

CITY OF CULLMAN, ALABAMA  
BASIC FINANCIAL STATEMENTS  
With Supplementary Information  
September 30, 2005

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**FRICKE & Co., P.C.**  
*Certified Public Accountants*  
412 SECOND AVENUE, NORTHEAST  
P. O. BOX 1083  
CULLMAN, ALABAMA 35056-1083

JOHNNY C. FRICKE, JR., CPA

TERRY W. WILHITE, CPA  
CHASITY L. SWEATMON, CPA

TELEPHONE (256) 739-0955  
FAX PHONE (256) 739-3753  
EMAIL frickepc@hiwaay.net

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cullman, Alabama, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. 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, 2005, 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.

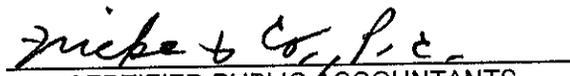
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cullman, Alabama, as of September 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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, 2005, 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 18, 2006, 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 listed in the table of contents 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, are 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 18, 2006



## CITY OF CULLMAN

204 Second Avenue, Northeast  
P.O. Box 278  
Cullman, Alabama 35056-0278

Administrative Offices  
(256) 775-7109  
City Clerk (256) 775-7103  
Fax (256) 775-7132

### **Management's Discussion and Analysis Concerning the Audited Financial Statements for the Fiscal Year Ended September 30, 2005**

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 6.25 million over the course of this year's operation: approximately 3.4 million in the net assets of the governmental activities and 2.85 million in the business-type activities.

Funds appropriated to the Parks and Recreation Department by the City in prior years have been shown as expenditures in the General Fund; however, effective with FY 2005, Park & Recreation is combined with the Golf Course as an enterprise fund. The difference of \$5,096,525 in the beginning of the year and end of the year net assets in Governmental Activities and Business-Type Activities is due to this.

Revenues budgeted in the general fund for FY 2005 were based generally on the previous year's receipts; however, sales tax revenues improved during the year and other revenues exceeded expectations, so that revenues were \$440,165 more than budgeted; while at the same time general fund expenditures were approximately \$270,000 less than budgeted.

The most important source of revenue for the General Fund is sales taxes, which produced \$11,814,978 in FY2005. Other major sources of revenue were: Property Taxes in the amount of \$957,800; Business Licenses: \$1,659,498; Garbage Collection Fees: \$2,389,401; and other local and state-shared revenues. During 2005 the Council levied a 4% Rental Tax in the City of Cullman which became effective October 1, 2005.

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 ad valorem 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 FY2005 was \$2,159,590.

## **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

	<u>Fund Statements</u>		
	<u>Government-wide Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
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 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, park and recreation activities 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 Park and Recreation Foundation is reported as discretely presented. The Foundation Board members are appointed by the City Park and Recreation Board.

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 facilities and programs, including the Park and Recreation activities and the Municipal Golf Course, which are operated by the Parks & Recreation Board, and also 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 \$19,039,683, as compared with the previous year's balance of \$16,833,689. Revenues increased 2%; and although most governmental functions reflected an increase in expenditures, with the major increase being a 22.9% increase in capital outlay, reclassification of Parks and Recreation resulted in an overall decrease in expenditures of approximately 4%. Contributions to Park and Recreation are now shown under "Other Financing Uses" as a transfer to the proprietary Park and Recreation Fund. Fund balance increased by approximately \$2.2 million, as opposed to \$33,175 in FY2004, resulting in part from the reduction in transfers from the General Fund. During 2004, the City transferred the funds required to pay the final installment of principal and interest due from the General Fund on November 1, 2004, for the General Obligation Warrants, Series 2003-B. Other transfers included \$1,000,000 to the Industrial Park Fund to purchase land; and \$600,000 to an account for construction of recreational facilities.

The City's overall financial position has improved as a result of the year's operations.

### **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.

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

(1) The audited financial statements includes charges for sales and services for the parks and recreation department, as well as the golf course, in the proprietary Park and Recreation Fund. These were budgeted in the General Fund and no budget amendment was made to remove them.

(2) The capital outlay budget was not amended to reflect all expenditures for capital items.

In spite of these exceptions, total expenditures were \$269,440 less than budgeted.

## **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.

The City completed a project 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 at a cost of \$271,413.

During 2005 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. Improvements are now anticipated to include an interstate interchange at I-65.

An Industrial Access Road Fund Grant to the City in the amount of \$340,000 was approved in February 2005 for construction of a road from Golf Course Road to the plant site of CullmanCasting Corporation.

The Park & Recreation Gymnastics Building Addition was completed in 2005 at a cost of \$315,323. Plans were developed for a 4-field baseball complex to include a "miracle field" to be used by the handicapped and developmentally disabled. In May 2005 the City formally accepted a Land and Water Conservation Fund Grant for the Miracle Field in the amount of \$150,000. A bid was awarded to Forestry Services in the amount of \$180,262 in July for site work for the baseball complex.

In July 2005 the City Council awarded a bid in the amount of \$889,924 to Kent Construction for improvements to Cleveland Street SW, extending from the south line of the pavement on Lessman Street to the west line of Main Avenue SW, with part of the cost of the improvements to be assessed to the property owners. For the project it was necessary for the city to acquire certain right of way at a cost of \$52,932.

Major capital purchases included a FLIR Ultra 8000 System for the police department helicopter at a cost of \$212,410 paid for with Homeland Security funds; a 2006 Rear Loading Garbage Truck for \$137,144; and a 2005 Mack Truck for the Sanitation Department at a cost of \$105,972

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>2005</u>	<u>2004</u>
Current assets		\$ 30,598,461	\$ 29,350,701
Restricted assets		1,947,602	2,324,591
Capital assets:			
Land and other assets not depreciated		7,121,385	7,500,630
Buildings, improvements, and equipment net of depreciation		9,379,840	12,873,038
Other assets		881,836	1,217,741
	<b>TOTAL ASSETS</b>	<u>\$ 49,929,124</u>	<u>\$ 53,266,701</u>
Current liabilities		\$ 2,072,819	\$ 1,777,138
Liabilities payable from restricted assets		1,630,318	1,665,747
Long-term liabilities		9,663,402	11,666,901
Other liabilities		3,304,671	3,182,697
	<b>TOTAL LIABILITIES</b>	<u>\$ 16,671,210</u>	<u>\$ 18,292,483</u>
Net assets:			
Invested in capital assets, net of related liabilities		\$ 11,360,119	\$ 15,536,250
Restricted		2,534,696	1,467,320
Unrestricted		19,363,099	17,970,648
	<b>TOTAL NET ASSETS</b>	<u>\$ 33,257,914</u>	<u>\$ 34,974,218</u>
	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 49,929,124</u>	<u>\$ 53,266,701</u>

OF NET ASSETS  
ALABAMA  
2005 and 2004

<u>Business-type Activities</u>		<u>Total</u>	
<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
\$ 8,374,691	\$ 7,315,840	\$ 38,973,152	\$ 36,666,541
20,194,964	15,830,156	22,142,566	18,154,747
11,500,771	5,409,690	18,622,156	12,910,320
65,100,818	63,367,723	74,480,658	76,240,761
2,889,404	3,801,893	3,771,240	5,019,634
<u>\$ 108,060,648</u>	<u>\$ 95,725,302</u>	<u>\$157,989,772</u>	<u>\$148,992,003</u>
\$ 675,512	\$ 663,512	\$ 2,748,331	\$ 2,440,650
4,365,463	3,337,273	5,995,781	5,003,020
53,528,043	50,216,571	63,191,445	61,883,472
31,232	16,487	3,335,903	3,199,184
<u>\$ 58,600,250</u>	<u>\$ 54,233,843</u>	<u>\$ 75,271,460</u>	<u>\$ 72,526,326</u>
\$ 36,587,745	\$ 29,850,843	\$ 47,947,864	\$ 45,387,093
1,088,852	1,200,933	3,623,548	2,668,253
11,783,801	10,439,683	31,146,900	28,410,331
<u>\$ 49,460,398</u>	<u>\$ 41,491,459</u>	<u>\$ 82,718,312</u>	<u>\$ 76,465,677</u>
<u>\$ 108,060,648</u>	<u>\$ 95,725,302</u>	<u>\$157,989,772</u>	<u>\$148,992,003</u>

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

		<u>Governmental Activities</u>	
		<u>2005</u>	<u>2004</u>
<b>Program Revenues:</b>			
Charges for services		\$ 5,038,860	\$ 6,163,236
Operating grants and contributions		673,987	143,376
Capital grants and contributions		653,580	673,833
<b>General Revenues:</b>			
Property taxes		3,260,930	3,235,501
Sales taxes		14,283,732	13,435,594
Other taxes		349,694	322,463
City Board of Education for debt service payments		583,889	506,006
Unrestricted investment earnings		405,468	207,529
Sale of capital assets		(42,390)	20,861
Miscellaneous		1,454,893	1,420,797
<b>TOTAL REVENUES</b>		<b>\$ 26,662,643</b>	<b>\$ 26,129,196</b>
<b>Expenses:</b>			
General government		\$ 3,213,574	\$ 2,989,946
Public safety		6,687,123	6,162,279
Highways and streets		1,952,560	2,202,907
Sanitation		2,977,567	2,807,035
Health and social services		383,403	417,247
Culture and recreation		319,109	2,286,300
Education		5,168,258	5,202,939
Conservation		31,487	41,814
Interest on long-term debt		410,567	383,746
Sewer		-	-
Water		-	-
Park and Recreation		-	-
Golf course		-	-
Airport		-	-
<b>TOTAL EXPENSES</b>		<b>\$ 21,143,648</b>	<b>\$ 22,494,213</b>
<b>EXCESS BEFORE TRANSFERS</b>		<b>\$ 5,518,995</b>	<b>\$ 3,634,983</b>
Transfers		(2,138,774)	(170,910)
<b>INCREASE IN NET ASSETS</b>		<b>\$ 3,380,221</b>	<b>\$ 3,464,073</b>
Net assets at beginning of year		29,877,693	31,510,145
<b>NET ASSETS AT END OF YEAR</b>		<b>\$ 33,257,914</b>	<b>\$ 34,974,218</b>

OF ACTIVITIES  
ALABAMA  
2005 and 2004

Business-type Activities		Total	
2005	2004	2005	2004
\$ 12,961,155	\$ 11,177,924	\$ 18,000,015	\$ 17,341,160
70	13,671	674,057	157,047
133,042	31,720	786,622	705,553
-	-	3,260,930	3,235,501
-	-	14,283,732	13,435,594
-	-	349,694	322,463
-	-	583,889	506,006
160,806	74,259	566,274	281,788
109,661	472	67,271	21,333
-	-	1,454,893	1,420,797
<u>\$ 13,364,734</u>	<u>\$ 11,298,046</u>	<u>\$ 40,027,377</u>	<u>\$ 37,427,242</u>
\$ -	\$ -	\$ 3,213,574	\$ 2,989,946
-	-	6,687,123	6,162,279
-	-	1,952,560	2,202,907
-	-	2,977,567	2,807,035
-	-	383,403	417,247
-	-	319,109	2,286,300
-	-	5,168,258	5,202,939
-	-	31,487	41,814
-	-	410,567	383,746
4,481,485	4,036,041	4,481,485	4,036,041
4,790,282	4,754,737	4,790,282	4,754,737
2,136,782	-	2,136,782	-
659,008	624,678	659,008	624,678
563,537	426,041	563,537	426,041
<u>\$ 12,631,094</u>	<u>\$ 9,841,497</u>	<u>\$ 33,774,742</u>	<u>\$ 32,335,710</u>
\$ 733,640	\$ 1,456,549	\$ 6,252,635	\$ 5,091,532
2,138,774	170,910	-	-
<u>\$ 2,872,414</u>	<u>\$ 1,627,459</u>	<u>\$ 6,252,635</u>	<u>\$ 5,091,532</u>
46,587,984	39,864,000	76,465,677	71,374,145
<u>\$ 49,460,398</u>	<u>\$ 41,491,459</u>	<u>\$ 82,718,312</u>	<u>\$ 76,465,677</u>

**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 five 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 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 FY2005 was \$1.369 cents per 1000 gallons. The rate for FY2006 is estimated to be \$1.42 per 1000 gallons, based on FY2005 audited expenses and certain FY2006 water debt obligations divided by the quantity of water furnished to the City by the plant during the 2005 fiscal year. The new rate will be applied retroactively to October 1, 2005.

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 February 1, 2005. Rates charged during FY2005 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

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

New rates effective February 1, 2005 were 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

Rates are scheduled to increase approximately 5% on February 1, 2006.

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

	Year Ended 9/30/04	Year Ended 9/30/05
Retail Customers	10,289	10,370
Total Volume	902,903,600	889,382,000
Annual Sales	\$3,696,045	\$3,787,445

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

	FY2004	FY2005
Cullman County	1,524,850,100	1,505,596,000
Johnsons Crossing Water	114,602,000	93,470,000
City of Hanceville	78,532,000	-0-
Walter Water Authority	32,737,200	36,002,000
East Cullman Water Authority	430,017,000	416,031,000
VAW Water Authority	293,821,000	369,748,100

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
FY2004	73.27%	41.79%
FY2005	73.13%	46.67%

The following shows the annual charges for wholesale water to the five county water systems and the City of Cullman during the fiscal year ended September 30, 2005, and the percentage of wholesale sales represented for the fiscal year:

Customers	Annual Sales to Wholesale Customers	Percentage of Total Annual Wholesale Sales
Cullman County	\$2,061,161	42.06%
VAW Water System	506,185	10.35
East Cullman Water	569,546	11.62
Johnson's Crossing Water	127,960	2.61
Walter Water Authority	49,287	1.01
City of Cullman	1,586,541	32.27

The amount of water furnished to the City by the Utilities Board water plant in FY 2005 was 3,579,752,147 gallons. The amount furnished in FY 2004 was 3,720,216,423 gallons.

