ 624,988	From the General Fund to the Debt Service Fund to pay debt service on the outstanding general obligation warrants
80,000	From the General Fund to the Golf Course to supplement the fund's other sources
52,443	From the General Fund to the Airport to provide the City of Cullman's portion of the funds needed to operate the Airport in its 50/50 venture with Cullman County
1,249,550	From the General Fund to Park and Recreation Fund (a part of General Fund) to help supplement other fund sources
1,619,856	From the General Fund to other governmental funds to help supplement other fund sources
116,902	From other governmental funds to the Debt Service Fund to pay debt service on the outstanding general obligation warrants
8,751	From other governmental funds to the Water System to help supplement other fund sources
28,000	From the Debt Service Fund to other governmental funds to help supplement other fund sources
<u>5,615</u>	From the Sewer Fund to the General Fund to help supplement other fund sources
<u>\$3,786,105</u>	

The following is a summary of transfers from other funds in the financial statements:

\$3,644,911	Operating transfers in, Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
8,751	Transfers in – Water System, Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
80,000	Transfers in – Golf Course, Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
<u>52,443</u>	Transfers in – Airport, Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
<u>\$3,786,105</u>	

The following is a summary of transfers to other funds in the financial statements:

\$3,780,490	Operating transfers (out), Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
<u>5,615</u>	Transfers (out) – Sewer Operation, Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
<u>\$3,786,105</u>	

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

VII. NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were determined as follows:

	Governmental Activities	Business-Type Activities
Invested in Capital Assets, Net of Related		
Liabilities:		
Capital Assets	\$ 20,373,668	\$ 68,777,413
Less: Accounts payable	---	(24,156)
Warrants/bonds payable	(11,059,795)	(49,996,352)
Less School Warrants not for capital assets	3,070,000	---
Notes payable	---	(64,728)
Interfund payables – long-term	---	(3,391,365)
Debt premium	(14,947)	(16,487)
Less School Warrants' debt premium	5,560	---
Add: State revolving funds receivable	---	11,403,847
Interfund receivables – long-term	3,104,919	---
Debt discount and expense	97,619	2,553,690
Less School Warrants' debt discount and expense	(77,204)	---
Deferred amount on bond refunding	211,347	608,981
Less School Warrants' deferred amount on bond refunding	(174,917)	---
	<u>\$ 15,536,250</u>	<u>\$ 29,850,843</u>
Restricted for Debt Service and Capital Activity:		
Restricted cash equivalents	\$ 2,324,591	\$ 4,426,309
Less: Cash equivalents not restricted by an external party	---	(456,032)
Deductions:		
Liabilities payable from restricted assets	(1,665,747)	(3,867,538)
Less: Liabilities payable from cash equivalents not restricted by an external party	---	1,098,194
	<u>\$ 658,844</u>	<u>\$ 1,200,933</u>
Other restricted net assets:		
Landfill improvements	\$ 633,574	\$ ---
Realty improvements and Ingle Park	154,718	---
Endowments	3,899	---
Municipal Court equipment and training	16,285	---
Unrestricted	<u>17,970,648</u>	<u>10,439,683</u>
TOTAL NET ASSETS	<u>\$ 34,974,218</u>	<u>\$ 41,491,459</u>

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

VIII. JOINT VENTURE

The Cullman Airport is jointly owned by the City of Cullman, Alabama, and Cullman County, Alabama. The Airport is operated by an appointed Board. Appropriations are made by the City and County to operate the Board. Included in the Proprietary Funds of the City is 50 percent of the Board's assets, liabilities, net assets (deficit), revenues, and expenses.

IX. CONTINGENT LIABILITIES

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

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

The City has outstanding General Obligation debt reported in proprietary funds which remains a contingent liability of the City as stated in Note V.

The City of Cullman has two abandoned fuel tank sites determined by Alabama Department of Environmental Management to be contaminated. Cost to the City has not been determined, but could be significant.

X. RETIREMENT

X.A. PLAN DESCRIPTION

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

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

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

X. RETIREMENT - CONTINUED

X.A. PLAN DESCRIPTION

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

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

X.B. FUNDING POLICY

Employees are required by statute to contribute 5 percent of their salary to the Employees' Retirement System. The City 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. The contribution requirements of the City are established by the Employees' Retirement System based on annual actuarial valuations. The contribution rate for the year ended September 30, 2004 was 7.23 percent based on the actuarial valuation performed as of September 30, 2002.

X.C. ANNUAL PENSION COST

For the year ended September 30, 2004, the City's annual pension contribution of \$623,969 was equal to the required and actual contribution. The required contribution was determined using the "entry age" method. The actuarial assumptions included (1) 8 percent investment rate of return on present and future assets, and (2) projected salary increases ranging from 4.61 percent at age 20 to 7.75 percent at age 65. Both (1) and (2) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period as of September 30, 2004 was 17 years.

Three-year trend information is as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>Ending</u> 9/30/01	\$492,853	100%	\$ - 0 -
9/30/02	502,731	100	- 0 -
9/30/03	571,713	100	- 0 -

The Schedule of Funding Progress is contained in the required supplementary information.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

XI. CONCENTRATIONS OF CREDIT RISK

The City grants unsecured credit for water and sewer charges to its customers who are generally located within Cullman County, Alabama. The unsecured credit amount would be an amount in excess of security deposit and the customer would be subject to discontinuance of service for nonpayment. The City sells water to wholesale customers and of these customers, Cullman County is considered a major customer.

XII. RISK MANAGEMENT

The City is exposed to various risks such as losses related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and other people, and natural disasters. These risks are handled through the purchase of commercial insurance.

XIII. COMMITMENTS AND CONTINGENCIES

The Utilities Board – Water Division of the City of Cullman (included in the Water System) approved a contract with John Plott Company, Inc. in the amount of \$185,763 for the Cullman Intake Structure Rehabilitation. As of September 30, 2004, \$145,493 (which includes \$7,275 of retainage) has been completed. These costs are considered repairs and maintenance due to the nature of the rehabilitation.

The City has an outstanding contract for the Center Hill Water Lines Phase III Project at a cost of \$1,008,588. As of September 30, 2004, the Water Fund (included in Water System) has paid \$733,513 and withheld an additional \$25,215 of retainage on the project.

The City has received a \$191,627 grant award from the Federal Aviation Administration (FAA) for site preparation for apron expansion, conducting an approach survey, and upgrading the Airport Weather Observation System. As of September 30, 2004, \$39,215 of the grant has been expended. The City has also received a \$5,043 grant award from the State of Alabama Department of Transportation to be used as matching funds for the above FAA grant. As of September 30, 2004, \$1,032 of the grant has been expended.

As of August 2004, the City awarded the contract for the apron expansion site work to Manning Construction in the amount of \$100,810. As of September 30, 2004, the amount expended of the \$100,810 was \$-0-.

The City is a guarantor on the following notes:

<u>Purpose</u>	<u>Lender</u>	<u>Amount</u>
Spec Building No. 5	Compass Bank	\$ 200,000
Spec Building No. 5	T.V.A.	1,271,000

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

XIV. SUBSEQUENT EVENTS

The City awarded the following contracts subsequent to September 30, 2004:

- 1) Awarded a contract for the Highway 157 Water Upgrades to Apel Machine and Supply in the amount of \$1,048,135 as of October 2004.
- 2) Awarded a contract for the extension of St. Joseph Street Northwest to Shelby Contracting Co., Inc. in the amount of \$229,226 as of November 2004.
- 3) Awarded a contract for the Highway 157 Sewer Extension to Jordan Excavating in the amount of \$3,369,730 as of December 2004.
- 4) Awarded a contract for a corporate hanger at the airport to Reidco General Contracting, Inc. in the amount of \$136,599 as of April 2005.
- 5) Awarded a contract for the construction of the Cullman Gymnastics Building Addition at Ingle Park to Eidson & Associates, Inc. in the amount of \$298,556 as of April 2005.

Subsequent to September 30, 2004, the City issued the following warrants:

- 1) \$2,520,000 General Obligation Water System Warrant, Series 2005-DWSRF-DL for Cullman Water System upgrades.
- 2) \$4,110,000 General Obligation Sewer Warrant, Series 2005-CWSRF-DL for Cullman Wastewater System upgrades and rehabilitation.

The City was awarded a grant in January 2005 in the amount of \$342,536 from the Federal Aviation Administration (FAA) to rehabilitate the runway at the Airport.

The City awarded a bid and purchased a Mack Truck (a roll-off truck) from Alabama Truck Body in November 2004 for \$105,972.

The City awarded a bid for a 2006 model rear-loading garbage truck for the sanitation department to Ingram Equipment in the amount of \$137,144 as of March 2005.

As of April 2005, the City purchased land on Golf Course Road in the amount of \$111,308.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CULLMAN, ALABAMA
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT PLAN
For the Year Ended September 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
**9/30/1998	\$17,816,889	\$17,710,212	\$ (106,677)	100.6%	\$6,689,733	(1.6)%
9/30/1999	19,242,049	19,384,505	142,456	99.3	7,478,671	1.9
9/30/2000	20,764,341	21,203,979	439,638	97.9	7,736,164	5.7
***9/30/2001	21,889,776	23,231,143	1,341,367	94.2	7,984,962	16.8
****9/30/2002	22,596,367	24,562,364	1,965,997	92.0	8,146,361	24.0
*****9/30/2003	23,251,606	26,246,100	2,994,494	88.6	8,193,946	36.5

- * Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
- ** Reflects change in asset valuation method to market related value (as of September 30, 1998).
- *** Reflects changes in actuarial assumptions (as of September 30, 2001). Also reflects effect of DROP if unit elected to enroll.
- **** Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.
- ***** Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
Year ended September 30, 2004

	Budgeted Amounts		Actual	Variance With Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 11,091,000	\$ 11,486,000	\$ 12,640,497	\$ 1,154,497
Licenses and permits	1,933,800	1,933,800	2,012,448	78,648
Intergovernmental revenues	1,404,000	1,209,000	1,279,806	70,806
Charges for services	2,818,850	2,818,850	3,241,772	422,922
Fines and forfeits	265,375	265,375	234,074	(31,301)
Miscellaneous revenues	416,800	416,800	377,608	(39,192)
TOTAL REVENUES	\$ 17,929,825	\$ 18,129,825	\$ 19,786,205	\$ 1,656,380
Expenditures:				
Current:				
General government	\$ 3,109,110	\$ 3,122,073	\$ 2,818,634	\$ 303,439
Public safety	5,886,598	5,954,636	5,869,766	84,870
Highways and streets	1,564,134	1,545,180	1,456,359	88,821
Sanitation	2,599,144	2,588,074	2,584,055	4,019
Health and social services	145,000	145,000	417,247	(272,247)
Culture and recreation	1,683,139	1,694,200	2,042,865	(348,665)
Education	648,000	798,000	792,192	5,808
Conservation	36,915	36,915	41,733	(4,818)
Capital outlay	1,061,954	1,063,240	1,380,598	(317,358)
Debt service:				
Principal retirement	17,169	17,169	17,253	(84)
Interest and fiscal charges	22,907	22,907	21,356	1,551
TOTAL EXPENDITURES	\$ 16,774,070	\$ 16,987,394	\$ 17,442,058	\$ (454,664)
REVENUES OVER (UNDER) EXPENDITURES	\$ 1,155,755	\$ 1,142,431	\$ 2,344,147	\$ 1,201,716
Other financing sources (uses):				
Sale of capital assets	\$ 20,000	\$ 20,000	\$ 33,707	\$ 13,707
Capital contributions	-	-	26,993	26,993
Operating transfers in	1,216,240	1,216,240	1,255,165	38,925
Operating transfers (out)	(2,190,790)	(3,790,790)	(3,626,837)	163,953
TOTAL OTHER FINANCING SOURCES (USES)	\$ (954,550)	\$ (2,554,550)	\$ (2,310,972)	\$ 243,578
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 201,205	\$ (1,412,119)	\$ 33,175	\$ 1,445,294
Fund balances at October 1	17,188,627	17,188,627	17,188,627	-
FUND BALANCES AT SEPTEMBER 30	\$ 17,389,832	\$ 15,776,508	\$ 17,221,802	\$ 1,445,294

The accompanying notes to the required supplementary information are an integral part of this statement.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET (GAAP BASIS) AND ACTUAL -
SCHOOL TAX FUND (A MAJOR FUND)
 Year ended September 30, 2004

	Budget - Original and Final	Actual	Variance With Final Budget- Favorable (Unfavorable)
Revenues:			
Taxes	\$ 3,905,000	\$ 4,338,251	\$ 433,251
Miscellaneous revenues:			
Interest revenues	-	1,940	1,940
TOTAL REVENUES	\$ 3,905,000	\$ 4,340,191	\$ 435,191
Expenditures:			
Current:			
Education	3,905,000	4,360,968	(455,968)
REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ (20,777)	\$ (20,777)
Fund (deficit) at October 1	(148,260)	(148,260)	-
FUND (DEFICIT) AT SEPTEMBER 30	\$ (148,260)	\$ (169,037)	\$ (20,777)

The accompanying notes to the required supplementary information are an integral part of this statement.

CITY OF CULLMAN, ALABAMA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2004

BUDGETARY DATA

Budget Policy and Practice

The City Department Managers submit annual budget requests to the City Council which adopts annual fiscal year appropriated budgets for General and Special Revenue Funds. Once approved, the City Council may amend the legally adopted budgets when unexpected modifications are required in estimated revenues and appropriations.

Budget

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by function. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year.

SUPPLEMENTARY INFORMATION

CITY OF CULLMAN,
COMBINING BALANCE SHEET -
September 30,

	General	Park and Recreation Board
<u>ASSETS</u>		
Cash equivalents	\$ 1,125,731	\$ 26,523
Certificates of deposit	14,210,680	26,683
Receivables (net of allowance for uncollectibles):		
Accounts	113,770	162
Assessments	930,468	-
Interest	27,938	111
Interfund receivables	123,834	-
Due from other governmental units	3,049,360	-
Inventories	70,303	-
Prepaid expenditures	194,022	275
Interfund receivables - long-term	608,450	641,793
Alabama Municipal Insurance Corporation	113,307	-
TOTAL ASSETS	\$ 20,567,863	\$ 695,547
 <u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 275,886	\$ 60,409
Accrued liabilities	232,734	-
Interfund payables	178,113	61,750
Due to other governmental units	84,849	-
Deferred revenues	2,832,208	-
Estimated liability for compensated absences	129,971	-
Interfund payables - long-term	-	185,276
TOTAL LIABILITIES	\$ 3,733,761	\$ 307,435
Fund balances (deficit)	16,834,102	388,112
TOTAL LIABILITIES AND FUND BALANCES	\$ 20,567,863	\$ 695,547

ALABAMA
GENERAL FUND
 2004

<u>Payroll</u>	<u>Cullman County Museum Board</u>	<u>TOTALS</u>
\$ 148,178	\$ 797	\$ 1,301,229
-	-	14,237,363
6,858	-	120,790
-	-	930,468
-	-	28,049
4,661	-	128,495
-	-	3,049,360
-	-	70,303
-	-	194,297
-	-	1,250,243
-	-	113,307
<u>\$ 159,697</u>	<u>\$ 797</u>	<u>\$ 21,423,904</u>
\$ -	\$ 1,209	\$ 337,504
31,816	-	264,550
26,444	-	266,307
-	-	84,849
-	-	2,832,208
-	-	129,971
101,437	-	286,713
<u>\$ 159,697</u>	<u>\$ 1,209</u>	<u>\$ 4,202,102</u>
-	(412)	17,221,802
<u>\$ 159,697</u>	<u>\$ 797</u>	<u>\$ 21,423,904</u>

CITY OF CULLMAN, ALABAMA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GENERAL FUND
Year ended September 30, 2004