Reductions in FY2005 can be attributed mainly to two factors: (1) the City of Hanceville did not purchase water from Cullman during FY2005; and (2) improved conservation measures by customers during FY 2005.

## 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 methods 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 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:

**CONDENSED BALANCE SHEET**  
**WATER FUND OF THE CITY OF CULLMAN, ALABAMA**  
September 30, 2005 and 2004

	September 30		Variance	
	2005	2004	Dollars	%
			Increase (Decrease)	
Current assets	\$ 10,519,219	\$ 9,533,082	\$ 986,137	10.34
Restricted assets	7,134,118	5,535,135	1,598,983	28.89
Deferred Charges	394,406	394,595	(189)	(0.05)
Capital assets:				
Producing assets	9,951,580	10,365,645	(414,065)	(3.99)
Construction in progress	3,338,258	1,621,018	1,717,240	105.94
Other assets	940,688	771,225	169,463	21.97
TOTAL ASSETS	<u>\$32,278,269</u>	<u>\$28,220,700</u>	<u>\$4,057,569</u>	<u>14.38</u>
Current liabilities	\$ 394,527	\$ 433,403	\$ (38,876)	(8.97)
Liabilities payable from restricted assets	1,406,364	979,484	426,880	43.58
Long-term debt	14,438,214	12,799,235	1,638,979	12.81
TOTAL LIABILITIES	<u>\$16,239,105</u>	<u>\$14,212,122</u>	<u>\$2,026,983</u>	<u>14.26</u>
Net assets:				
Invested in capital assets, net of related liabilities	\$ 4,510,413	\$ 3,565,154	\$ 945,259	26.51
Restricted for capital activity and debt service	572,726	670,168	(97,442)	(14.54)
Unrestricted	10,956,025	9,773,256	1,182,769	12.10
TOTAL NET ASSETS	<u>\$16,039,164</u>	<u>\$14,008,578</u>	<u>\$2,030,586</u>	<u>14.50</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$32,278,269</u>	<u>\$28,220,700</u>	<u>\$4,057,569</u>	<u>14.38</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
WATER FUND OF THE CITY OF CULLMAN, ALABAMA  
For the years ended September 30, 2005 and 2004

	<u>Year ended September 30</u>		<u>Variance</u>	
	<u>2005</u>	<u>2004</u>	<u>Dollar</u>	<u>%</u>
			Favorable (Unfavorable)	
Operating Revenues:				
Water sales	\$ 7,123,455	\$ 6,401,797	\$ 721,658	11.27
Charges for service connection	119,910	76,940	42,970	55.85
Miscellaneous	11,376	10,236	1,140	11.14
TOTAL OPERATING REVENUES	<u>\$ 7,254,741</u>	<u>\$ 6,488,973</u>	<u>\$ 765,768</u>	<u>11.80</u>
Expenses:				
Cost of purchased water	\$ 3,395,412	\$ 3,294,226	\$ (101,186)	(3.07)
Operating expenses	934,600	939,665	5,065	0.54
Depreciation	500,456	490,823	(9,633)	(1.96)
TOTAL EXPENSES	<u>\$ 4,830,468</u>	<u>\$ 4,724,714</u>	<u>\$ (105,754)</u>	<u>(2.24)</u>
OPERATING INCOME	<u>\$ 2,424,273</u>	<u>\$ 1,764,259</u>	<u>\$ 660,014</u>	<u>37.41</u>
Non-operating revenues (expenses)	(393,687)	(421,310)	27,623	6.56
INCREASE IN NET ASSETS BEFORE TRANSFERS	<u>\$ 2,030,586</u>	<u>\$ 1,342,949</u>	<u>\$ 687,637</u>	<u>51.20</u>
Transfers in	-	8,751	(8,751)	(100.00)
INCREASE IN NET ASSETS	<u>\$ 2,030,586</u>	<u>\$ 1,351,700</u>	<u>\$ 678,886</u>	<u>50.22</u>
Net assets at beginning of year	14,008,578	12,656,878	1,351,700	10.68
NET ASSETS AT END OF YEAR	<u>\$ 16,039,164</u>	<u>\$ 14,008,578</u>	<u>\$ 2,030,586</u>	<u>14.50</u>

**PLANT IMPROVEMENTS  
and  
SCHEDULED DEBT**

During the past several 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, Phase II and Phase III 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 and financing 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 a North Loop Extension, Highway 157 (Terri Pines) Water Project and the Warnke Road Tank Upgrade.

The City also received an additional loan from the Alabama Drinking Water Finance Authority for a Highway 69 Water Upgrade, South Loop Extension and coating of an existing tank through issuance of Water System Warrant Series 2005-DWSRF-DL in the amount of \$2,520,000.

An application was submitted during FY2005 for a loan from the Alabama Drinking Water Finance Authority for the following projects: Interior Tank Coating, County Road 469 Upgrade and galvanized pipe replacement. A loan in the amount of \$1,415,000 was approved, and Water System Warrant Series 2005B-DWSRF-DL was issued in October 2005.

The City Water Department has begun a project 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 proposed construction by the Utilities Board Water Division of 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, was issued a permit by the Corp of Engineers. This permit has been involved in litigation in the U.S. District Court for several years, where the presiding judge subsequently ruled that the permit for the Duck River Project should be vacated, citing 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.

The majority of the costs incurred in connection with the project was paid for from ARC Grants. In addition the City of Cullman Water Department had advanced approximately \$1,000,000 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 issued by the Utilities Board.

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.

The Utilities Board has also initiated further study of other possible alternate water sources.

**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 February 1, 2005, and again on February 1, 2006. Rates as of September 30, 2005 were as follows:

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

Minimum Bill	\$19.40 for up to 3,000 gallons
Over 3,000 gallons	\$ 6.20 per 1,000 gallons

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

Minimum Bill	\$21.30 for up to 3,000 gallons
Over 3,000 gallons	\$ 6.90 per 1,000 gallons

Rates effective February 1, 2006, are as follows:

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

Minimum Bill	\$20.40 for up to 3,000 gallons
Over 3,000 gallons	\$ 6.50 per thousand gallons

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

Minimum Bill	\$22.40 for up to 3,000 gallons
Over 3,000 gallons	\$ 7.25 per thousand gallons

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

	Year Ended 9/30/04	Year Ended 9/30/05
Customers	7,408	7,592
Total Volume	615,054,500	618,010,300
Annual Sales	\$3,786,803	\$3,924,666

## 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 methods 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 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:

**CONDENSED BALANCE SHEET**  
**SEWER FUND OF THE CITY OF CULLMAN, ALABAMA**  
September 30, 2005 and 2004

	September 30		Variance	
	2005	2004	Dollars	%
			Increase (Decrease)	
Current assets	\$ 1,049,440	\$ 1,709,157	\$ (659,717)	(38.60)
Restricted assets	11,329,861	8,597,764	2,732,097	31.78
Deferred charges	1,506,054	1,556,579	(50,525)	(3.25)
Capital assets:				
Producing assets	35,504,398	36,910,573	(1,406,175)	(3.81)
Construction in progress	3,266,691	734,672	2,532,019	344.65
Other assets	658,693	680,281	(21,588)	(3.17)
TOTAL ASSETS	<u>\$53,315,137</u>	<u>\$50,189,026</u>	<u>\$3,126,111</u>	<u>6.23</u>
Current liabilities	\$ 157,288	\$ 186,311	\$ (29,023)	(15.58)
Liabilities payable from restricted assets	2,480,313	1,864,080	616,233	33.06
Deferred credits	4,416	7,727	(3,311)	(42.85)
Long-term debt	32,264,012	29,345,487	2,918,525	9.95
TOTAL LIABILITIES	<u>\$34,906,029</u>	<u>\$31,403,605</u>	<u>\$3,502,424</u>	<u>11.15</u>
Net assets:				
Invested in capital assets, net of related liabilities	\$17,739,245	\$17,739,401	\$ (156)	(0.00)
Restricted for debt service	(162,939)	(142,518)	20,421	14.33
Unrestricted	832,802	1,188,538	(355,736)	(29.93)
TOTAL NET ASSETS	<u>\$18,409,108</u>	<u>\$18,785,421</u>	<u>\$ (376,313)</u>	<u>(2.00)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$53,315,137</u>	<u>\$50,189,026</u>	<u>\$3,126,111</u>	<u>6.23</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**SEWER FUND OF THE CITY OF CULLMAN, ALABAMA**  
For the years ended September 30, 2005 and 2004

	Year ended September 30		Variance	
	2005	2004	Dollar	%
			Favorable (Unfavorable)	
Operating Revenues:				
Charges for services	\$ 3,943,334	\$ 3,814,027	\$ 129,307	3.39
Charges for service connection	81,700	86,540	(4,840)	(5.59)
Miscellaneous	50,611	32,670	17,941	54.92
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 4,075,645</b>	<b>\$ 3,933,237</b>	<b>\$ 142,408</b>	<b>3.62</b>
Expenses:				
Operating expenses	\$ 1,838,257	\$ 1,658,825	\$ (179,432)	(10.82)
Depreciation	1,489,154	1,443,888	(45,266)	(3.14)
<b>TOTAL EXPENSES</b>	<b>\$ 3,327,411</b>	<b>\$ 3,102,713</b>	<b>\$ (224,698)</b>	<b>(7.24)</b>
<b>OPERATING INCOME</b>	<b>\$ 748,234</b>	<b>\$ 830,524</b>	<b>\$ (82,290)</b>	<b>(9.91)</b>
Non-operating revenues (expenses)	(1,124,547)	(910,398)	(214,149)	(23.52)
(DECREASE) IN NET ASSETS BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	\$ (376,313)	\$ (79,874)	\$ (296,439)	(371.13)
Transfers (out)	-	(5,615)	5,615	100.00
Contributed capital	-	35,331	(35,331)	(100.00)
(DECREASE) IN NET ASSETS	\$ (376,313)	\$ (50,158)	\$ (326,155)	(650.26)
Net assets at beginning of year	18,785,421	18,835,579	(50,158)	(0.27)
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 18,409,108</b>	<b>\$ 18,785,421</b>	<b>\$ (376,313)</b>	<b>(2.00)</b>

**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 was constructed, 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 project in the amount of \$3,369,730 was awarded in December 2004 to Jordan Excavating and work should be completed in 2006.

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

In July 2005 the City of Cullman awarded a contract to Apel Machine & Supply to construct the Industrial Park #5 Pump Station and Sewer Upgrade in the amount of \$773,730, to be paid for from funds set aside by the City for industrial development. The project should be completed in 2006.

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 to fund these projects was issued in February 2005. Bids for these projects should be awarded in 2006.

## **CULLMAN AIRPORT BOARD**

### **Management's Discussion and Analysis Concerning the Audited Financial Statements for the Fiscal Year Ended September 30, 2005**

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.

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 helicopter hanger; 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.

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, 2005 and 2004

	September 30		Variance	
	2005	2004	Dollars	%
	Increase (decrease)			
Current assets	\$ 258,269	\$ 169,656	\$ 88,613	52.23
Deferred charges	1,571	1,857	(286)	(15.40)
Capital assets:				
Producing assets	4,406,199	4,431,421	(25,222)	(0.57)
Construction in progress	56,024	43,129	12,895	29.90
TOTAL ASSETS	<u>\$ 4,722,063</u>	<u>\$ 4,646,063</u>	<u>\$ 76,000</u>	<u>1.64</u>
Current liabilities	\$ 107,842	\$ 111,286	\$ (3,444)	(3.09)
Long-term debt	501,738	472,239	29,499	6.25
TOTAL LIABILITIES	<u>\$ 609,580</u>	<u>\$ 583,525</u>	<u>\$ 26,055</u>	<u>4.47</u>
Net assets:				
Invested in capital assets, net of related liabilities	\$ 4,117,437	\$ 4,065,391	\$ 52,046	1.28
Unrestricted	(4,954)	(2,853)	2,101	73.64
TOTAL NET ASSETS	<u>\$ 4,112,483</u>	<u>\$ 4,062,538</u>	<u>\$ 49,945</u>	<u>1.23</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,722,063</u>	<u>\$ 4,646,063</u>	<u>\$ 76,000</u>	<u>1.64</u>

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

**CULLMAN AIRPORT BOARD**

For the years ended September 30, 2005 and 2004

	Year ended September 30		Variance	
	2005	2004	Dollar	%
	Favorable (Unfavorable)			
Operating Revenues:				
Sale of fuel	\$ 545,251	\$ 357,354	\$ 187,897	52.58
Hangar rental	93,800	52,110	41,690	80.00
Terminal space rental	5,340	7,135	(1,795)	(25.16)
Ramp tie down fees	2,710	2,612	98	3.75
Miscellaneous	1,532	1,589	(57)	(3.59)
TOTAL OPERATING REVENUES	\$ 648,633	\$ 420,800	\$ 227,833	54.14
Cost of operating revenue	\$ 391,512	\$ 245,416	\$ (146,096)	(59.53)
Operating expenses:				
Operating expenses	334,973	259,654	(75,319)	(29.01)
Depreciation	389,547	341,166	(48,381)	(14.18)
TOTAL COST OF OPERATING REVENUE AND OPERATING EXPENSES	\$ 1,116,032	\$ 846,236	\$ (269,796)	(31.88)
OPERATING (LOSS)	\$ (467,399)	\$ (425,436)	\$ (41,963)	(9.86)
Non-operating revenues (expenses)	(10,900)	(5,144)	(5,756)	(111.90)
LOSS BEFORE CONTRIBUTIONS AND TRANSFERS	\$ (478,299)	\$ (430,580)	\$ (47,719)	(11.08)
Capital contributions	202,396	63,440	138,956	219.04
Transfers in - City of Cullman	162,924	52,443	110,481	210.67
Transfers in - Cullman County	162,924	52,443	110,481	210.67
INCREASE (DECREASE) IN NET ASSETS	\$ 49,945	\$ (262,254)	\$ 312,199	119.04
Net assets at beginning of year	4,062,538	4,324,792	(262,254)	(6.06)
NET ASSETS AT END OF YEAR	\$ 4,112,483	\$ 4,062,538	\$ 49,945	1.23

## **AIRPORT IMPROVEMENTS**

In FY2004 the contract for site preparation and taxiway for new T-hanger construction and for installation of runway end identifier lights was completed, and in 2005 the Board received a 50-50 matching grant from the State Aeronautics Bureau for engineering and planning for the runway, taxiway and apron, and for site preparation for aircraft parking apron expansion.