	General	Park and Recreation Board	Cullman County Museum Board	Total
Revenues:				
Taxes	\$ 12,640,497	\$ -	\$ -	\$ 12,640,497
Licenses and permits	2,012,448	-	-	2,012,448
Intergovernmental revenues	1,279,806	-	-	1,279,806
Charges for services	2,598,235	633,955	9,582	3,241,772
Fines and forfeits	234,074	-	-	234,074
Miscellaneous revenues:				
Interest revenue	\$ 183,253	\$ 350	\$ -	\$ 183,603
Miscellaneous	97,204	96,326	475	194,005
TOTAL MISCELLANEOUS REVENUES	\$ 280,457	\$ 96,676	\$ 475	\$ 377,608
TOTAL REVENUES	\$ 19,045,517	\$ 730,631	\$ 10,057	\$ 19,786,205
Expenditures:				
Current:				
General government:				
Administrative	\$ 2,031,584	\$ -	\$ -	\$ 2,031,584
Building and housing	192,790	-	-	192,790
Garage	193,512	-	-	193,512
Public works	400,748	-	-	400,748
Total General Government	\$ 2,818,634	\$ -	\$ -	\$ 2,818,634
Public safety:				
Police	\$ 3,681,985	\$ -	\$ -	\$ 3,681,985
Fire	1,797,884	-	-	1,797,884
Dispatch and miscellaneous	389,897	-	-	389,897
Total Public Safety	\$ 5,869,766	\$ -	\$ -	\$ 5,869,766
Highways and streets	\$ 1,456,359	\$ -	\$ -	\$ 1,456,359
Sanitation	2,584,055	-	-	2,584,055
Health and social services	417,247	-	-	417,247
Culture and recreation	224,701	1,807,156	11,008	2,042,865
Education	792,192	-	-	792,192
Conservation	41,733	-	-	41,733
TOTAL CURRENT EXPENDITURES	\$ 14,204,687	\$ 1,807,156	\$ 11,008	\$ 16,022,851
Capital outlay:				
General government:				
Administrative	\$ 42,470	\$ -	\$ -	\$ 42,470
Garage	8,406	-	-	8,406
Total General Government	\$ 50,876	\$ -	\$ -	\$ 50,876

(Continued)

CITY OF CULLMAN, ALABAMA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GENERAL FUND - CONTINUED
Year ended September 30, 2004

	General	Park and Recreation Board	Cullman County Museum Board	Total
Public safety:				
Police	\$ 137,916	\$ -	\$ -	\$ 137,916
Fire	15,536	-	-	15,536
Total Public Safety	\$ 153,452	\$ -	\$ -	\$ 153,452
Highways and streets	\$ 526,649	\$ -	\$ -	\$ 526,649
Sanitation	351,916	-	-	351,916
Culture and recreation	-	297,705	-	297,705
TOTAL CAPITAL OUTLAY	\$ 1,082,893	\$ 297,705	\$ -	\$ 1,380,598
Debt service:				
Principal	\$ 2,347	\$ 14,906	\$ -	\$ 17,253
Interest	45	21,311	-	21,356
TOTAL DEBT SERVICE	\$ 2,392	\$ 36,217	\$ -	\$ 38,609
TOTAL EXPENDITURES	\$ 15,289,972	\$ 2,141,078	\$ 11,008	\$ 17,442,058
REVENUES OVER (UNDER) EXPENDITURES	\$ 3,755,545	\$ (1,410,447)	\$ (951)	\$ 2,344,147
Other financing sources (uses):				
Sale of capital assets	\$ 33,707	\$ -	\$ -	\$ 33,707
Capital contributions	26,993	-	-	26,993
Operating transfers in	5,615	1,249,550	-	1,255,165
Operating transfers (out)	(3,626,837)	-	-	(3,626,837)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (3,560,522)	\$ 1,249,550	\$ -	\$ (2,310,972)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 195,023	\$ (160,897)	\$ (951)	\$ 33,175
Fund balances at October 1	16,639,079	549,009	539	17,188,627
FUND BALANCES (DEFICIT) AT SEPTEMBER 30	\$ 16,834,102	\$ 388,112	\$ (412)	\$ 17,221,802

Prior to the year ended September 30, 2004, the Cullman County Museum Board was presented as a component unit of the City of Cullman. As of the current year, the Board became a department of the City of Cullman for financial reporting purposes. The fund balance reported as of September 30, 2003 for the general fund in the amount of \$17,188,088 differs from the October 1 total balance above of \$17,188,627 by \$539, which is the addition of the Cullman County Museum Board as a department of the City of Cullman.

CITY OF CULLMAN, ALABAMA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
September 30, 2004

	Special Revenue	Capital Projects	Permanent Fund Roy Ingle	Total Nonmajor Governmental Funds
<u>ASSETS</u>				
Cash equivalents	\$ 227,522	\$ 1,472,746	\$ 18,018	\$ 1,718,286
Certificates of deposit	1,146,396	-	100,908	1,247,304
Interest receivable	2,345	-	97	2,442
Interfund receivables	1,161	14,216	-	15,377
Due from other governmental units	154,504	127,574	-	282,078
TOTAL ASSETS	<u>\$ 1,531,928</u>	<u>\$ 1,614,536</u>	<u>\$ 119,023</u>	<u>\$ 3,265,487</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ 160,919	\$ -	\$ 160,919
Interfund payables - short-term	18,007	-	14,216	32,223
Interfund payables - long-term	85,000	-	-	85,000
Deferred revenue	115,705	-	-	115,705
TOTAL LIABILITIES	<u>\$ 218,712</u>	<u>\$ 160,919</u>	<u>\$ 14,216</u>	<u>\$ 393,847</u>
Fund balances:				
Reserved for:				
Realty improvements and Ingle Park	\$ -	\$ -	\$ 100,908	\$ 100,908
Endowments	-	-	3,899	3,899
Unreserved	1,313,216	1,453,617	-	2,766,833
TOTAL FUND BALANCES	<u>\$ 1,313,216</u>	<u>\$ 1,453,617</u>	<u>\$ 104,807</u>	<u>\$ 2,871,640</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,531,928</u>	<u>\$ 1,614,536</u>	<u>\$ 119,023</u>	<u>\$ 3,265,487</u>

CITY OF CULLMAN, ALABAMA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
Year ended September 30, 2004

	Special Revenue	Capital Projects	Permanent Fund Roy Ingle	Total Nonmajor Governmental Funds
Revenues:				
Taxes	\$ 152,553	\$ -	\$ -	\$ 152,553
Intergovernmental revenues	314,276	398,082	-	712,358
Fines and forfeits	90,763	-	-	90,763
Miscellaneous revenues:				
Interest revenues	\$ 12,822	\$ 467	\$ 1,132	\$ 14,421
Miscellaneous revenues	-	14,216	-	14,216
TOTAL MISCELLANEOUS REVENUES	\$ 12,822	\$ 14,683	\$ 1,132	\$ 28,637
TOTAL REVENUES	\$ 570,414	\$ 412,765	\$ 1,132	\$ 984,311
Expenditures:				
Current:				
General government	\$ 32	\$ 4,901	\$ -	\$ 4,933
Highways and streets	482,266	137,607	-	619,873
Education	41,580	-	-	41,580
Miscellaneous	-	29,296	-	29,296
Capital outlay	41,778	2,640,978	12,657	2,695,413
Debt service:				
Debt issuance costs	-	4,192	-	4,192
TOTAL EXPENDITURES	\$ 565,656	\$ 2,816,974	\$ 12,657	\$ 3,395,287
REVENUES OVER (UNDER) EXPENDITURES	\$ 4,758	\$ (2,404,209)	\$ (11,525)	\$ (2,410,976)
Other financing sources (uses):				
Warrant issued	\$ -	\$ 900,000	\$ -	\$ 900,000
Operating transfers in	-	1,647,856	-	1,647,856
Operating transfers (out)	(116,902)	(8,751)	-	(125,653)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (116,902)	\$ 2,539,105	\$ -	\$ 2,422,203
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (112,144)	\$ 134,896	\$ (11,525)	\$ 11,227
Fund balances at October 1	1,425,360	1,318,721	116,332	2,860,413
FUND BALANCES AT SEPTEMBER 30	\$ 1,313,216	\$ 1,453,617	\$ 104,807	\$ 2,871,640

CITY OF CULLMAN,
COMBINING BALANCE SHEET -
NONMAJOR
September 30,

	Four Cent Gasoline Tax	Seven Cent Gasoline Tax	Capital Improvement Fund
<u>ASSETS</u>			
Cash equivalents	\$ 31,015	\$ 50,917	\$ 7,702
Certificates of deposit	268,761	542,635	335,000
Interest receivable	108	559	1,678
Interfund receivables	-	101	-
Due from other governmental units	16,924	107,252	-
TOTAL ASSETS	\$ 316,808	\$ 701,464	\$ 344,380
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Interfund payables	\$ -	\$ 18,007	\$ -
Interfund payables - long-term	-	-	-
Deferred revenue	8,482	95,053	-
TOTAL LIABILITIES	\$ 8,482	\$ 113,060	\$ -
Fund balances (deficit)	308,326	588,404	344,380
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 316,808	\$ 701,464	\$ 344,380

ALABAMA
SPECIAL REVENUE FUNDS -
GOVERNMENTAL FUNDS
2004

<u>Industrial Purpose</u>	<u>D.A.R.E</u>	<u>Lodging Tax</u>	<u>Corrections/ Court Fund</u>	<u>TOTALS</u>
\$ 5,632	\$ 45,683	\$ 75,934	\$ 10,639	\$ 227,522
-	-	-	-	1,146,396
-	-	-	-	2,345
-	1,060	-	-	1,161
-	3,036	27,292	-	154,504
<u>\$ 5,632</u>	<u>\$ 49,779</u>	<u>\$ 103,226</u>	<u>\$ 10,639</u>	<u>\$ 1,531,928</u>
\$ -	\$ -	\$ -	\$ -	\$ 18,007
-	-	-	85,000	85,000
-	-	12,170	-	115,705
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,170</u>	<u>\$ 85,000</u>	<u>\$ 218,712</u>
5,632	49,779	91,056	(74,361)	1,313,216
<u>\$ 5,632</u>	<u>\$ 49,779</u>	<u>\$ 103,226</u>	<u>\$ 10,639</u>	<u>\$ 1,531,928</u>

CITY OF CULLMAN,
COMBINING SCHEDULE OF REVENUES,
FUND BALANCES -
NONMAJOR
 Year ended

	Four Cent Gasoline Tax	Seven Cent Gasoline Tax	Capital Improvement Fund
Revenues:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental revenues	100,365	152,724	61,187
Fines and forfeits	-	-	-
Interest revenue	2,650	6,557	3,614
TOTAL REVENUES	<u>\$ 103,015</u>	<u>\$ 159,281</u>	<u>\$ 64,801</u>
Expenditures:			
Current:			
General government	\$ -	\$ -	\$ -
Highways and streets	235,166	247,100	-
Education	-	-	-
Capital outlay	-	34,751	-
TOTAL EXPENDITURES	<u>\$ 235,166</u>	<u>\$ 281,851</u>	<u>\$ -</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (132,151)</u>	<u>\$ (122,570)</u>	<u>\$ 64,801</u>
Other financing (uses):			
Operating transfers (out)	\$ -	\$ -	\$ -
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (132,151)</u>	<u>\$ (122,570)</u>	<u>\$ 64,801</u>
Fund balances (deficits) at October 1	440,477	710,974	279,579
FUND BALANCES (DEFICIT) AT SEPTEMBER 30	<u><u>\$ 308,326</u></u>	<u><u>\$ 588,404</u></u>	<u><u>\$ 344,380</u></u>

ALABAMA
EXPENDITURES, AND CHANGES IN
SPECIAL REVENUE FUNDS -
GOVERNMENTAL FUNDS
September 30, 2004

Industrial Purpose	D.A.R.E	Lodging Tax	Corrections/ Court Fund	TOTALS
\$ 12,500	\$ -	\$ 140,053	\$ -	\$ 152,553
-	-	-	-	314,276
-	44,507	-	46,256	90,763
1	-	-	-	12,822
<u>\$ 12,501</u>	<u>\$ 44,507</u>	<u>\$ 140,053</u>	<u>\$ 46,256</u>	<u>\$ 570,414</u>
\$ -	\$ -	\$ -	\$ 32	\$ 32
-	-	-	-	482,266
-	41,580	-	-	41,580
7,027	-	-	-	41,778
<u>\$ 7,027</u>	<u>\$ 41,580</u>	<u>\$ -</u>	<u>\$ 32</u>	<u>\$ 565,656</u>
\$ 5,474	\$ 2,927	\$ 140,053	\$ 46,224	\$ 4,758
\$ -	\$ -	\$ (116,902)	\$ -	\$ (116,902)
\$ 5,474	\$ 2,927	\$ 23,151	\$ 46,224	\$ (112,144)
158	46,852	67,905	(120,585)	1,425,360
<u>\$ 5,632</u>	<u>\$ 49,779</u>	<u>\$ 91,056</u>	<u>\$ (74,361)</u>	<u>\$ 1,313,216</u>

CITY OF CULLMAN,
COMBINING BALANCE SHEET -
NONMAJOR
 September 30,

	Industrial Park	Industrial Access Road	
<u>ASSETS</u>			
Cash equivalents	\$ 746,166	\$ 56,250	
Interfund receivables	-	-	
Due from other governmental units	-	8,928	
TOTAL ASSETS	\$ 746,166	\$ 65,178	
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 170	\$ -	
Fund balances	745,996	65,178	
TOTAL LIABILITIES AND FUND BALANCES	\$ 746,166	\$ 65,178	

ALABAMA
 CAPITAL PROJECT FUNDS -
 GOVERNMENTAL FUNDS
 2004

<u>Park and Recreation Construction</u>	<u>Transportation Enhancement</u>	<u>TOTALS</u>
\$ 600,000	\$ 70,330	\$ 1,472,746
14,216	-	14,216
-	118,646	127,574
<u>\$ 614,216</u>	<u>\$ 188,976</u>	<u>\$ 1,614,536</u>
\$ -	\$ 160,749	\$ 160,919
614,216	28,227	1,453,617
<u>\$ 614,216</u>	<u>\$ 188,976</u>	<u>\$ 1,614,536</u>

CITY OF CULLMAN,
COMBINING SCHEDULE OF REVENUES,
FUND BALANCES -
NONMAJOR
 Year ended

	Industrial Park	Industrial Access Road
Revenues:		
Intergovernmental revenues	\$ -	\$ 68,804
Miscellaneous revenues:		
Interest revenues	\$ -	\$ -
Miscellaneous revenues	-	-
TOTAL MISCELLANEOUS REVENUES	\$ -	\$ -
TOTAL REVENUES	\$ -	\$ 68,804
Expenditures:		
Current:		
General government	\$ 4,901	\$ -
Highways and streets	-	137,607
Miscellaneous	29,296	-
Capital outlay	2,292,222	-
Debt service:		
Debt issuance costs	4,192	-
TOTAL EXPENDITURES	\$ 2,330,611	\$ 137,607
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (2,330,611)	\$ (68,803)
Other financing sources (uses):		
Warrant issued	\$ 900,000	\$ -
Operating transfers in	1,000,000	-
Operating transfers (out)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 1,900,000	\$ -
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (430,611)	\$ (68,803)
Fund balances (deficits) at October 1	1,176,607	133,981
FUND BALANCES AT SEPTEMBER 30	\$ 745,996	\$ 65,178

ALABAMA
EXPENDITURES, AND CHANGES IN
CAPITAL PROJECT FUNDS -
GOVERNMENTAL FUNDS
September 30, 2004

<u>Cullman- Morgan Water Authority</u>	<u>Park and Recreation Construction</u>	<u>Transportation Enhancement</u>	<u>TOTALS</u>
\$ -	\$ -	\$ 329,278	\$ 398,082
\$ -	\$ -	\$ 467	\$ 467
-	14,216	-	14,216
\$ -	\$ 14,216	\$ 467	\$ 14,683
\$ -	\$ 14,216	\$ 329,745	\$ 412,765
\$ -	\$ -	\$ -	\$ 4,901
-	-	-	137,607
-	-	-	29,296
-	19,856	328,900	2,640,978
-	-	-	4,192
\$ -	\$ 19,856	\$ 328,900	\$ 2,816,974
\$ -	\$ (5,640)	\$ 845	\$ (2,404,209)
\$ -	\$ -	\$ -	\$ 900,000
-	619,856	28,000	1,647,856
(8,751)	-	-	(8,751)
\$ (8,751)	\$ 619,856	\$ 28,000	\$ 2,539,105
\$ (8,751)	\$ 614,216	\$ 28,845	\$ 134,896
8,751	-	(618)	1,318,721
\$ -	\$ 614,216	\$ 28,227	\$ 1,453,617