During FY2005 the Airport Board also received a grant in the amount of \$412,539 from FAA, and matching funds of \$10,856 from the State Aeronautics Bureau, for runway rehabilitation, apron expansion, runway dip correction and taxiway rehabilitation. Bids were awarded and the work completed in 2006.

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, and Manning Construction was awarded a bid for expansion of the North apron in FY2004. This project was completed in December 2004 at a total cost of \$203,598.80.

In June 2005, work was completed on a helicopter hanger for the Alabama State Troopers.

As of 9/30/05 the Airport Board owed a balance of \$343,457 on a General Obligation Warrant issued to construct a 16- unit T-Hanger.

## **OPERATIONS**

The Board's operating revenues in FY2005 increased 54 percent, while operating expenses increased approximately 32 percent. However, net assets increased by approximately \$50,000, due to increases 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, airport board, Utilities Board – Water Division, and Park and Recreation Foundation 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) 775-7109; FAX (256) 775-7132, e-mail [lgalin@cullmancity.org](mailto:lgalin@cullmancity.org).

CITY OF CULLMAN, ALABAMA  
STATEMENT OF NET ASSETS  
September 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash equivalents	\$ 2,333,850	\$ 7,173,441	\$ 9,507,291
Certificates of deposit	17,972,202	2,819,343	20,791,545
Interest receivable	80,957	12,559	93,516
Accounts receivable (net)	123,348	137,622	260,970
Assessments receivable (net)	55,000	3,000	58,000
Interfund balances	3,556,322	(3,556,322)	-
Due from other governmental units	6,223,852	1,044,538	7,268,390
Inventories	51,963	468,381	520,344
Prepaid insurance	198,404	80,182	278,586
Prepaid interest	-	181,699	181,699
Prepaid state unemployment	2,563	-	2,563
Prepaid utility tax	-	10,248	10,248
TOTAL CURRENT ASSETS	<u>\$ 30,598,461</u>	<u>\$ 8,374,691</u>	<u>\$ 38,973,152</u>
Restricted assets:			
Cash equivalents	\$ 172,602	\$ 4,720,871	\$ 4,893,473
Interest receivable	-	2,991	2,991
State revolving funds receivable	-	15,471,102	15,471,102
Advances to other governments	1,775,000	-	1,775,000
TOTAL RESTRICTED ASSETS	<u>\$ 1,947,602</u>	<u>\$ 20,194,964</u>	<u>\$ 22,142,566</u>
Capital assets:			
Land and other assets not being depreciated	\$ 7,121,385	\$ 11,500,771	\$ 18,622,156
Buildings, improvements, and equipment, net of depreciation	9,379,840	65,100,818	74,480,658
TOTAL CAPITAL ASSETS	<u>\$ 16,501,225</u>	<u>\$ 76,601,589</u>	<u>\$ 93,102,814</u>
Other assets:			
Deferred debt expense	\$ 87,152	\$ 2,211,172	\$ 2,298,324
Deposits	-	910	910
Prepaid interest - noncurrent	-	90,036	90,036
Insurance deposit	113,307	-	113,307
Assessments receivable - noncurrent	681,377	587,286	1,268,663
TOTAL OTHER ASSETS	<u>\$ 881,836</u>	<u>\$ 2,889,404</u>	<u>\$ 3,771,240</u>
TOTAL ASSETS	<u>\$ 49,929,124</u>	<u>\$ 108,060,648</u>	<u>\$ 157,989,772</u>

(Continued)

STATEMENT OF NET ASSETS - CONTINUED

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 817,069	\$ 410,375	\$ 1,227,444
Utility tax payable	-	14,403	14,403
Accrued interest payable	-	2,259	2,259
Due to other governmental units	568,218	25,634	593,852
Accrued payroll	282,387	97,401	379,788
Current maturities on long-term debt	-	55,878	55,878
Estimated compensated absences - current portion	405,145	69,562	474,707
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 2,072,819</b>	<b>\$ 675,512</b>	<b>\$ 2,748,331</b>
<b>Liabilities payable from restricted assets:</b>			
Accounts payable - contractor	\$ -	\$ 859,690	\$ 859,690
Accrued interest payable	85,318	340,773	426,091
Current maturities on long-term debt	1,545,000	3,165,000	4,710,000
<b>TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>\$ 1,630,318</b>	<b>\$ 4,365,463</b>	<b>\$ 5,995,781</b>
<b>Long-term liabilities:</b>			
Warrants/bonds payable	\$ 9,046,202	\$ 53,202,917	\$ 62,249,119
Notes payable	-	42,681	42,681
Estimated compensated absences	617,200	282,445	899,645
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 9,663,402</b>	<b>\$ 53,528,043</b>	<b>\$ 63,191,445</b>
<b>Other liabilities:</b>			
Deferred debt premium	\$ 13,333	\$ 12,220	\$ 25,553
Deferred revenue	3,291,338	19,012	3,310,350
<b>TOTAL OTHER LIABILITIES</b>	<b>\$ 3,304,671</b>	<b>\$ 31,232</b>	<b>\$ 3,335,903</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 16,671,210</b>	<b>\$ 58,600,250</b>	<b>\$ 75,271,460</b>
<b>Net assets:</b>			
Invested in capital assets, net of related liabilities	\$ 11,360,119	\$ 36,587,745	\$ 47,947,864
<b>Restricted for:</b>			
Debt service and capital activity	749,174	1,088,852	1,838,026
Landfill improvements	688,717	-	688,717
Realty improvements and Ingle Park	154,718	-	154,718
Endowments	3,927	-	3,927
Municipal Court equipment and training	22,077	-	22,077
Highways and streets	895,132	-	895,132
Industrial development/recreation	18,155	-	18,155
Education	2,796	-	2,796
Unrestricted	19,363,099	11,783,801	31,146,900
<b>TOTAL NET ASSETS</b>	<b>\$ 33,257,914</b>	<b>\$ 49,460,398</b>	<b>\$ 82,718,312</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 49,929,124</b>	<b>\$108,060,648</b>	<b>\$157,989,772</b>

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

CITY OF CULLMAN, ALABAMA  
STATEMENT OF FINANCIAL POSITION -  
CITY OF CULLMAN PARK AND RECREATION FOUNDATION  
(COMPONENT UNIT)  
 September 30, 2005

<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash		\$ 61,984
Accrued interest		603
Certificate of deposit		<u>87,610</u>
	<b>TOTAL CURRENT ASSETS</b>	<b>\$ 150,197</b>
 <b>RESTRICTED ASSETS</b>		
Pledges receivable		<u>126,900</u>
	<b>TOTAL ASSETS</b>	<b><u>\$ 277,097</u></b>
 <u>NET ASSETS</u>		
Temporarily restricted net assets		\$ 126,900
Unrestricted net assets		<u>150,197</u>
	<b>TOTAL NET ASSETS</b>	<b><u>\$ 277,097</u></b>

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	\$ 2,340,088
Building and housing	215,767
Garage	225,680
Public works	432,039
Public safety:	
Police	4,239,537
Fire	2,034,869
Dispatch and miscellaneous	412,717
Highways and streets	1,952,560
Sanitation	2,977,567
Health and social services	383,403
Culture and recreation	319,109
Education	5,168,258
Conservation	31,487
Interest on long-term debt	410,567
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 21,143,648</u>
Business-type activities:	
Sewer	\$ 4,481,485
Water	4,790,282
Park and recreation	2,136,782
Golf course	659,008
Airport	563,537
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 12,631,094</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 33,774,742</u></u>

(Continued)

CULLMAN, ALABAMA  
ACTIVITIES  
September 30, 2005

Program Revenues			
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
\$ 1,711,408	\$ 71	\$ -	\$ (628,609)
131,470	-	-	(84,297)
-	-	-	(225,680)
414,276	-	-	(17,763)
318,295	100,583	242,999	(3,577,660)
-	1,476	-	(2,033,393)
-	33,673	-	(379,044)
61,302	516,766	141,932	(1,232,560)
2,382,683	-	-	(594,884)
-	21,418	-	(361,985)
12,505	-	268,649	(37,955)
6,921	-	-	(5,161,337)
-	-	-	(31,487)
-	-	-	(410,567)
<u>\$ 5,038,860</u>	<u>\$ 673,987</u>	<u>\$ 653,580</u>	<u>\$(14,777,221)</u>
\$ 4,075,645	\$ -	\$ -	\$ (405,840)
7,255,409	-	31,844	2,496,971
808,773	-	-	(1,328,009)
497,012	-	-	(161,996)
324,316	70	101,198	(137,953)
<u>\$ 12,961,155</u>	<u>\$ 70</u>	<u>\$ 133,042</u>	<u>\$ 463,173</u>
<u>\$ 18,000,015</u>	<u>\$ 674,057</u>	<u>\$ 786,622</u>	<u>\$(14,314,048)</u>

STATEMENT OF ACTIVITIES - CONTINUED

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets:			
Net (expense) revenue	\$ (14,777,221)	\$ 463,173	\$ (14,314,048)
General revenues:			
Taxes:			
Property taxes, levied for general purposes	\$ 970,300	\$ -	\$ 970,300
Property taxes, levied for education	2,290,630	-	2,290,630
Sales taxes, levied for general purposes	12,112,588	-	12,112,588
Sales taxes, levied for education	2,171,144	-	2,171,144
Tobacco taxes	151,589	-	151,589
Lodging taxes	165,463	-	165,463
Other taxes	32,642	-	32,642
City Board of Education for debt service payments	583,889	-	583,889
Unrestricted investment earnings	405,468	160,806	566,274
Sale of capital assets	(42,390)	109,661	67,271
Miscellaneous	1,454,893	-	1,454,893
Transfers - internal activities	(2,138,774)	2,138,774	-
TOTAL GENERAL REVENUES AND TRANSFERS	<u>\$ 18,157,442</u>	<u>\$ 2,409,241</u>	<u>\$ 20,566,683</u>
CHANGE IN NET ASSETS	<u>\$ 3,380,221</u>	<u>\$ 2,872,414</u>	<u>\$ 6,252,635</u>
Net assets - beginning	29,877,693	46,587,984	76,465,677
Net assets - ending	<u>\$ 33,257,914</u>	<u>\$ 49,460,398</u>	<u>\$ 82,718,312</u>

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

CITY OF CULLMAN  
STATEMENT OF ACTIVITIES - CITY OF CULLMAN  
PARK AND RECREATION FOUNDATION (COMPONENT UNIT)

For the period beginning October 1, 2004  
and ending September 30, 2005

	<u>UNRESTRICTED NET ASSETS</u>	<u>TEMPORARILY RESTRICTED NET ASSETS</u>	<u>TOTAL</u>
Support:			
Business and individuals	\$ 4,889	\$ 394,965	\$ 399,854
Revenue:			
Fund-raising activities	\$ -	\$ 38,815	\$ 38,815
Interest income	2,999	-	2,999
TOTAL REVENUE	<u>\$ 2,999</u>	<u>\$ 38,815</u>	<u>\$ 41,814</u>
Net assets released from restrictions	<u>\$ 291,607</u>	<u>\$ (291,607)</u>	<u>\$ -</u>
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	\$ 299,495	\$ 142,173	\$ 441,668
Expenses:			
Program services	\$ 345,137	\$ -	\$ 345,137
Support services:			
Management and general	1,151	-	1,151
Fund-raising	-	15,273	15,273
TOTAL EXPENSES	<u>\$ 346,288</u>	<u>\$ 15,273</u>	<u>\$ 361,561</u>
INCREASE (DECREASE) IN NET ASSETS	\$ (46,793)	\$ 126,900	\$ 80,107
Net assets at beginning of period	<u>196,990</u>	<u>-</u>	<u>196,990</u>
NET ASSETS AT END OF PERIOD	<u>\$ 150,197</u>	<u>\$ 126,900</u>	<u>\$ 277,097</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	\$ 704,764	\$ 3,008
Certificates of deposit	16,481,690	-
Receivables (net of allowance for uncollectibles):		
Accounts	123,348	-
Assessments	736,377	-
Interest	70,317	-
Interfund receivables	187,541	-
Due from other governmental units	3,427,613	2,707,510
Inventories	51,963	-
Prepaid expenditures	200,967	-
Interfund receivables - long-term	1,072,700	-
Restricted assets:		
Cash equivalents	-	-
Advances to other governmental units	-	-
Interfund receivables - long-term	-	-
Insurance deposit	113,307	-
TOTAL ASSETS	\$ 23,170,587	\$ 2,710,518

(Continued)

ALABAMA  
GOVERNMENTAL FUNDS  
 2005

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 203,776	\$ 1,422,302	\$ 2,333,850
315,677	1,174,835	17,972,202
-	-	123,348
-	-	736,377
289	10,351	80,957
3,366	18,007	208,914
-	88,729	6,223,852
-	-	51,963
-	-	200,967
-	-	1,072,700
172,602	-	172,602
1,775,000	-	1,775,000
2,526,654	-	2,526,654
-	-	113,307
<u>\$ 4,997,364</u>	<u>\$ 2,714,224</u>	<u>\$ 33,592,693</u>