CITY OF CULLMAN, ALABAMA
COMBINING BALANCE SHEET - WATER SYSTEM (PROPRIETARY FUND)
September 30, 2004

	<u>Water Department</u>	<u>Utilities Board Water Division</u>	<u>TOTALS</u>
ASSETS			
Current assets:			
Cash equivalents	\$ 5,793,957	\$ 67,563	\$ 5,861,520
Certificates of deposit	2,616,173	-	2,616,173
Interest receivable	4,270	-	4,270
Accounts receivable	100,844	50	100,894
Interfund receivables	4,606	238,276	242,882
Due from other governmental units	534,484	-	534,484
Inventories	393,534	-	393,534
Prepaid expenses	28,419	22,102	50,521
TOTAL CURRENT ASSETS	<u>\$ 9,476,287</u>	<u>\$ 327,991</u>	<u>\$ 9,804,278</u>
Restricted assets:			
Cash equivalents	\$ 1,649,652	\$ 1,620,175	\$ 3,269,827
State revolving funds receivable	3,885,483	-	3,885,483
Interest receivable	-	766	766
TOTAL RESTRICTED ASSETS	<u>\$ 5,535,135</u>	<u>\$ 1,620,941</u>	<u>\$ 7,156,076</u>
Capital assets:			
Land	\$ 185,844	\$ 490,134	\$ 675,978
Buildings	68,450	6,470,996	6,539,446
Improvements other than buildings	19,450,071	8,631,426	28,081,497
Machinery and equipment	1,034,123	7,037,126	8,071,249
Less accumulated depreciation	(10,372,843)	(8,686,704)	(19,059,547)
	<u>\$ 10,365,645</u>	<u>\$ 13,942,978</u>	<u>\$ 24,308,623</u>
Construction in progress	1,621,018	1,682,325	3,303,343
TOTAL CAPITAL ASSETS	<u>\$ 11,986,663</u>	<u>\$ 15,625,303</u>	<u>\$ 27,611,966</u>
Other assets:			
Deferred debt expense	\$ 698,384	\$ 572,114	\$ 1,270,498
Interfund receivables - long-term	766,334	-	766,334
TOTAL OTHER ASSETS	<u>\$ 1,464,718</u>	<u>\$ 572,114</u>	<u>\$ 2,036,832</u>
TOTAL ASSETS	<u>\$ 28,462,803</u>	<u>\$ 18,146,349</u>	<u>\$ 46,609,152</u>

(Continued)

COMBINING BALANCE SHEET - WATER SYSTEM (PROPRIETARY FUND) - CONTINUED

	<u>Water Department</u>	<u>Utilities Board Water Division</u>	<u>TOTALS</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable	\$ 145,576	\$ 151,818	\$ 297,394
Utility tax payable	12,801	-	12,801
Interfund payables	248,908	1,663	250,571
Accrued payroll	12,795	16,367	29,162
Estimated compensated absences - current portion	13,323	14,251	27,574
TOTAL CURRENT LIABILITIES	\$ 433,403	\$ 184,099	\$ 617,502
Liabilities payable from restricted assets:			
Accounts payable - contractor	\$ 25,215	\$ -	\$ 25,215
Accrued interest payable	184,269	36,810	221,079
Current maturities on long-term liabilities	770,000	905,000	1,675,000
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 979,484	\$ 941,810	\$ 1,921,294
Long-term liabilities:			
Warrants/bonds payable	\$ 12,955,000	\$ 9,000,000	\$ 21,955,000
Estimated compensated absences	35,962	54,982	90,944
Interfund payables	50,376	766,334	816,710
TOTAL LONG-TERM LIABILITIES	\$ 13,041,338	\$ 9,821,316	\$ 22,862,654
TOTAL LIABILITIES	\$ 14,454,225	\$ 10,947,225	\$ 25,401,450
Net assets:			
Invested in capital assets, net of related liabilities	\$ 3,565,154	\$ 6,431,083	\$ 9,996,237
Restricted for debt service and capital activity	670,168	679,131	1,349,299
Unrestricted	9,773,256	88,910	9,862,166
TOTAL NET ASSETS	\$ 14,008,578	\$ 7,199,124	\$ 21,207,702
TOTAL LIABILITIES AND NET ASSETS	\$ 28,462,803	\$ 18,146,349	\$ 46,609,152

CITY OF CULLMAN, ALABAMA
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - WATER SYSTEM (PROPRIETARY FUND)
Year ended September 30, 2004

	<u>Water Department</u>	<u>Utilities Board Water Division</u>	<u>Elimination</u>	<u>TOTALS</u>
Operating revenues:				
Charges for sales and services	\$ 6,401,797	\$ 3,294,226	\$ (3,294,226)	\$ 6,401,797
Charges for service connections	76,940	-	-	76,940
Miscellaneous	10,236	619	-	10,855
TOTAL OPERATING REVENUES	\$ 6,488,973	\$ 3,294,845	\$ (3,294,226)	\$ 6,489,592
Cost of purchased water	\$ 3,294,226	\$ -	\$ (3,294,226)	\$ -
Operating expenses:				
Salaries and wages	\$ 382,181	\$ 576,392	\$ -	\$ 958,573
Payroll taxes	28,422	44,765	-	73,187
Employees retirement	26,094	55,223	-	81,317
Employees insurance	57,477	113,711	-	171,188
Telephone	10,893	7,753	-	18,646
Utilities	15,287	565,617	-	580,904
Billing, accounting, and collection fees	57,722	-	-	57,722
Office supplies and expenses	5,045	18,665	-	23,710
Professional services	13,750	8,500	-	22,250
Engineering services	4,839	42,540	-	47,379
Other contracted services	2,247	6,203	-	8,450
Testing services	-	11,678	-	11,678
Dues and subscriptions	2,907	1,989	-	4,896
Travel, registrations, and education	4,967	5,658	-	10,625
Permits and licenses	8,175	-	-	8,175
Printing and advertising	71	-	-	71
Uniforms	5,459	10,054	-	15,513
Small tools and equipment	11,367	839	-	12,206
Chemicals and supplies	3,403	269,468	-	272,871
Repairs and maintenance - system and equipment	265,711	238,007	-	503,718
Insurance	32,024	30,376	-	62,400
Miscellaneous	1,624	10,591	-	12,215
Depreciation	490,823	563,108	-	1,053,931
TOTAL COST OF PURCHASED WATER AND OPERATING EXPENSES	\$ 4,724,714	\$ 2,581,137	\$ (3,294,226)	\$ 4,011,625
OPERATING INCOME	\$ 1,764,259	\$ 713,708	\$ -	\$ 2,477,967

(Continued)

CITY OF CULLMAN, ALABAMA
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - WATER SYSTEM (PROPRIETARY FUND) - CONTINUED
Year ended September 30, 2004

	Water Department	Utilities Board Water Division	Elimination	TOTALS
Nonoperating revenues (expenses):				
Interest earned	\$ 45,720	\$ 5,023	\$ -	\$ 50,743
Operating grants	-	13,333	-	13,333
Interest expense	(441,041)	(232,369)	-	(673,410)
Amortization of debt expense	(23,391)	(33,206)	-	(56,597)
Paying agent/trustee fees	(3,180)	(9,925)	-	(13,105)
Sale of assets	582	(369)	-	213
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ (421,310)	\$ (257,513)	\$ -	\$ (678,823)
INCOME BEFORE TRANSFERS	\$ 1,342,949	\$ 456,195	\$ -	\$ 1,799,144
Transfers in	8,751	-	-	8,751
NET INCREASE IN NET ASSETS	\$ 1,351,700	\$ 456,195	\$ -	\$ 1,807,895
Net assets - October 1	12,656,878	6,742,929	-	19,399,807
NET ASSETS AT SEPTEMBER 30	\$ 14,008,578	\$ 7,199,124	\$ -	\$ 21,207,702

CITY OF CULLMAN,
COMBINING SCHEDULE OF
WATER SYSTEM
Year ended
Increase (Decrease)

	<u>Water Department</u>
Cash flows from operating activities:	
Cash received from customers	\$ 6,475,461
Cash payments for purchased water	(3,175,525)
Cash payments for operating expenses	(683,030)
Cash payments to employees	<u>(374,825)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,242,081
Cash flows from noncapital and related financing activities:	
Grants	\$ -
Transfers	<u>8,751</u>
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	\$ 8,751
Cash flows (used in) capital and related financing activities:	
Interfund receivables/payables - long-term	\$ (179,425)
Acquisition and construction of capital assets	(835,653)
Proceeds from sale of assets	818
Interest and fiscal charges paid	(422,683)
Debt issuance costs	(130,000)
Proceeds from long-term debt	247,802
Principal payments of long-term debt	<u>(750,000)</u>
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (2,069,141)
Cash flows from investing activities:	
Proceeds from certificates of deposit	\$ 4,727,631
Interest received	45,273
Payments for purchase of certificates of deposit	<u>(4,730,778)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 42,126</u>
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	\$ 223,817
Cash equivalents at beginning of year	<u>7,219,792</u>
CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 7,443,609</u></u>

ALABAMA
 CASH FLOWS -
 (PROPRIETARY FUND)
 September 30, 2004
 in Cash Equivalents

Utilities Board Water Division	Elimination	TOTALS
\$ 3,176,194	\$ (3,175,525)	\$ 6,476,130
-	3,175,525	-
(1,433,515)	-	(2,116,545)
(581,578)	-	(956,403)
<hr/>		
\$ 1,161,101	\$ -	\$ 3,403,182
\$ 51,794	\$ -	\$ 51,794
-	-	8,751
<hr/>		
\$ 51,794	\$ -	\$ 60,545
\$ 179,425	\$ -	\$ -
(387,363)	-	(1,223,016)
18	-	836
(193,183)	-	(615,866)
-	-	(130,000)
-	-	247,802
(890,000)	-	(1,640,000)
<hr/>		
\$ (1,291,103)	\$ -	\$ (3,360,244)
\$ -	\$ -	\$ 4,727,631
4,403	-	49,676
-	-	(4,730,778)
<hr/>		
\$ 4,403	\$ -	\$ 46,529
\$ (73,805)	\$ -	\$ 150,012
1,761,543	-	8,981,335
<hr/>		
\$ 1,687,738	\$ -	\$ 9,131,347
<hr/>		

CITY OF CULLMAN,
COMBINING SCHEDULE OF CASH FLOWS
WATER SYSTEM
 Year ended
 Increase (Decrease)

	Water Department
Cash flows from operating activities:	
Operating income	\$ 1,764,259
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	490,823
Accounts receivable	(130)
Interfund receivables	(3,464)
Due from other governments	(9,918)
Inventories	(210,388)
Prepaid expenses	11,617
Accounts payable	105,766
Interfund payables	86,160
Accrued payroll	4,571
Compensated absences	2,785
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,242,081

ALABAMA
FROM OPERATING ACTIVITIES -
(PROPRIETARY FUND)
 September 30, 2004
 in Cash Equivalents

<u>Utilities Board</u>		<u>TOTALS</u>
<u>Water Division</u>		
\$ 713,708		\$ 2,477,967
563,108		1,053,931
50		(80)
(118,701)		(122,165)
-		(9,918)
-		(210,388)
(3,529)		8,088
14,353		120,119
(2,702)		83,458
4,356		8,927
(9,542)		(6,757)
<u>\$ 1,161,101</u>		<u>\$ 3,403,182</u>

CITY OF CULLMAN, ALABAMA
SCHEDULE OF GENERAL OBLIGATION WARRANTS
September 30, 2004

GENERAL OBLIGATION WARRANTS

Dated 7-1-94

Maturing July 1

Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	6.00%	\$ 50,000	\$ 26,225
2006	6.00	50,000	23,244
2007	6.00	50,000	20,244
2008	6.00	50,000	17,258
2009	6.00	50,000	14,234
2010	6.00	50,000	11,244
2011	6.00	50,000	8,244
2012	6.00	50,000	5,250
2013	6.00	50,000	2,241
TOTALS		<u>\$ 450,000</u>	<u>\$ 128,184</u>

NOTE: Amount of interest for warrants dated 7-1-94 is computed at 6% per annum for purposes of this schedule and the debt service disclosure in the Notes to the Financial Statements.

GENERAL OBLIGATION WARRANTS

Dated 12-1-98

Maturing July 1

Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	3.85%	\$ 415,000	\$ 185,290
2006	3.90	440,000	169,312
2007	4.00	455,000	152,153
2008	4.05	475,000	133,953
2009	4.10	495,000	114,715
2010	4.25	520,000	94,420
2011	4.30	540,000	72,320
2012	4.40	135,000	49,100
2013	4.45	140,000	43,160
2014	4.40	145,000	36,930
2015	4.70	150,000	30,550
2016	4.70	160,000	23,500
2017	4.70	165,000	15,980
2018	4.70	175,000	8,225
TOTALS		<u>\$ 4,410,000</u>	<u>\$ 1,129,608</u>

NOTE: All principal debt shown on this schedule is recorded in the Governmental Activities.

SCHEDULE OF GENERAL OBLIGATION WARRANTS - CONTINUED

GENERAL OBLIGATION WARRANT

Dated 11-28-01

Maturing Monthly on 5th

<u>Fiscal Year Maturing</u>	<u>Interest Rate</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
2005	7.00%	\$ 15,983	\$ 20,198
2006	7.00	17,139	19,043
2007	7.00	18,378	17,804
2008	7.00	19,706	16,475
2009	7.00	21,131	15,051
2010	7.00	22,658	13,523
2011	7.00	24,296	11,885
2012	7.00	26,053	10,129
2013	7.00	27,936	8,246
2014	7.00	29,956	6,226
2015	7.00	32,121	4,060
2016	7.00	34,443	1,738
2017	7.00	5,942	52
	TOTALS	<u>\$ 295,742</u>	<u>\$ 144,430</u>

GENERAL OBLIGATION SCHOOL WARRANTS

Dated 2-01-03

Maturing March 1

<u>Fiscal Year Maturing</u>	<u>Interest Rate</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
2005	2.00%	\$ 305,000	\$ 103,055
2006	2.00	310,000	96,905
2007	2.30	315,000	90,183
2008	2.75	325,000	82,091
2009	3.00	325,000	72,748
2010	3.35	335,000	62,261
2011	3.60	345,000	50,440
2012	4.00	360,000	37,030
2013	3.90	370,000	22,615
2014	4.00	385,000	7,700
	TOTALS	<u>\$ 3,375,000</u>	<u>\$ 625,028</u>

NOTE: All principal debt shown on this schedule is recorded in the Governmental Activities.

SCHEDULE OF GENERAL OBLIGATION WARRANTS - CONTINUED

GENERAL OBLIGATION WARRANTS

Series 2003-B Dated 7-01-03

Maturing November 1

<u>Fiscal Year Maturing</u>	<u>Interest Rate</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
2005	1.00%	\$ 885,000	\$ 68,222
2006	1.25	645,000	59,766
2007	4.00	570,000	44,335
2008	1.85	175,000	31,316
2009	2.10	175,000	27,860
2010	2.30	180,000	23,953
2011	2.60	185,000	19,477
2012	2.80	190,000	14,413
2013	2.95	195,000	8,876
2014	3.00	200,000	3,000
	TOTALS	<u>\$ 3,400,000</u>	<u>\$ 301,218</u>

GENERAL OBLIGATION WARRANT

Dated 2-17-04

Maturing February 17

<u>Fiscal Year Maturing</u>	<u>Interest Rate</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
2005	6.00%	\$ 100,000	\$ 54,000
2006	6.00	100,000	48,000
2007	6.00	100,000	42,000
2008	6.00	100,000	36,000
2009	6.00	100,000	30,000
2010	6.00	100,000	24,000
2011	6.00	100,000	18,000
2012	6.00	100,000	12,000
2013	6.00	100,000	6,000
	TOTALS	<u>\$ 900,000</u>	<u>\$ 270,000</u>

NOTE: All principal debt shown on this schedule is recorded in the Governmental Activities.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF SEWER GENERAL OBLIGATION WARRANTS
September 30, 2004

GENERAL OBLIGATION SEWER WARRANT

Series 1999-SRF Dated 7-1-99

Maturing February 15

<u>Fiscal Year</u> <u>Maturing</u>	<u>Interest</u> <u>Rate</u>	<u>Amount of</u> <u>Maturity</u>	<u>Amount of</u> <u>Interest</u>
2005	3.50%	\$ 295,000	\$ 231,262
2006	3.50	305,000	220,763
2007	3.50	315,000	209,912
2008	3.50	330,000	198,625
2009	3.50	340,000	186,900
2010	3.50	355,000	174,738
2011	3.50	365,000	162,137
2012	3.50	380,000	149,100
2013	3.50	390,000	135,625
2014	3.50	405,000	121,713
2015	3.50	420,000	107,275
2016	3.50	435,000	92,312
2017	3.50	450,000	76,825
2018	3.50	465,000	60,813
2019	3.50	485,000	44,187
2020	3.50	500,000	26,950
2021	3.50	520,000	9,100
TOTALS		<u>\$ 6,755,000</u>	<u>\$ 2,208,237</u>

NOTE: All principal debt shown on this schedule is recorded in the Sewer Fund (a Proprietary Fund).