BALANCE SHEET -

<u>LIABILITIES AND FUND BALANCES</u>	General	School Tax
Liabilities:		
Accounts payable	\$ 618,659	\$ -
Accrued liabilities	281,350	-
Interfund payables	106,005	-
Due to other governmental units	149,501	387,834
Interfund payables - long-term	-	-
Deferred revenues	2,819,925	2,504,825
Estimated liability for compensated absences	155,464	-
TOTAL LIABILITIES	\$ 4,130,904	\$ 2,892,659
Fund balances:		
Reserved for:		
Inventory	\$ 51,963	\$ -
Prepaid expenditures and insurance deposit	314,274	-
Landfill improvements	688,717	-
Recycling	23,872	-
Interfund receivables - long-term	1,072,700	-
Advances to other governmental units	-	-
Realty improvements and Ingle Park	53,810	-
Endowments	-	-
Municipal Court equipment and training	22,077	-
Unreserved	16,812,270	(182,141)
Unreserved, reported in nonmajor:		
Special revenue funds	-	-
Capital project funds	-	-
TOTAL FUND BALANCES (DEFICIT)	\$ 19,039,683	\$ (182,141)
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,170,587	\$ 2,710,518

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>
\$ -	\$ 198,410	\$ 817,069
1,037	-	282,387
-	110,941	216,946
30,883	-	568,218
-	35,000	35,000
-	47,912	5,372,662
-	-	155,464
<u>\$ 31,920</u>	<u>\$ 392,263</u>	<u>\$ 7,447,746</u>
\$ -	\$ -	\$ 51,963
-	-	314,274
-	-	688,717
-	-	23,872
2,526,654	-	3,599,354
1,775,000	-	1,775,000
-	100,908	154,718
-	3,927	3,927
-	-	22,077
663,790	-	17,293,919
-	1,393,887	1,393,887
-	823,239	823,239
<u>\$ 4,965,444</u>	<u>\$ 2,321,961</u>	<u>\$ 26,144,947</u>
<u>\$ 4,997,364</u>	<u>\$ 2,714,224</u>	<u>\$ 33,592,693</u>

CITY OF CULLMAN, ALABAMA  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO STATEMENT OF NET ASSETS  
September 30, 2005

Total fund balances - total governmental funds (page 49 ) \$ 26,144,947

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	\$ 22,596,048	
Accumulated depreciation	<u>(6,094,823)</u>	16,501,225

Other long-term assets are not available to pay for current-period  
expenditures and therefore are deferred in the funds 2,081,324

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, 2005, were:

General Obligation Warrants	\$(10,780,000)	
Less deferred interest from refunding	188,798	
Less deferred issuance costs and discounts	87,152	
Plus deferred premium	(13,333)	
Accrued interest	(85,318)	
Compensated absences	<u>(866,881)</u>	<u>(11,469,582)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 40) \$ 33,257,914

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	\$ 13,370,626	\$ 4,450,220
Licenses and permits	2,202,354	-
Intergovernmental revenues	1,423,141	-
Charges for services	2,481,009	-
Fines and forfeits	257,425	-
Miscellaneous revenues:		
Interest revenue	\$ 350,450	\$ 2,439
Miscellaneous	107,180	-
TOTAL MISCELLANEOUS REVENUES	\$ 457,630	\$ 2,439
TOTAL REVENUES	\$ 20,192,185	\$ 4,452,659
Expenditures:		
Current:		
General government	\$ 3,005,610	\$ -
Public safety	6,318,984	-
Highways and streets	1,604,840	-
Sanitation	2,725,614	-
Health and social services	383,403	-
Culture and recreation	302,545	-
Education	637,596	4,465,763
Conservation	31,487	-
Capital outlay	1,697,217	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
TOTAL EXPENDITURES	\$ 16,707,296	\$ 4,465,763
REVENUES OVER (UNDER) EXPENDITURES	\$ 3,484,889	\$ (13,104)
Other financing sources (uses):		
Sale of capital assets	\$ 28,397	\$ -
Capital contributions	581,019	-
Operating transfers in	-	-
Transfers - Cullman County Commission	-	-
Operating transfers (out)	(1,888,311)	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ (1,278,895)	\$ -
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 2,205,994	\$ (13,104)
Fund balances (deficit) at October 1	16,833,689	(169,037)
FUND BALANCES (DEFICIT) AT SEPTEMBER 30	\$ 19,039,683	\$ (182,141)

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

ALABAMA  
EXPENDITURES, AND CHANGES IN  
GOVERNMENTAL FUNDS  
September 30, 2005

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 176,993	\$ 17,997,839
-	-	2,202,354
583,889	370,877	2,377,907
-	-	2,481,009
-	51,986	309,411
\$ 11,389	\$ 38,422	\$ 402,700
-	-	107,180
<u>\$ 11,389</u>	<u>\$ 38,422</u>	<u>\$ 509,880</u>
\$ 595,278	\$ 638,278	\$ 25,878,400
\$ -	\$ 63,691	\$ 3,069,301
-	-	6,318,984
-	214,715	1,819,555
-	-	2,725,614
-	-	383,403
-	2,765	305,310
-	43,727	5,147,086
-	-	31,487
-	488,101	2,185,318
1,655,000	100,000	1,755,000
309,447	54,000	363,447
<u>\$ 1,964,447</u>	<u>\$ 966,999</u>	<u>\$ 24,104,505</u>
\$ (1,369,169)	\$ (328,721)	\$ 1,773,895
\$ -	\$ 123,815	\$ 152,212
-	346,677	927,696
428,014	8,400	436,414
-	(12,973)	(12,973)
-	(686,877)	(2,575,188)
<u>\$ 428,014</u>	<u>\$ (220,958)</u>	<u>\$ (1,071,839)</u>
\$ (941,155)	\$ (549,679)	\$ 702,056
5,906,599	2,871,640	25,442,891
<u>\$ 4,965,444</u>	<u>\$ 2,321,961</u>	<u>\$ 26,144,947</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, 2005

Net change in fund balances - total governmental funds (page 52) \$ 702,056

Amounts reported for governmental activities in the statement of activities (pages 42-44) 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 (\$2,185,318) exceeded depreciation (\$785,120) in the current period. 1,400,198

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 (\$388,391) less accumulated depreciation (\$193,788) (194,603)

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

Revenues reported at the fund level in the current year that were earned and reported in the statement of activities for the year ended September 30, 2004	\$ (2,191,862)	
Revenues deferred at the fund level that were earned and reported as revenues in the statement of activities for the current year	<u>2,081,325</u>	(110,537)

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	\$ (115,920)	
Accrued interest on warrants at beginning of year (\$60,747)		
less accrued interest on warrants at end of year (\$85,318)	<u>(24,571)</u>	(140,491)

(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.

Amortizations on previously issued debt:

Debt discount and issuance costs	\$	10,467
Deferred loss on refunding		22,549
Debt premium		<u>(1,614)</u>

TOTAL AMORTIZATIONS ON PREVIOUSLY ISSUED DEBT	\$	31,402
--------------------------------------------------	----	--------

Repayments:

To bondholders

\$ (1,755,000)

NET ADJUSTMENT \$ (1,723,598)

1,723,598

CHANGE IN NET ASSETS OF THE GOVERNMENTAL ACTIVITIES (PAGE 44)	\$	<u>3,380,221</u>
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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
<b><u>ASSETS</u></b>		
Current assets:		
Cash equivalents	\$ 61,594	\$ 6,919,386
Certificates of deposit	300,000	2,519,343
Interest receivable	2,198	10,361
Accounts receivable, net of allowance	6,376	122,674
Assessments receivable, net of allowance	3,000	-
Interfund receivables	86,175	277,116
Due from other governmental units	404,563	601,841
Inventories	34,647	405,152
Prepaid insurance	24,140	44,072
Prepaid interest	126,747	54,952
Prepaid utility tax	-	10,248
TOTAL CURRENT ASSETS	\$ 1,049,440	\$ 10,965,145
Restricted assets:		
Cash equivalents	\$ 1,346,370	\$ 3,279,572
State revolving funds receivable	9,983,491	5,487,611
Interest receivable	-	2,991
TOTAL RESTRICTED ASSETS	\$ 11,329,861	\$ 8,770,174
Capital assets:		
Land	\$ 64,488	\$ 669,804
Buildings	6,725,127	6,501,181
Improvements other than buildings	44,781,114	28,094,556
Machinery and equipment	1,124,742	8,053,389
Accumulated depreciation	(17,191,073)	(19,947,778)
	\$ 35,504,398	\$ 23,371,152
Construction in progress	3,266,691	5,517,006
TOTAL CAPITAL ASSETS	\$ 38,771,089	\$ 28,888,158
Other assets:		
Deferred debt expense	\$ 1,506,054	\$ 685,751
Deposits	-	-
Assessments receivable - noncurrent	587,286	-
Prepaid interest - noncurrent	71,407	18,629
Interfund receivables - long-term	-	922,059
TOTAL OTHER ASSETS	\$ 2,164,747	\$ 1,626,439
TOTAL ASSETS	\$ 53,315,137	\$ 50,249,916

(Continued)

ALABAMA  
PROPRIETARY FUNDS  
2005

<u>Activities</u>		
<u>Park and Recreation</u>	<u>Airport</u>	<u>TOTALS</u>
\$ 148,641	\$ 43,820	\$ 7,173,441
-	-	2,819,343
-	-	12,559
129	8,443	137,622
-	-	3,000
1,360	209	364,860
-	38,134	1,044,538
-	28,582	468,381
2,024	9,946	80,182
-	-	181,699
-	-	10,248
<u>\$ 152,154</u>	<u>\$ 129,134</u>	<u>\$ 12,295,873</u>
\$ 94,929	\$ -	\$ 4,720,871
-	-	15,471,102
-	-	2,991
<u>\$ 94,929</u>	<u>\$ -</u>	<u>\$ 20,194,964</u>
\$ 1,332,054	\$ 341,049	\$ 2,407,395
3,832,635	1,047,375	18,106,318
4,037,530	1,880,166	78,793,366
1,042,412	172,048	10,392,591
(3,815,068)	(1,237,538)	(42,191,457)
<u>\$ 6,429,563</u>	<u>\$ 2,203,100</u>	<u>\$ 67,508,213</u>
281,667	28,012	9,093,376
<u>\$ 6,711,230</u>	<u>\$ 2,231,112</u>	<u>\$ 76,601,589</u>
\$ 18,582	\$ 785	\$ 2,211,172
910	-	910
-	-	587,286
-	-	90,036
-	-	922,059
<u>\$ 19,492</u>	<u>\$ 785</u>	<u>\$ 3,811,463</u>
<u>\$ 6,977,805</u>	<u>\$ 2,361,031</u>	<u>\$ 112,903,889</u>

BALANCE SHEET -

	Business-Type	
	Sewer Operation	Water System
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current liabilities:		
Accounts payable	\$ 86,477	\$ 185,309
Utility tax payable	-	14,403
Accrued interest payable	-	-
Interfund payables	777	325,428
Due to other governmental units	25,634	-
Accrued payroll	25,585	38,827
Estimated compensated absences - current portion	18,815	35,714
Deferred revenue	-	18,156
Current maturities on long-term liabilities	-	-
TOTAL CURRENT LIABILITIES	\$ 157,288	\$ 617,837
Liabilities payable from restricted assets:		
Accounts payable - contractor	\$ 527,107	\$ 332,583
Accrued interest payable	128,922	208,429
Current maturities on long-term liabilities	1,335,000	1,830,000
Interfund payables	489,284	-
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 2,480,313	\$ 2,371,012
Deferred credits:		
Debt premium	\$ 4,416	\$ -
Long-term liabilities:		
Warrants/bonds payable	\$ 30,581,074	\$ 22,254,669
Notes payable	-	-
Estimated compensated absences	75,992	102,609
Interfund payables	1,606,946	961,340
TOTAL LONG-TERM LIABILITIES	\$ 32,264,012	\$ 23,318,618
TOTAL LIABILITIES	\$ 34,906,029	\$ 26,307,467
Net assets:		
Invested in capital assets, net of related liabilities	\$ 17,739,245	\$ 11,586,509
Restricted for debt service and capital activity	(162,939)	1,244,134
Unrestricted	832,802	11,111,806
TOTAL NET ASSETS	\$ 18,409,108	\$ 23,942,449
TOTAL LIABILITIES AND NET ASSETS	\$ 53,315,137	\$ 50,249,916

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

PROPRIETARY FUNDS - CONTINUED

Activities		
<u>Park and Recreation</u>	<u>Airport</u>	<u>TOTALS</u>
\$ 98,124	\$ 40,465	\$ 410,375
-	-	14,403
2,259	-	2,259
65,623	-	391,828
-	-	25,634
30,377	2,612	97,401
15,033	-	69,562
-	856	19,012
45,890	9,988	55,878
<u>\$ 257,306</u>	<u>\$ 53,921</u>	<u>\$ 1,086,352</u>
\$ -	\$ -	\$ 859,690
3,422	-	340,773
-	-	3,165,000
83,850	-	573,134
<u>\$ 87,272</u>	<u>\$ -</u>	<u>\$ 4,938,597</u>
\$ 7,804	\$ -	\$ 12,220
\$ 205,433	\$ 161,741	\$ 53,202,917
42,681	-	42,681
99,978	3,866	282,445
1,224,731	85,262	3,878,279
<u>\$ 1,572,823</u>	<u>\$ 250,869</u>	<u>\$ 57,406,322</u>
<u>\$ 1,925,205</u>	<u>\$ 304,790</u>	<u>\$ 63,443,491</u>
\$ 5,203,273	\$ 2,058,718	\$ 36,587,745
7,657	-	1,088,852
(158,330)	(2,477)	11,783,801
<u>\$ 5,052,600</u>	<u>\$ 2,056,241</u>	<u>\$ 49,460,398</u>
<u>\$ 6,977,805</u>	<u>\$ 2,361,031</u>	<u>\$ 112,903,889</u>