CITY OF CULLMAN, ALABAMA
SCHEDULE OF SEWER GENERAL OBLIGATION WARRANTS - CONTINUED
September 30, 2004

GENERAL OBLIGATION SEWER WARRANT			
Series 2000-SRF Dated 12-22-99			
Maturing August 15			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	3.85%	\$ 430,000	\$ 390,005
2006	3.85	445,000	373,450
2007	3.85	465,000	356,317
2008	3.85	485,000	338,415
2009	3.85	500,000	319,743
2010	3.85	520,000	300,492
2011	3.85	540,000	280,473
2012	3.85	565,000	259,682
2013	3.85	585,000	237,930
2014	3.85	610,000	215,408
2015	3.85	635,000	191,922
2016	3.85	655,000	167,475
2017	3.85	685,000	142,258
2018	3.85	710,000	115,885
2019	3.85	740,000	88,550
2020	3.85	765,000	60,060
2021	3.85	795,000	30,607
	TOTALS	\$10,130,000	\$ 3,868,672

NOTE: All principal debt shown on this schedule is recorded in the Sewer Fund (a Proprietary Fund).

CITY OF CULLMAN, ALABAMA
SCHEDULE OF SEWER GENERAL OBLIGATION WARRANTS - CONTINUED
September 30, 2004

GENERAL OBLIGATION SEWER WARRANT

Series 2002-SRF Dated 02-01-02
Maturing August 15

Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	3.50%	\$ 70,000	\$ 56,175
2006	3.50	70,000	53,725
2007	3.50	75,000	51,275
2008	3.50	80,000	48,650
2009	3.50	80,000	45,850
2010	3.50	85,000	43,050
2011	3.50	85,000	40,075
2012	3.50	90,000	37,100
2013	3.50	95,000	33,950
2014	3.50	95,000	30,625
2015	3.50	100,000	27,300
2016	3.50	105,000	23,800
2017	3.50	105,000	20,125
2018	3.50	110,000	16,450
2019	3.50	115,000	12,600
2020	3.50	120,000	8,575
2021	3.50	125,000	4,375
TOTALS		<u>\$ 1,605,000</u>	<u>\$ 553,700</u>

GENERAL OBLIGATION SEWER WARRANT

Series 2002-SRF Dated 11-10-02
Maturing August 15

Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	3.50%	\$ 145,000	\$ 53,414
2006	3.50	150,000	138,425
2007	3.50	155,000	133,175
2008	3.50	160,000	127,750
2009	3.50	165,000	122,150
2010	3.50	170,000	116,375
2011	3.50	180,000	110,425
2012	3.50	185,000	104,125
2013	3.50	190,000	97,650
2014	3.50	200,000	91,000
2015	3.50	205,000	84,000
2016	3.50	210,000	76,825
2017	3.50	220,000	69,475
2018	3.50	225,000	61,775
2019	3.50	235,000	53,900
2020	3.50	245,000	45,675
2021	3.50	250,000	37,100
2022	3.50	260,000	28,350
2023	3.50	270,000	19,250
2024	3.50	280,000	9,800
TOTALS		<u>\$ 4,100,000</u>	<u>\$ 1,580,639</u>

NOTE: All principal debt shown on this schedule is recorded in the Sewer Fund (a Proprietary Fund).

CITY OF CULLMAN, ALABAMA
SCHEDULE OF SEWER GENERAL OBLIGATION WARRANTS - CONTINUED
September 30, 2004

GENERAL OBLIGATION TAXABLE WARRANTS

Series 2003-C Dated 07-01-03

Maturing August 15

Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	1.50%	\$ 290,000	\$ 45,385
2006	1.85	295,000	41,035
2007	2.25	305,000	35,578
2008	2.65	310,000	28,715
2009	3.00	315,000	20,500
2010	3.40	325,000	11,050
TOTALS		<u>\$ 1,840,000</u>	<u>\$ 182,263</u>

GENERAL OBLIGATION SEWER WARRANT

Series 2004-CWSRF-DL Dated 01-20-04

Maturing February 15

Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	3.05%	\$ -	\$ -
2006	3.05	-	44,560
2007	3.05	145,000	117,501
2008	3.05	150,000	113,003
2009	3.05	155,000	108,351
2010	3.05	160,000	103,547
2011	3.05	165,000	98,591
2012	3.05	170,000	93,483
2013	3.05	175,000	88,221
2014	3.05	180,000	82,807
2015	3.05	185,000	77,241
2016	3.05	190,000	71,523
2017	3.05	195,000	65,651
2018	3.05	200,000	59,628
2019	3.05	210,000	53,375
2020	3.05	215,000	46,894
2021	3.05	220,000	40,260
2022	3.05	230,000	33,397
2023	3.05	235,000	26,306
2024	3.05	240,000	19,063
2025	3.05	250,000	11,590
2026	3.05	255,000	3,889
TOTALS		<u>\$ 3,925,000</u>	<u>\$ 1,358,881</u>

NOTE: All principal debt shown on this schedule is recorded in the Sewer Fund (a Proprietary Fund).

CITY OF CULLMAN, ALABAMA
SCHEDULE OF SEWER GENERAL OBLIGATION WARRANTS - CONTINUED
September 30, 2004

GENERAL OBLIGATION SEWER WARRANT			
Series 2004-SRF Dated 4-1-04			
Maturing August 15			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	2.85%	\$ 70,000	\$ 22,943
2006	2.85	70,000	20,947
2007	2.85	75,000	18,953
2008	2.85	75,000	16,815
2009	2.85	80,000	14,677
2010	2.85	80,000	12,398
2011	2.85	85,000	10,117
2012	2.85	85,000	7,695
2013	2.85	90,000	5,273
2014	2.85	95,000	2,707
	TOTALS	\$ 805,000	\$ 132,525

NOTE: All principal debt shown on this schedule is recorded in the Sewer Fund (a Proprietary Fund).

CITY OF CULLMAN, ALABAMA
SCHEDULE OF WATER REVENUE WARRANTS AND GENERAL OBLIGATION WARRANT
September 30, 2004

<u>WATER REVENUE WARRANTS</u>				<u>GENERAL OBLIGATION WARRANT</u>			
Series 2001 Dated 12-01-01				Series 2002-SRF Dated 8-03-02			
Maturing October 1				Maturing August 15			
<u>Fiscal Year</u> <u>Maturing</u>	<u>Interest</u> <u>Rate</u>	<u>Amount of</u> <u>Maturity</u>	<u>Amount of</u> <u>Interest</u>	<u>Fiscal Year</u> <u>Maturing</u>	<u>Interest</u> <u>Rate</u>	<u>Amount of</u> <u>Maturity</u>	<u>Amount of</u> <u>Interest</u>
2005	3.00%	\$ 670,000	\$ 336,525	2005	3.50%	\$ 100,000	\$ 87,850
2006	3.35	690,000	314,917	2006	3.50	105,000	84,350
2007	3.65	710,000	290,403	2007	3.50	110,000	80,675
2008	3.95	740,000	262,830	2008	3.50	115,000	76,825
2009	4.10	765,000	232,532	2009	3.50	120,000	72,800
2010	4.25	800,000	199,850	2010	3.50	120,000	68,600
2011	4.30	835,000	164,898	2011	3.50	125,000	64,400
2012	4.40	870,000	127,805	2012	3.50	130,000	60,025
2013	4.50	905,000	88,302	2013	3.50	135,000	55,475
2014	4.60	125,000	65,065	2014	3.50	140,000	50,750
2015	4.65	130,000	59,168	2015	3.50	145,000	45,850
2016	4.70	140,000	52,855	2016	3.50	150,000	40,775
2017	4.75	150,000	46,002	2017	3.50	155,000	35,525
2018	4.80	155,000	38,720	2018	3.50	160,000	30,100
2019	5.00	160,000	31,000	2019	3.50	165,000	24,500
2020	5.00	170,000	22,750	2020	3.50	170,000	18,725
2021	5.00	180,000	14,000	2021	3.50	180,000	12,775
2022	5.00	190,000	4,750	2022	3.50	185,000	6,475
TOTALS		<u>\$ 8,385,000</u>	<u>\$2,352,372</u>	TOTALS		<u>\$2,510,000</u>	<u>\$ 916,475</u>

NOTE: All principal debt shown on this schedule is recorded in the Water Department (a Proprietary Fund).

CITY OF CULLMAN, ALABAMA
SCHEDULE OF WATER REVENUE WARRANTS
AND GENERAL OBLIGATION WARRANT - CONTINUED
September 30, 2004

GENERAL OBLIGATION WATER SYSTEM WARRANT
Series 2004-DWSRF-DL Dated 01-20-04
Maturing February 15

<u>Fiscal Year</u> <u>Maturing</u>	<u>Interest</u> <u>Rate</u>	<u>Amount of</u> <u>Maturity</u>	<u>Amount of</u> <u>Interest</u>
2005	3.05%	\$ -	\$ -
2006	3.05	105,000.00	66,491.70
2007	3.05	110,000.00	81,435.00
2008	3.05	110,000.00	78,080.00
2009	3.05	115,000.00	74,648.75
2010	3.05	120,000.00	71,065.00
2011	3.05	120,000.00	67,405.00
2012	3.05	125,000.00	63,668.75
2013	3.05	130,000.00	59,780.00
2014	3.05	135,000.00	55,738.75
2015	3.05	135,000.00	51,621.25
2016	3.05	140,000.00	47,427.50
2017	3.05	145,000.00	43,081.25
2018	3.05	150,000.00	38,582.50
2019	3.05	155,000.00	33,931.25
2020	3.05	160,000.00	29,127.50
2021	3.05	165,000.00	24,171.25
2022	3.05	170,000.00	19,062.50
2023	3.05	175,000.00	13,801.25
2024	3.05	180,000.00	8,387.50
2025	3.05	185,000.00	2,821.25
	TOTALS	<u>\$ 2,830,000</u>	<u>\$ 930,328</u>

NOTE: All principal debt shown on this schedule is recorded in the Water Department (a Proprietary Fund).

CITY OF CULLMAN, ALABAMA
SCHEDULE OF WATER REVENUE BONDS
September 30, 2004

WATER REVENUE BONDS			
DWSRF Series 1998 Dated 2-01-99			
Maturing August 15			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	3.75%	\$ 265,000	\$ 179,250
2006	3.75	275,000	169,312
2007	3.75	285,000	159,000
2008	3.75	295,000	148,312
2009	3.75	310,000	137,250
2010	3.75	320,000	125,625
2011	3.75	330,000	113,625
2012	3.75	345,000	101,250
2013	3.75	355,000	88,313
2014	3.75	370,000	75,000
2015	3.75	385,000	61,125
2016	3.75	400,000	46,688
2017	3.75	415,000	31,688
2018	3.75	430,000	16,125
TOTALS		<u>\$ 4,780,000</u>	<u>\$ 1,452,563</u>

WATER REVENUE BONDS			
Series 2002 Dated 3-01-02			
Maturing September 1			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	4.35%	\$ ---	\$ 87,080
2006	4.35	---	87,080
2007	4.35	---	87,080
2008	4.35	---	87,080
2009	4.35	---	87,080
2010	4.35	25,000	87,080
2011	4.35	25,000	85,992
2012	4.35	25,000	84,905
2013	4.35	30,000	83,818
2014	4.35	30,000	82,512
2015	4.75	30,000	81,208
2016	4.75	30,000	79,782
2017	4.75	30,000	78,358
2018	4.75	35,000	76,933
2019	4.90	480,000	75,270
2020	5.00	505,000	51,750
2021	5.00	530,000	26,500
TOTALS		<u>\$ 1,775,000</u>	<u>\$ 1,329,508</u>

WATER REVENUE REFUNDING BONDS			
Series 2003-A Dated 2-01-03			
Maturing September 1			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	1.45%	\$ 490,000	\$ 64,353
2006	1.90	500,000	57,247
2007	2.30	510,000	47,748
2008	2.75	515,000	36,017
2009	3.10	705,000	21,855
TOTALS		<u>\$ 2,720,000</u>	<u>\$ 227,220</u>

WATER REVENUE REFUNDING BONDS			
Series 2003-B Dated 2-01-03			
Maturing September 1			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2005	2.625%	\$ 150,000	\$ 21,417
2006	3.20	155,000	17,480
2007	3.70	160,000	12,520
2008	4.00	165,000	6,600
TOTALS		<u>\$ 630,000</u>	<u>\$ 58,017</u>

NOTE: All principal debt shown on this schedule is recorded in the Utilities Board - Water Division (a Proprietary Fund).

CITY OF CULLMAN, ALABAMA
SCHEDULE OF SCHOOL TAX TRANSACTIONS
Year ended September 30, 2004

	<u>Fund Level</u>	<u>Adjustments</u>	<u>Government- Wide Level</u>
Revenues:			
3 mill ad valorem tax	\$ 649,957	\$ ---	\$ 649,957
7.5 mill ad valorem tax	1,624,893	---	1,624,893
.5 percent sales tax	2,063,401	21,406	2,084,807
Interest	1,940	---	1,940
TOTAL REVENUES	<u>\$4,340,191</u>	<u>\$21,406</u>	<u>\$4,361,597</u>
Expenditures:			
Transfers to Cullman City Board of Education	<u>\$4,360,968</u>	<u>\$ ---</u>	<u>\$4,360,968</u>

The City enacted an additional one-half of one percent sales tax effective September 1, 2003 for the purpose of funding the City School System.

Adjustments are to adjust the City's records from the modified accrual basis to the full accrual basis for revenues not collected within the City's 30 day availability period at September 30, 2004 and 2003.

September, 2003 revenues received after 30 day availability period	\$(151,754)
September, 2004 revenues received after 30 day availability period	<u>173,160</u>
	<u>\$ 21,406</u>

CITY OF CULLMAN, ALABAMA
STATISTICAL DATA - UNAUDITED
September 30, 2004

Computation of legal debt margin:		
Assessed value of real and personal property located within the city limits – Note 1		<u>\$206,032,000</u>
Constitutional debt limit (20% of assessed value – Note 2)		\$ 41,206,400
Amount of debt applicable to debt limit – Note 2:		
General long-term debt outstanding	\$13,785,195	
Less portions of warrants not subject to Constitutional debt limit as follows:		
12-1-98 General Obligation Refunding and Improvement Warrants	(3,425,000)	
2-1-03 General Obligation School Warrants, Series 2003	(3,375,000)	
7-1-03 General Obligation Warrants, Series 2003-B	(1,410,524)	
Less estimated liability for compensated absences	<u>(954,417)</u>	
	\$ 4,620,254	
Accounts payable of the General Fund	<u>337,504</u>	
Debt applicable to constitutional debt limit	\$ 4,957,758	
Less assets available in Debt Service Fund for payment of principal	<u>(416,607)</u>	\$ 4,541,151
LEGAL DEBT MARGIN – Note 3		<u>\$ 36,665,249</u>

Note 1 – Obtained from unaudited records maintained by the County of Cullman, Alabama and excludes exempt property (\$97,241,580).

Note 2 – Section 225 as amended of the Constitution of Alabama, limits the amount of the City's outstanding debt to 20% of the assessed value of property within the City limits. Excluded from this limitation are school warrants, special assessment warrants, sewer warrants, and water warrants/bonds.

Note 3 – The computation of legal debt margin above is to disclose the City's compliance with the constitutional limitations on outstanding debt. The amount of legal debt margin at September 30, 2004, has no relationship to the City's financial capacity to repay the amount of debt.

City ad valorem tax rates:

General purposes (Section 216 of the Constitution)	5 mills
School purposes – general (Section 216 of the Constitution)	3 mills
School bond service (Amendment LVI of the Constitution)	7.5 mills

STATISTICAL DATA – UNAUDITED – CONTINUED

Population per Federal census:

2000	13,995
1990	13,367
1980	13,069
1970	12,601
1960	10,866
1950	7,523
1940	5,074
1930	2,886
1920	2,486

Note A – The City of Cullman is currently listed with Dunn and Bradstreet, Inc.

Note B – The General Obligation Warrants dated December 1, 1998, were rated Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's Corporation.

Note C – The Water Revenue Warrants Series 2001 dated December 1, 2001, were rated Aaa by Moody's Investors Service, Inc.

Note D – The Water Revenue Bonds Series 2002 dated March 1, 2002, were rated Aaa by Moody's Investors Services, Inc.

Note E – The General Obligation School Warrants dated February 1, 2003, were rated AAA by Standard & Poor's Corporation.

Note F – The Water Revenue Refunding Bonds, Series 2003-A and Taxable Series 2003-B, dated February 1, 2003, were rated Aaa by Moody's Investors Service, Inc.

Note G – The General Obligation Warrants, Series 2003-B, dated July 1, 2003, were rated AAA by Standard & Poor's Corporation.

Note H – The General Obligation Taxable Warrants, Series 2003-C, dated July 1, 2003, were rated AAA by Standard & Poor's Corporation.