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

	Business-Type	
	Sewer Operation	Water System
Operating revenues:		
Charges for sales and services	\$ 3,943,334	\$ 7,123,455
Charges for service connections	81,700	119,910
Miscellaneous	50,611	12,044
TOTAL OPERATING REVENUES	<u>\$ 4,075,645</u>	<u>\$ 7,255,409</u>
Cost of operating revenue	\$ -	\$ -
Operating expenses:		
Salaries and wages	748,980	1,054,004
Nonemployee compensation	-	-
Payroll taxes	54,993	78,394
Employees retirement	55,859	100,447
Employees insurance	103,748	189,352
Telephone	11,727	15,116
Utilities	346,043	587,443
Billing, accounting, and collection fees	54,267	59,009
Office supplies and expenses	7,657	25,327
Professional services	8,432	25,069
Engineering services	-	13,897
Other contracted services	8,660	5,082
Tournament fees	-	-
Testing services	13,427	10,364
Landfill fees	31,929	-
Dues and subscriptions	510	5,719
Travel, registrations, and education	4,813	9,097
Rent	-	-
Permits and licenses	2,775	675
Printing and advertising	-	94
Uniforms	6,250	10,928
Small tools and equipment	10,666	10,029
Chemicals and supplies	31,025	277,741
Repairs and maintenance - system and equipment	289,815	383,206
Insurance	45,495	69,785
Miscellaneous	1,186	19,027
Depreciation	1,489,154	1,068,485
TOTAL COST OF OPERATING REVENUE AND OPERATING EXPENSES	<u>\$ 3,327,411</u>	<u>\$ 4,018,290</u>
OPERATING INCOME (LOSS)	<u>\$ 748,234</u>	<u>\$ 3,237,119</u>

(Continued)

ALABAMA  
EXPENSES AND CHANGES IN  
PROPRIETARY FUNDS  
September 30, 2005

<u>Activities</u>		
<u>Park and Recreation</u>	<u>Airport</u>	<u>TOTALS</u>
\$ 1,277,571	\$ 323,550	\$ 12,667,910
-	-	201,610
28,214	766	91,635
<u>\$ 1,305,785</u>	<u>\$ 324,316</u>	<u>\$ 12,961,155</u>
\$ 119,900	\$ 195,756	\$ 315,656
1,059,737	72,185	2,934,906
85,914	-	85,914
84,368	5,352	223,107
54,174	3,184	213,664
108,641	5,578	407,319
17,551	2,648	47,042
232,225	8,876	1,174,587
-	-	113,276
31,600	968	65,552
8,461	2,957	44,919
-	2,725	16,622
-	5,107	18,849
4,082	-	4,082
-	-	23,791
-	-	31,929
2,019	381	8,629
8,777	856	23,543
32,400	-	32,400
-	-	3,450
23,410	148	23,652
-	220	17,398
4,523	6,764	31,982
267,060	2,103	577,929
183,716	30,254	886,991
43,452	12,043	170,775
42,560	5,138	67,911
<u>329,095</u>	<u>194,774</u>	<u>3,081,508</u>
<u>\$ 2,743,665</u>	<u>\$ 558,017</u>	<u>\$ 10,647,383</u>
<u>\$ (1,437,880)</u>	<u>\$ (233,701)</u>	<u>\$ 2,313,772</u>

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

	Business-Type	
	Sewer Operation	Water System
Nonoperating revenues (expenses):		
Interest earned	\$ 25,992	\$ 131,650
Operating grants	-	-
Interest expense	(1,051,569)	(702,617)
Amortization of debt expense	(100,915)	(56,270)
Paying agent/trustee fees	(1,590)	(13,105)
Sale of assets	3,535	106,126
	<b>TOTAL NONOPERATING</b>	<b>REVENUES (EXPENSES)</b>
	<b>\$ (1,124,547)</b>	<b>\$ (534,216)</b>
	<b>INCREASE (DECREASE) IN</b>	
	<b>NET ASSETS BEFORE</b>	
	<b>CONTRIBUTIONS AND TRANSFERS</b>	
	<b>\$ (376,313)</b>	<b>\$ 2,702,903</b>
Capital contributions	-	31,844
Transfers in	-	-
	<b>NET INCREASE (DECREASE)</b>	
	<b>IN NET ASSETS</b>	
	<b>\$ (376,313)</b>	<b>\$ 2,734,747</b>
Net assets - October 1	18,785,421	21,207,702
	<b>NET ASSETS</b>	
	<b>AT SEPTEMBER 30</b>	
	<b>\$ 18,409,108</b>	<b>\$ 23,942,449</b>

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

ALABAMA  
 EXPENSES, AND CHANGES IN  
 PROPRIETARY FUNDS - CONTINUED  
 September 30, 2005

Activities		
Park and Recreation	Airport	TOTALS
\$ 3,164	\$ -	\$ 160,806
-	70	70
(47,520)	(5,377)	(1,807,083)
(2,605)	(143)	(159,933)
(2,000)	-	(16,695)
-	-	109,661
<u>\$ (48,961)</u>	<u>\$ (5,450)</u>	<u>\$ (1,713,174)</u>
\$ (1,486,841)	\$ (239,151)	\$ 600,598
-	101,198	133,042
1,975,850	162,924	2,138,774
<u>\$ 489,009</u>	<u>\$ 24,971</u>	<u>\$ 2,872,414</u>
4,563,591	2,031,270	46,587,984
<u>\$ 5,052,600</u>	<u>\$ 2,056,241</u>	<u>\$ 49,460,398</u>

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

	Business-Type	
	Sewer Operation	Water System
Cash flows provided by (used in) operating activities:		
Cash received from customers	\$ 4,063,327	\$ 7,169,912
Cash payments for merchandise sold	-	-
Cash payments for operating expenses	(1,026,089)	(1,998,703)
Cash payments to employees	(737,769)	(1,024,534)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 2,299,469	\$ 4,146,675
Cash flows from noncapital and related financing activities:		
Grants	\$ -	\$ 50,000
Transfers	-	-
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	\$ -	\$ 50,000
Cash flows (used in) capital and related financing activities:		
Proceeds from capital contributions	\$ -	\$ -
Interest and fiscal charges paid	(1,082,233)	(686,688)
Debt issuance costs	(50,389)	(22,875)
Interfund receivables/payables - long-term	158,453	(11,095)
Proceeds from long-term debt	1,644,873	917,872
Principal payments of long-term debt	(1,300,000)	(1,675,000)
Acquisition and construction of capital assets	(2,052,952)	(1,994,623)
Proceeds from sale of assets	10,512	123,181
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (2,671,736)	\$ (3,349,228)
Cash flows from investing activities:		
Proceeds from certificates of deposit	\$ 1,000,000	\$ 4,933,940
Interest received	22,300	123,334
Payments for purchase of certificates of deposit	(500,000)	(4,837,110)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 522,300	\$ 220,164
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 150,033	\$ 1,067,611
Cash and cash equivalents at beginning of year	1,257,931	9,131,347
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,407,964</u>	<u>\$ 10,198,958</u>

Cash and cash equivalents as of September 30, 2005 consisted of the following:

	Sewer Operation	Water System
Cash equivalents - current assets	\$ 61,594	\$ 6,919,386
Cash equivalents - restricted assets	1,346,370	3,279,572
TOTALS	<u>\$ 1,407,964</u>	<u>\$ 10,198,958</u>

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

ALABAMA  
 PROPRIETARY FUNDS  
 September 30, 2005  
 Cash and Cash Equivalents

Activities		
Park and Recreation	Airport	TOTALS
\$ 1,313,121	\$ 324,975	\$ 12,871,335
(119,900)	(197,839)	(317,739)
(1,205,175)	(93,523)	(4,323,490)
(1,037,701)	(71,551)	(2,871,555)
\$ (1,049,655)	\$ (37,938)	\$ 5,358,551
\$ -	\$ 408	\$ 50,408
1,975,850	163,378	2,139,228
\$ 1,975,850	\$ 163,786	\$ 2,189,636
\$ -	\$ 98,335	\$ 98,335
(42,076)	(5,377)	(1,816,374)
-	-	(73,264)
(172,850)	23,538	(1,954)
34,405	-	2,597,150
(43,720)	(9,623)	(3,028,343)
(679,361)	(211,317)	(4,938,253)
-	-	133,693
\$ (903,602)	\$ (104,444)	\$ (7,029,010)
\$ 26,683	\$ -	\$ 5,960,623
2,321	-	147,955
-	-	(5,337,110)
\$ 29,004	\$ -	\$ 771,468
\$ 51,597	\$ 21,404	\$ 1,290,645
191,973	22,416	10,603,667
\$ 243,570	\$ 43,820	\$ 11,894,312

Park and Recreation	Airport	TOTALS
\$ 148,641	\$ 43,820	\$ 7,173,441
94,929	-	4,720,871
\$ 243,570	\$ 43,820	\$ 11,894,312

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

	<u>Business-Type</u>	
	<u>Sewer Operation</u>	<u>Water System</u>
Cash flows provided by (used in) operating activities:		
Operating income (loss)	\$ 748,234	\$ 3,237,119
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,489,154	1,068,485
Accounts receivable	29,295	(21,780)
Interfund receivables	55,437	(34,234)
Due from other governments	(41,613)	(67,357)
Assessments receivable	49,936	-
Inventories	1,289	(11,618)
Prepaid insurance	(7,605)	(6,850)
Prepaid utility tax	-	3,051
Deposits	-	-
Accounts payable	(19,867)	(126,070)
Utility tax payable	-	1,602
Interfund payables	(14,121)	74,857
Due to other governments	(1,880)	-
Accrued payroll	5,748	9,665
Deferred revenue	-	-
Compensated absences	5,462	19,805
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b><u>\$ 2,299,469</u></b>	<b><u>\$ 4,146,675</u></b>

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

ALABAMA  
OPERATING ACTIVITIES - PROPRIETARY FUNDS  
 September 30, 2005  
 Cash and Cash Equivalents

<u>Activities</u>		
<u>Park and Recreation</u>	<u>Airport</u>	<u>TOTALS</u>
\$ (1,437,880)	\$ (233,701)	\$ 2,313,772
329,095	194,774	3,081,508
845	(197)	8,163
7,401	-	28,604
-	-	(108,970)
-	-	49,936
-	(19,919)	(30,248)
1,283	(854)	(14,026)
-	-	3,051
(910)	-	(910)
10,036	19,973	(115,928)
-	-	1,602
8,250	-	68,986
-	-	(1,880)
22,036	-	37,449
-	856	856
10,189	1,130	36,586
<u>\$ (1,049,655)</u>	<u>\$ (37,938)</u>	<u>\$ 5,358,551</u>

CITY OF CULLMAN, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2005

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 its two component units, legally separate organizations 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).

Component Units

Component units that are so intertwined with the City that they are, in substance, the same as the City are blended and reported as if they were part of the City. The Utilities Board of the City of Cullman – Water Division (UBWD) is governed by a five-member board appointed by the City Council. By contract, the only customer of the UBWD is the City of Cullman.

The Park and Recreation Foundation Board (PRFB) is reported as a discretely presented component unit. The PRFB's members are appointed by the City's Park and Recreation Board. The PRFB solicits contributions that are for the direct benefit of the City of Cullman's Park and Recreation and it would be misleading to exclude this component unit.

<u>Component Units</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Utilities Board of the City of Cullman – Water Division (UBWD): Gathers, collects, and impounds water and filters said water to sell to the City of Cullman, Alabama	City appoints and may remove members of the board of UBWD	Available at the City Clerk's office
Park and Recreation Foundation Board (PRFB): Solicits and holds contributions for the direct benefit of the City's Park and Recreation	City's Park and Recreation Board appoints the members of the PRFB and it would be misleading to exclude the entity from the City's financial statements	Available through the City's Park and Recreation Department at the Civic Center in Cullman, Alabama

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.

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).

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### I.A. REPORTING ENTITY - CONTINUED

##### 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 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.

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.

## 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

##### Fund Financial Statements - Continued

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.

##### 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.

##### Park and Recreation

This fund accounts for two separate activities:

- 1) the maintenance and operations of the Golf Course and its facilities for the general public
- 2) the maintenance and operations of the City's parks and facilities for the general public and the organization of other recreational activities

##### Airport

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

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### 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. However, all sanitation charges are considered to be available as of 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 judgments, 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.

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 governmental and business-type activities and enterprise 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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I.C. ASSETS AND LIABILITIES - CONTINUED

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>	<u>Airport</u>
Accounts receivable at September 30, 2005	<u>\$ 11,065</u>	<u>\$ 12,189</u>	<u>\$7,809</u>	<u>\$1,520</u>
Assessments receivable at September 30, 2005	<u>\$130,106</u>	<u>\$100,750</u>	<u>\$ ---</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.

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 \$3,291,337 has been accrued as a receivable as of September 30, 2005, for the bills sent out October 1, 2005, 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, 2005, an offsetting balance of \$3,291,337 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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I.C. ASSETS AND LIABILITIES - CONTINUED

I.C.7. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2005, are recorded as prepaid items. Prepaid insurance is charged to expenditures/expenses over the term of the policies. Prepaid interest is charged to expense as determined by the applicable bond/warrant document. Prepaid state unemployment tax is charged to expenditures/expenses as unemployment is paid each pay period. Prepaid utility tax is charged to expense once applied to the next month's utility tax report.

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.

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I.C. ASSETS AND LIABILITIES - CONTINUED

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, 2005 was as follows:

<u>Proprietary Fund/Component Unit</u>	<u>Amount Capitalized</u>
Utilities Board – Water Division	\$178,008
Water Fund	57,967
Sewer Fund	41,917

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	\$ ---	\$ 859,690
Accrued interest payable	85,318	340,773
Current maturities on long-term liabilities	<u>1,545,000</u>	<u>3,165,000</u>
TOTAL	<u>\$1,630,318</u>	<u>\$4,365,463</u>

Of the \$3,165,000 shown as current maturities on long-term debt above in the business-type activities, \$1,545,000 is general obligation debt.

I.C.13. Compensated Absences

The liability for compensated absences 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, 2005. 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 are 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. The liability for compensated absences is paid by the general fund for all governmental funds and each proprietary fund is responsible for its own liability for compensated absences.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### I.C. ASSETS AND LIABILITIES - CONTINUED

##### 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 \$182,141 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 \$29,329 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 \$35,000 as resources are available.

### 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.

NOTES TO THE FINANCIAL

IV. CAPITAL ASSETS

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

	<u>Balance at Sept. 30, 2004</u>
Governmental activities:	
Capital assets not being depreciated:	
Land	\$ 6,889,561
Historical buildings	209,420
Construction in progress	401,649
	\$ 7,500,630
	TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED
Capital assets being depreciated:	
Buildings	\$ 5,689,407
Improvements other than buildings	4,152,509
Infrastructure - streets	799,315
Machinery and equipment:	
Office equipment	\$ 161,815
Computer equipment	92,664
Communication equipment	186,565
Heavy equipment	1,362,231
Transportation equipment	6,020,908
Other general equipment	2,269,411
	\$ 10,093,594
	TOTAL MACHINERY AND EQUIPMENT
	TOTAL CAPITAL ASSETS BEING DEPRECIATED
	\$ 20,734,825
Less accumulated depreciation for:	
Buildings	\$ 1,633,287
Improvements other than buildings	1,315,478
Infrastructure - streets	18,109
Machinery and equipment:	
Office equipment	\$ 103,128
Computer equipment	68,323
Communication equipment	124,419
Heavy equipment	555,599
Transportation equipment	2,963,402
Other general equipment	1,080,042
	\$ 4,894,913
	TOTAL MACHINERY AND EQUIPMENT
	TOTAL ACCUMULATED DEPRECIATION
	\$ 7,861,787
	TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET
	\$ 12,873,038
	TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET
	\$ 20,373,668

STATEMENTS - CONTINUED

<u>Park and Recreation to Business-type</u>	<u>Additions</u>	<u>(Removals)</u>	<u>Balance at Sept. 30, 2005</u>
\$ (1,050,263)	\$ 346,737	\$ (111,358)	\$ 6,074,677
-	-	-	209,420
(48,540)	755,592	(271,413)	837,288
\$ (1,098,803)	\$ 1,102,329	\$ (382,771)	\$ 7,121,385
\$ (2,378,682)	\$ -	\$ -	\$ 3,310,725
(3,580,853)	14,000	-	585,656
-	271,413	-	1,070,728
\$ (107,728)	\$ -	\$ -	\$ 54,087
-	3,215	(2,875)	93,004
-	14,000	-	200,565
-	-	-	1,362,231
(51,263)	573,312	(310,136)	6,232,821
(184,748)	495,290	(15,107)	2,564,846
\$ (343,739)	\$ 1,085,817	\$ (328,118)	\$ 10,507,554
\$ (6,303,274)	\$ 1,371,230	\$ (328,118)	\$ 15,474,663
\$ (907,384)	\$ 51,339	\$ -	\$ 777,242
(1,230,722)	18,067	-	102,823
-	15,986	-	34,095
\$ (79,214)	\$ 6,426	\$ -	\$ 30,340
-	12,991	(2,875)	78,439
-	33,566	-	157,985
-	57,538	-	613,137
(22,521)	404,424	(214,833)	3,130,472
(84,198)	184,783	(10,337)	1,170,290
\$ (185,933)	\$ 699,728	\$ (228,045)	\$ 5,180,663
\$ (2,324,039)	\$ 785,120	\$ (228,045)	\$ 6,094,823
\$ (3,979,235)	\$ 586,110	\$ (100,073)	\$ 9,379,840
\$ (5,078,038)	\$ 1,688,439	\$ (482,844)	\$ 16,501,225

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

IV. CAPITAL ASSETS - CONTINUED

As of October 1, 2004, the City reclassified its park and recreation activities from the governmental activities to business-type activities. Therefore, the previous schedule reflects the beginning of year capital assets reclassified to the proprietary fund.

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government:	
Administrative	\$100,348
Building and housing	5,479
Garage	15,223
Public works	14,893
Public safety:	
Police	187,636
Fire	76,376
Miscellaneous and dispatch	13,056
Highways and streets	131,792
Sanitation	234,544
Culture and recreation	<u>5,773</u>
TOTAL	<u>\$785,120</u>

NOTES TO THE FINANCIAL

IV. CAPITAL ASSETS - CONTINUED

Capital asset activity for the business-type activities for the year ended September 30, 2005 was as follows:

	<u>Balance at Sept. 30, 2004</u>
Business-type activities:	
Capital assets not being depreciated:	
Land	\$ 1,350,110
Construction in progress	4,059,580
	4,059,580
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 5,409,690
Capital assets being depreciated:	
Buildings	\$ 8,839,799
Improvements other than buildings	66,461,908
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	\$ 69,521
Computer equipment	19,771
Communication equipment	7,304
Heavy equipment	611,043
Transportation equipment	1,154,829
Other general equipment	1,308,338
	3,170,806
TOTAL MACHINERY AND EQUIPMENT	\$ 3,170,806
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 100,399,500
Less accumulated depreciation for:	
Buildings	\$ 4,180,933
Improvements other than buildings	22,020,642
Source of supply	1,395,725
Pumping plant	525,777
Water treatment plant	5,855,601
Transmission and distribution system	729,905
Machinery and equipment:	
Office equipment	\$ 65,452
Computer equipment	12,778
Communication equipment	6,609
Heavy equipment	472,884
Transportation equipment	830,372
Other general equipment	935,099
	2,323,194
TOTAL MACHINERY AND EQUIPMENT	\$ 2,323,194
TOTAL ACCUMULATED DEPRECIATION	\$ 37,031,777
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	\$ 63,367,723
TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 68,777,413

STATEMENTS - CONTINUED

Park and Recreation from Governmental	Additions	(Removals)	Balance at Sept. 30, 2005
\$ 1,050,263	\$ 13,196	\$ (6,174)	\$ 2,407,395
48,540	5,474,581	(489,325)	9,093,376
\$ 1,098,803	\$ 5,487,777	\$ (495,499)	\$ 11,500,771
\$ 2,378,682	\$ 455,106	\$ -	\$ 11,673,587
3,580,853	119,179	-	70,161,940
-	-	(38,266)	2,078,338
-	-	-	717,398
-	-	-	17,638,924
-	-	-	1,454,061
\$ 107,728	\$ 2,080	\$ -	\$ 179,329
-	-	-	19,771
-	-	-	7,304
-	61,506	(91,208)	581,341
51,263	118,652	(106,366)	1,218,378
184,748	96,703	(27,885)	1,561,904
\$ 343,739	\$ 278,941	\$ (225,459)	\$ 3,568,027
\$ 6,303,274	\$ 853,226	\$ (263,725)	\$ 107,292,275
\$ 907,384	\$ 349,817	\$ -	\$ 5,438,134
1,230,722	1,899,461	-	25,150,825
-	38,163	(34,743)	1,399,145
-	20,460	-	546,237
-	465,589	-	6,321,190
-	29,081	-	758,986
\$ 79,214	\$ 7,092	\$ -	\$ 151,758
-	1,681	-	14,459
-	695	-	7,304
-	36,177	(86,208)	422,853
22,521	115,630	(97,030)	871,493
84,198	117,662	(27,886)	1,109,073
\$ 185,933	\$ 278,937	\$ (211,124)	\$ 2,576,940
\$ 2,324,039	\$ 3,081,508	\$ (245,867)	\$ 42,191,457
\$ 3,979,235	\$ (2,228,282)	\$ (17,858)	\$ 65,100,818
\$ 5,078,038	\$ 3,259,495	\$ (513,357)	\$ 76,601,589

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

IV. CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to each business-type activity as follows:

Sewer	\$1,489,154
Water System	1,068,485
Park and Recreation	235,863
Golf Course	93,232
Airport	<u>194,774</u>
TOTAL	<u>\$3,081,508</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:

Year ended September 30	Governmental Activities		Total Debt
	Principal	Interest	Service Requirement
2006	\$ 1,545,000	\$ 400,133	\$ 1,945,133
2007	1,490,000	351,444	1,841,444
2008	1,125,000	302,776	1,427,776
2009	1,145,000	261,335	1,406,335
2010	1,185,000	217,283	1,402,283
2011-2015	3,790,000	449,314	4,239,314
2016-2018	<u>500,000</u>	<u>47,705</u>	<u>547,705</u>
TOTALS	<u>\$10,780,000</u>	<u>\$2,029,990</u>	<u>\$12,809,990</u>

The amount of the interest for the Graham Property Warrants dated 7-1-94 is computed at 6.75% 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.

Year ended September 30	Business-Type Activities		Total Debt
	Principal	Interest	Service Requirement
2006	\$ 3,220,878	\$ 1,721,264	\$ 4,942,142
2007	3,563,891	1,761,275	5,325,166
2008	3,819,202	1,788,795	5,607,997
2009	3,945,614	1,654,993	5,600,607
2010	3,373,918	1,514,064	4,887,982
2011-2015	15,359,032	5,743,301	21,102,333
2016-2020	14,960,385	3,089,413	18,049,798
2021-2025	7,770,000	661,116	8,431,116
2026-2027	<u>955,000</u>	<u>22,799</u>	<u>977,799</u>
TOTALS	<u>\$56,967,920</u>	<u>\$17,957,020</u>	<u>\$74,924,940</u>

NOTES TO THE FINANCIAL

V. LONG-TERM DEBT - CONTINUED

Changes in long-term debt during the year ended September 30, 2005 were as follows:

Description	Interest Rates	Governmental Balance at Sept. 30, 2004
G.O. Warrants:		
07-01-94 - Graham Property	Variable	\$ 450,000
12-01-98 - Refunding and Improvements	3.90 - 4.70%	4,410,000
11-28-01 - Lessman Property	7.00%	295,778
02-01-03 - School Refunding	2.00 - 4.00%	3,375,000
07-01-03 - Refunding Various Purpose	1.25 - 4.00%	3,400,000
02-17-04 - Hartwig Property	6.00%	900,000
		\$ 12,830,778
Less deferred amount on refundings		(211,347)
TOTAL G.O. WARRANTS PAYABLE		\$ 12,619,431
Other Liabilities:		
Estimated compensated absences		954,417
		\$ 13,573,848
Less current portion		

STATEMENTS - CONTINUED

<u>Activities</u>				
<u>Park and Recreation to Business-type</u>	<u>Additions</u>	<u>(Removals)</u>	<u>Balance at Sept. 30, 2005</u>	<u>Due Within One Year</u>
\$ -	\$ -	\$ (50,000)	\$ 400,000	\$ 50,000
-	-	(415,000)	3,995,000	440,000
(295,778)	-	-	-	-
-	-	(305,000)	3,070,000	310,000
-	-	(885,000)	2,515,000	645,000
-	-	(100,000)	800,000	100,000
\$ (295,778)	\$ -	\$ (1,755,000)	\$ 10,780,000	\$ 1,545,000
-	-	22,549	(188,798)	-
\$ (295,778)	\$ -	\$ (1,732,451)	\$ 10,591,202	\$ 1,545,000
(73,848)	728,098	(586,322)	1,022,345	405,145
\$ (369,626)	\$ 728,098	\$ (2,318,773)	\$ 11,613,547	\$ 1,950,145
			(1,950,145)	
TOTAL LONG-TERM LIABILITIES			<u>\$ 9,663,402</u>	

NOTES TO THE FINANCIAL

V. LONG-TERM DEBT - CONTINUED

Changes in long-term debt during the year ended September 30, 2005 were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance at Sept. 30, 2004</u>
Business-type		
G.O. Sewer Warrants: (a)		
07-01-99 - 1999 SRF	3.50%	\$ 6,755,000
12-22-99 - 2000 SRF	3.85%	10,130,000
02-01-02 - 2002 SRF	3.50%	1,605,000
11-10-02 - 2002 SRF	3.50%	4,100,000
07-01-03 - 2003-C	1.85 - 3.40%	1,840,000
01-20-04 - 2004 CWSRF-DL	3.05%	3,925,000
04-01-04 - 2004 SRF	2.85%	805,000
01-01-05 - 2005 CWSRF-DL	3.05%	-
Water Revenue Bonds - 02-01-99	3.75%	4,780,000
Water Revenue Bonds - 03-01-02	4.35 - 5.00%	1,775,000
Water Revenue Warrants - 12-01-01	3.35 - 5.00%	8,385,000
G.O. Water Warrant: (a)		
08-03-02 - 2002 SRF	3.50%	2,510,000
Water Revenue Refunding Bonds 02-01-03:		
Series 2003-A	1.90 - 3.10%	2,720,000
Series 2003-B	3.20 - 4.00%	630,000
Water System Warrant - 01-20-04 - 2004 DWSRF-DL	3.05%	2,830,000
G.O. Water System Warrant - 02-01-05 - 2005 DWSRF-DL	3.05%	-
G.O. Warrant - (a)		
Airport T-Hangar - 03-29-04	3.00%	181,352
Park and Recreation - Lessman Property - 11-28-01	7.00%	-
Notes Payable - Golf Course Equipment	3.77 - 5.692%	64,728
		<u>\$ 53,036,080</u>
Less deferred amount on refundings		(608,981)
<b>TOTAL G.O. WARRANTS PAYABLE</b>		<u><b>\$ 52,427,099</b></u>
Other Liabilities:		
Estimated compensated absences		241,573
		<u><u><b>\$ 52,668,672</b></u></u>
Less current portion		

STATEMENTS - CONTINUED

<u>Activities</u>				
<u>Park and Recreation from Governmental</u>	<u>Additions</u>	<u>(Removals)</u>	<u>Balance at Sept. 30, 2005</u>	<u>Due Within One Year</u>
\$ -	\$ -	\$ (295,000)	\$ 6,460,000	\$ 305,000
-	-	(430,000)	9,700,000	445,000
-	-	(70,000)	1,535,000	70,000
-	-	(145,000)	3,955,000	150,000
-	-	(290,000)	1,550,000	295,000
-	-	-	3,925,000	-
-	-	(70,000)	735,000	70,000
-	4,110,000	-	4,110,000	-
-	-	(265,000)	4,515,000	275,000
-	-	-	1,775,000	-
-	-	(670,000)	7,715,000	690,000
-	-	(100,000)	2,410,000	105,000
-	-	(490,000)	2,230,000	500,000
-	-	(150,000)	480,000	155,000
-	-	-	2,830,000	105,000
-	2,520,000	-	2,520,000	-
-	-	(9,623)	171,729	9,988
295,778	-	(16,019)	279,759	17,139
-	34,405	(27,701)	71,432	28,751
<u>\$ 295,778</u>	<u>\$ 6,664,405</u>	<u>\$ (3,028,343)</u>	<u>\$ 56,967,920</u>	<u>\$ 3,220,878</u>
-	-	107,537	(501,444)	-
<u>\$ 295,778</u>	<u>\$ 6,664,405</u>	<u>\$ (2,920,806)</u>	<u>\$ 56,466,476</u>	<u>\$ 3,220,878</u>
73,848	238,802	(202,216)	352,007	69,562
<u>\$ 369,626</u>	<u>\$ 6,903,207</u>	<u>\$ (3,123,022)</u>	<u>\$ 56,818,483</u>	<u>\$ 3,290,440</u>
			(3,290,440)	
TOTAL LONG-TERM LIABILITIES			<u>\$ 53,528,043</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, 2005, consist of the following:

\$ 27,257	Payable to the General Fund from the Park and Recreation representing expenditures paid by the General Fund in excess of the Park and Recreation's appropriations for the year
10,085	Payable to the General Fund from the Water System representing expenditures paid by the General Fund for the Water System
109,941	Payable to the General Fund from nonmajor governmental funds representing highway and street expenditures to be paid by the 7 Cent Gas Tax Fund
3,366	Payable to Debt Service from the Park and Recreation for overpayment of the interfund balance
1,789	Payable to the Sewer Fund from the General Fund representing expenditures paid by the Sewer Fund for the General Fund
39,194	Payable to the Water Fund (part of the Water System) from the General Fund for assessment payments over-reimbursed to the Water Fund
276,150	Payable to the Utilities Board – Water Division of the City of Cullman (part of the water system) from the Water Fund (part of the Water System) representing water purchases from the Utilities Board – Water Division by the Water Fund
84,112	Payable to the Sewer Fund from the General Fund for Sewer Assessments
18,007	Payable to the 7 Cent Gas Tax Fund (a nonmajor governmental fund) from the General Fund representing the double payment of an invoice
<u>3,873</u>	Other balances
<u>\$573,774</u>	

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

\$208,914	Interfund receivables, Balance Sheet – Governmental Funds
<u>364,860</u>	Interfund receivables, Balance Sheet – Proprietary Funds
<u>\$573,774</u>	

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

\$216,946	Interfund payables, Balance Sheet – Governmental Funds
(35,000)	Park and Recreation short-term portion of long-term interfund balance to be paid July 1, 2006 that is long-term in governmental funds at fund level due to not being received within 30 day availability period
<u>391,828</u>	Interfund payables, Balance Sheet – Proprietary Funds
<u>\$573,774</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, 2005, consist of the following:

\$ 39,280	Payable to the General Fund from the Water System representing water system improvements paid by the General Fund
751,881	Payable to the General Fund from the Sewer Fund representing sewer system improvements paid by the General Fund
85,262	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
161,276	Payable to the General Fund from Park and Recreation representing payments made by General Fund to light the soccer field
35,000	Payable to the General Fund from other governmental funds representing a loan to the Corrections/Court Fund (a nonmajor governmental fund) for remodeling the City Hall's auditorium
1,344,349	Payable to the Debt Service Fund from the Sewer Fund representing the Sewer's portion of general obligation warrants
1,182,306	Payable to the Debt Service Fund from the Golf Course representing the Golf Course's portion of general obligation warrants
<u>922,059</u>	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>\$4,521,413</u>	

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

\$1,072,700	Interfund receivables – long-term, Balance Sheet – Governmental Funds
2,526,654	Restricted interfund receivables – long-term, Balance Sheet – Governmental Funds
<u>922,059</u>	Interfund receivables – long-term, Balance Sheet – Proprietary Funds
<u>\$4,521,413</u>	

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

\$ 35,000	Interfund payables – long-term, Balance Sheet – Governmental Funds
573,134	Restricted interfund payables, Balance Sheet – Proprietary Funds
35,000	Park and Recreation short-term portion of long-term interfund balance to be paid July 1, 2006 that is long-term in governmental funds at fund level due to not being received within 30 day availability period
<u>3,878,279</u>	Interfund payables – long-term, Balance Sheet – Proprietary Funds
<u>\$4,521,413</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, 2005, consist of the following:

\$ 266,970	From the General Fund to the Debt Service Fund to pay debt service on the outstanding general obligation warrants
162,924	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
1,450,017	From the General Fund to Park and Recreation to help supplement other fund sources
8,400	From the General Fund to other governmental funds to help supplement other fund sources
161,044	From other governmental funds to the Debt Service Fund to pay debt service on the outstanding general obligation warrants
<u>525,833</u>	From other governmental funds to Park and Recreation Fund representing funds spent for new gymnastics building addition and for Miracle Field
<u>\$2,575,188</u>	

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

\$436,414	Operating transfers in, Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
1,975,850	Transfers in – Park and Recreation, Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
<u>162,924</u>	Transfers in – Airport, Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
<u>\$2,575,188</u>	

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

<u>\$2,575,188</u>	Operating transfers (out), Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
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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:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Invested in Capital Assets, Net of Related Liabilities:		
Capital Assets	\$ 16,501,225	\$ 76,601,589
Less: Accounts payable	---	(1,450)
Warrants/bonds payable	(10,591,202)	(53,287,231)
Less School Warrants not for capital assets	2,913,658	---
Notes payable	---	(71,432)
Interfund payables – long-term	---	(3,735,830)
Debt premium	(13,333)	(12,220)
Less School Warrants' debt premium	4,970	---
Add: State revolving funds receivable	---	14,611,412
Interfund receivables – long-term	2,526,654	---
Debt discount and expense	87,152	2,211,172
Less School Warrants' debt discount and expense	(69,005)	---
Prepaid interest	---	271,735
	<u>\$ 11,360,119</u>	<u>\$ 36,587,745</u>
Restricted for Debt Service and Capital Activity:		
Restricted cash equivalents and interest receivable	\$ 172,602	\$ 4,723,862
Less: Cash equivalents not restricted by an external party	---	(697,684)
Advances to other governments	1,775,000	---
Alabama Trust Fund capital improvements	431,890	---
Restricted state revolving funds receivable	---	859,690
Deductions:		
Liabilities payable from restricted assets	(1,630,318)	(4,938,597)
Less: Liabilities payable from cash equivalents not restricted by an external party	---	1,141,581
	<u>\$ 749,174</u>	<u>\$ 1,088,852</u>
Other restricted net assets:		
Landfill improvements	\$ 688,717	\$ ---
Realty improvements and Ingle Park	154,718	---
Endowments	3,927	---
Municipal Court equipment and training	22,077	---
Highways and streets	895,132	---
Industrial development and recreation	18,155	---
Education	2,796	---
Unrestricted	19,363,099	11,783,801
<b>TOTAL NET ASSETS</b>	<u><b>\$ 33,257,914</b></u>	<u><b>\$ 49,460,398</b></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, 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.

### 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.

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.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

X. RETIREMENT - CONTINUED

X.A. PLAN DESCRIPTION

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, 2005 was 7.23 percent based on the actuarial valuation performed as of September 30, 2003.

X.C. ANNUAL PENSION COST

For the year ended September 30, 2005, the City's annual pension contribution of \$678,334 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, 2005 was 12 years.

Three-year trend information is as follows:

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
9/30/02	\$502,731	100 %	\$ - 0 -
9/30/03	571,713	100	- 0 -
9/30/04	623,969	100	- 0 -

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

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.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

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. PARK AND RECREATION

As of October 1, 2004, the City separated the park and recreation activities out of the governmental funds (general fund) and combined these activities with the golf course fund (a proprietary fund).

The following is a reconciliation from the fund balance/net assets reported as of September 30, 2004 to the beginning of year balances at the fund level:

	General Fund <u>(Governmental Fund)</u>
Fund balance at September 30, 2004	\$17,221,802
Park and Recreation to Proprietary Fund	<u>(388,113)</u>
Fund balance at September 30, 2005	<u>\$16,833,689</u>
	Park and Recreation <u>(Proprietary Fund)</u>
Golf Course net assets at September 30, 2004	\$ (532,934)
Park and Recreation fund balance at September 30, 2004	388,113
Conversion of Park and Recreation fund balance to net assets as of September 30, 2004:	
Capital assets	5,078,038
Long-term liabilities	<u>(369,626)</u>
Net assets at September 30, 2004	<u>\$4,563,591</u>

The following is a reconciliation from the net assets reported as of September 30, 2004 to the beginning of year balances at the government-wide level:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net assets as reported as of September 30, 2004	\$34,974,218	\$41,491,459
Park and Recreation from Governmental to Business-type Activities	<u>(5,096,525)</u>	<u>5,096,525</u>
Net assets as adjusted as of September 30, 2004	<u>\$29,877,693</u>	<u>\$46,587,984</u>

XIV. COMMITMENTS AND CONTINGENCIES

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, 2005, the Water Fund (included in Water System) has paid \$833,513 and withheld an additional \$101,823 of retainage on the project.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

XIV. COMMITMENTS AND CONTINGENCIES - CONTINUED

The City has an outstanding contract for the North Loop Extension Project at a cost of \$2,132,835. As of September 30, 2005, the Water Fund (included in Water System) had incurred \$230,759 on the project, which includes \$11,538 of retainage.

The City awarded a contract for the Highway 157 Sewer Extension project to Jordan Excavating in the amount of \$3,369,730 as of December 30, 2004. As of September 30, 2005, the Sewer Fund had incurred \$1,901,431 on the project, which includes \$84,243 of retainage.

The City awarded a contract for the Industrial Park No. 5 Pump Station with Sewer Upgrades to Apel Machine & Supply as of July 2005 in the amount of \$773,730. The project is going to be paid from the Industrial Park Fund (a nonmajor governmental fund). As of September 30, 2005, the City had incurred \$85,573 on the project in engineering fees.

The City was awarded a grant from the Alabama Department of Economic and Community Affairs (ADECA) in the amount of \$150,000 in May 2005 for the Ingle Park Field of Miracles. The City is to provide a match of \$150,000 for this grant. As of September 30, 2005, the City had not requested or earned any of the grant funds.

The City was awarded a transportation enhancement grant in the amount of \$237,093 from the State of Alabama to add sidewalk/bike paths on both sides of the new five-lane upgrade of U.S. Highway 278 West. The City is to provide a match of \$59,273 for this grant.

The City awarded a contract for engineering services on the project to add sidewalk/bike paths on both sides of the new five-lane upgrade of U.S. Highway 278 West to Goodwyn, Mills, and Cawood, Inc. in March 2005 in the amount of \$33,500. As of September 30, 2005, the City had incurred \$20,100 in engineering fees on the project.

The City was awarded a grant in the amount of \$340,000 from the State of Alabama to construct an access road from Golf Course Road to the Project Iron plant site to benefit Cullman Casting Corporation as of February 2005. The City is responsible for all costs exceeding the \$340,000 on the project. The City had not requested any funds as of September 30, 2005.

The Cullman Airport Board received a \$85,252 grant award from the Alabama Department of Transportation – Aeronautics Bureau engineering and planning related to the runway, taxiway, and apron, and for site preparation for future aircraft parking apron expansion. The grant requires \$85,252 in matching funds. As of September 30, 2005, \$30,596 of the grant had been expended.

The Cullman Airport Board received a \$412,539 grant award from the Federal Aviation Administration (FAA) for runway rehabilitation, current apron expansion, runway dip correction, and taxiway rehabilitation. The Cullman Airport Board also received a \$10,856 grant award from the Alabama Department of Transportation – Aeronautics Bureau to provide matching funds for the above FAA grant. The Board is to provide \$10,856 in matching funds for these two grants. As of September 30, 2005, none of the above grants had been expended.

The City is a guarantor on the following notes:

<u>Purpose</u>	<u>Lender</u>	<u>Amount</u>
Spec Building No. 5	Compass Bank	\$1,464,543

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

XV. SUBSEQUENT EVENTS

The City awarded the following contracts subsequent to September 30, 2005:

- 1) Awarded contract in April 2006 to Water Brothers Contractors, Inc. in the amount of \$590,711 to construct an access road from Golf Course Road to the Project Iron plant site to benefit Cullman Casting Corporation
- 2) Awarded contract for Ingle Park Gym Expansion Site Improvements to Catoma Contracting, Inc. in the amount of \$107,559
- 3) Awarded contract for Donald E. Green Senior Activity Center to Joiner Construction & Waterproofing Co., Inc. in the amount of \$227,406
- 4) Awarded contract in October 2005 to Pavement Maintenance Unlimited in the amount of \$200,709, which was revised as \$200,413 due to a change order, for runway rejuvenation, runway dip correction, and taxiway rejuvenation
- 5) Awarded contract in October 2005 to Manning Construction in the amount of \$286,552, which was revised as \$289,352 due to a change order, for apron expansion and for new hangar parking site
- 6) Awarded contract in November 2005 to Blocher Company, Inc. for city hall generator in the amount of \$102,000
- 7) Awarded contract in November 2005 to Eidson & Associates for Ingle Park Baseball Complex in the amount of \$1,849,073
- 8) Awarded bid in December 2005 to Eckenrod Ford for six police sedans in the amount of \$21,028 each for a total of \$126,165
- 9) Awarded bid in December 2005 to Sansom Equipment Company/Southland Ford for a recycling truck in the amount of \$99,596
- 10) Awarded bid in February 2006 to Catoma Contractors for site work at the Donald E. Green Senior Center Building in the amount of \$107,559
- 11) Awarded bid in March 2006 to Nextran Truck Center for a front loading garbage truck in the amount of \$170,925
- 12) Awarded bid in April 2006 to Waters Brothers Contractors, Inc. for the Industrial Access Roadway off County Road 490 South of Cullman to Cullman Casting Corporation in the amount of \$590,711.

The City issued a \$1,415,000 General Obligation Water System Warrant, Series 2005B-DWSRF-DL dated October 6, 2005 to be used for the purpose of additional Water System upgrades.

The City sold 34 acres in Industrial Park No. 1 in February 2006 for \$358,415.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CULLMAN, ALABAMA  
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT PLAN  
For the Year Ended September 30, 2005

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]
9/30/1999	\$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	24.1
****9/30/2003	23,251,606	26,246,100	2,994,494	88.6	8,193,946	36.5
*****9/30/2004	24,542,746	27,290,145	2,747,399	89.9	8,615,277	31.9

- \* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
- \*\* Reflects changes in actuarial assumptions (as of September 30, 2001). Also reflects effect of DROP if unit elected to enroll.
- \*\*\* Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.
- \*\*\*\* Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.
- \*\*\*\*\* Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.

CITY OF CULLMAN, ALABAMA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND  
Year ended September 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 12,274,000	\$ 12,474,004	\$ 13,370,626	\$ 896,622
Licenses and permits	1,978,300	1,978,300	2,202,354	224,054
Intergovernmental revenues	1,129,000	1,149,000	1,423,141	274,141
Charges for services	2,470,100	2,467,100	2,481,009	13,909
Fines and forfeits	256,616	256,616	257,425	809
Miscellaneous revenues	419,500	1,427,000	457,630	(969,370)
TOTAL REVENUES	<u>\$ 18,527,516</u>	<u>\$ 19,752,020</u>	<u>\$ 20,192,185</u>	<u>\$ 440,165</u>
Expenditures:				
Current:				
General government	\$ 3,341,670	\$ 3,207,600	\$ 3,005,610	\$ 201,990
Public safety	6,240,251	6,477,662	6,318,984	158,678
Highways and streets	1,718,368	1,718,436	1,604,840	113,596
Sanitation	2,743,918	2,770,868	2,725,614	45,254
Health and social services	158,500	381,985	383,403	(1,418)
Culture and recreation	417,931	433,731	302,545	131,186
Education	648,000	648,000	637,596	10,404
Conservation	45,127	45,127	31,487	13,640
Capital outlay	1,100,929	1,293,327	1,697,217	(403,890)
TOTAL EXPENDITURES	<u>\$ 16,414,694</u>	<u>\$ 16,976,736</u>	<u>\$ 16,707,296</u>	<u>\$ 269,440</u>
REVENUES OVER EXPENDITURES	<u>\$ 2,112,822</u>	<u>\$ 2,775,284</u>	<u>\$ 3,484,889</u>	<u>\$ 709,605</u>
Other financing sources (uses):				
Sale of capital assets	\$ 10,000	\$ 10,000	\$ 28,397	\$ 18,397
Capital contributions	-	254,216	581,019	326,803
Operating transfers (out)	(1,965,188)	(2,927,688)	(1,888,311)	1,039,377
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (1,955,188)</u>	<u>\$ (2,663,472)</u>	<u>\$ (1,278,895)</u>	<u>\$ 1,384,577</u>
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ 157,634</u>	<u>\$ 111,812</u>	<u>\$ 2,205,994</u>	<u>\$ 2,094,182</u>
Fund balances at October 1	16,833,689	16,833,689	16,833,689	-
FUND BALANCES AT SEPTEMBER 30	<u>\$ 16,991,323</u>	<u>\$ 16,945,501</u>	<u>\$ 19,039,683</u>	<u>\$ 2,094,182</u>

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, 2005

	Budget - Original and Final	Actual	Variance With Final Budget- Favorable (Unfavorable)
Revenues:			
Taxes	\$ 4,310,000	\$ 4,450,220	\$ 140,220
Miscellaneous revenues:			
Interest revenues	-	2,439	2,439
TOTAL REVENUES	\$ 4,310,000	\$ 4,452,659	\$ 142,659
 Expenditures:			
Current:			
Education	4,310,000	4,465,763	(155,763)
REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ (13,104)	\$ (13,104)
Fund (deficit) at October 1	(169,037)	(169,037)	-
FUND (DEFICIT) AT SEPTEMBER 30	\$ (169,037)	\$ (182,141)	\$ (13,104)

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, 2005

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.

Expenditures in Excess of Budget Appropriations

**General Fund**

Capital outlay expenditures were \$403,890 in excess of the budgeted amount. Of this amount, \$378,848 was for expenditures related to the Graham/Cleveland Avenue extension. The budget was not amended to reflect the awarding of this contract. The City intends to assess the property owners for this improvement at its completion.

**School Tax Fund**

The education expenditures were \$155,763 in excess of the budget amount. The School Tax Fund is used to account for all taxes levied to fund the City School System. All revenues in this fund are distributed to the City School System.

SUPPLEMENTARY INFORMATION

CITY OF CULLMAN  
COMBINING BALANCE SHEET -  
September 30,

	<u>General</u>
<b><u>ASSETS</u></b>	
Cash equivalents	\$ 570,861
Certificates of deposit	16,481,690
Receivables (net of allowance for uncollectibles):	
Accounts	118,725
Assessments	736,377
Interest	70,317
Interfund receivables	187,541
Due from other governmental units	3,427,613
Inventories	51,963
Prepaid expenditures	200,967
Interfund receivables - long-term	1,177,631
Insurance deposit	113,307
TOTAL ASSETS	<u>\$ 23,136,992</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>	
Liabilities:	
Accounts payable	\$ 617,000
Accrued liabilities	250,810
Interfund payables	104,118
Due to other governmental units	149,501
Deferred revenues	2,819,925
Estimated liability for compensated absences	155,464
TOTAL LIABILITIES	<u>\$ 4,096,818</u>
Fund balances (deficit)	19,040,174
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 23,136,992</u>

ALABAMA  
 GENERAL FUND  
 2005

<u>Payroll</u>	<u>Cullman County Museum Board</u>	<u>TOTALS</u>
\$ 132,735	\$ 1,168	\$ 704,764
-	-	16,481,690
4,623	-	123,348
-	-	736,377
-	-	70,317
-	-	187,541
-	-	3,427,613
-	-	51,963
-	-	200,967
(104,931)	-	1,072,700
-	-	113,307
<u>\$ 32,427</u>	<u>\$ 1,168</u>	<u>\$ 23,170,587</u>
\$ -	\$ 1,659	\$ 618,659
30,540	-	281,350
1,887	-	106,005
-	-	149,501
-	-	2,819,925
-	-	155,464
<u>\$ 32,427</u>	<u>\$ 1,659</u>	<u>\$ 4,130,904</u>
-	(491)	19,039,683
<u>\$ 32,427</u>	<u>\$ 1,168</u>	<u>\$ 23,170,587</u>

CITY OF CULLMAN, ALABAMA  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GENERAL FUND  
Year ended September 30, 2005

	General	Cullman County Museum Board	Total
<b>Revenues:</b>			
Taxes	\$ 13,370,626	\$ -	\$ 13,370,626
Licenses and permits	2,202,354	-	2,202,354
Intergovernmental revenues	1,423,141	-	1,423,141
Charges for services	2,468,504	12,505	2,481,009
Fines and forfeits	257,425	-	257,425
Miscellaneous revenues:			
Interest revenue	\$ 350,450	\$ -	\$ 350,450
Miscellaneous	107,180	-	107,180
<b>TOTAL MISCELLANEOUS REVENUES</b>	<b>\$ 457,630</b>	<b>\$ -</b>	<b>\$ 457,630</b>
<b>TOTAL REVENUES</b>	<b>\$ 20,179,680</b>	<b>\$ 12,505</b>	<b>\$ 20,192,185</b>
<b>Expenditures:</b>			
Current:			
General government:			
Administrative	\$ 2,173,507	\$ -	\$ 2,173,507
Building and housing	208,543	-	208,543
Garage	209,087	-	209,087
Public works	414,473	-	414,473
<b>Total General Government</b>	<b>\$ 3,005,610</b>	<b>\$ -</b>	<b>\$ 3,005,610</b>
Public safety:			
Police	\$ 3,965,055	\$ -	\$ 3,965,055
Fire	1,956,656	-	1,956,656
Dispatch and miscellaneous	397,273	-	397,273
<b>Total Public Safety</b>	<b>\$ 6,318,984</b>	<b>\$ -</b>	<b>\$ 6,318,984</b>
Highways and streets	\$ 1,604,840	\$ -	\$ 1,604,840
Sanitation	2,725,614	-	2,725,614
Health and social services	383,403	-	383,403
Culture and recreation	289,962	12,583	302,545
Education	637,596	-	637,596
Conservation	31,487	-	31,487
<b>TOTAL CURRENT EXPENDITURES</b>	<b>\$ 14,997,496</b>	<b>\$ 12,583</b>	<b>\$ 15,010,079</b>
Capital outlay:			
General government:			
Administrative	\$ 37,196	\$ -	\$ 37,196
Building and housing	17,829	-	17,829
Garage	8,057	-	8,057
<b>Total General Government</b>	<b>\$ 63,082</b>	<b>\$ -</b>	<b>\$ 63,082</b>

(Continued)

CITY OF CULLMAN, ALABAMA  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GENERAL FUND - CONTINUED  
Year ended September 30, 2005

	General	Cullman County Museum Board	Total
Public safety:			
Police	\$ 472,619	\$ -	\$ 472,619
Fire	36,707	-	36,707
Total Public Safety	\$ 509,326	\$ -	\$ 509,326
Highways and streets	\$ 775,153	\$ -	\$ 775,153
Sanitation	313,446	-	313,446
Culture and recreation	36,210	-	36,210
TOTAL CAPITAL OUTLAY	\$ 1,697,217	\$ -	\$ 1,697,217
TOTAL EXPENDITURES	\$ 16,694,713	\$ 12,583	\$ 16,707,296
REVENUES OVER (UNDER) EXPENDITURES	\$ 3,484,967	\$ (78)	\$ 3,484,889
Other financing sources (uses):			
Sale of capital assets	\$ 28,397	\$ -	\$ 28,397
Capital contributions	581,019	-	581,019
Operating transfers (out)	(1,888,311)	-	(1,888,311)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (1,278,895)	\$ -	\$ (1,278,895)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 2,206,072	\$ (78)	\$ 2,205,994
Fund balances at October 1	16,834,102	(413)	16,833,689
FUND BALANCES (DEFICIT) AT SEPTEMBER 30	\$ 19,040,174	\$ (491)	\$ 19,039,683

CITY OF CULLMAN, ALABAMA  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
September 30, 2005

	Special Revenue	Capital Projects	Permanent Fund Roy Ingle	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash equivalents	\$ 399,502	\$ 1,019,076	\$ 3,724	\$ 1,422,302
Certificates of deposit	1,073,927	-	100,908	1,174,835
Interest receivable	10,148	-	203	10,351
Interfund receivables	18,007	-	-	18,007
Due from other governmental units	67,850	20,879	-	88,729
TOTAL ASSETS	<u>\$ 1,569,434</u>	<u>\$ 1,039,955</u>	<u>\$ 104,835</u>	<u>\$ 2,714,224</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ 198,410	\$ -	\$ 198,410
Interfund payables - short-term	110,941	-	-	110,941
Interfund payables - long-term	35,000	-	-	35,000
Deferred revenue	29,606	18,306	-	47,912
TOTAL LIABILITIES	<u>\$ 175,547</u>	<u>\$ 216,716</u>	<u>\$ -</u>	<u>\$ 392,263</u>
Fund balances:				
Reserved for:				
Realty improvements and Ingle Park	\$ -	\$ -	\$ 100,908	\$ 100,908
Endowments	-	-	3,927	3,927
Unreserved	1,393,887	823,239	-	2,217,126
TOTAL FUND BALANCES	<u>\$ 1,393,887</u>	<u>\$ 823,239</u>	<u>\$ 104,835</u>	<u>\$ 2,321,961</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,569,434</u>	<u>\$ 1,039,955</u>	<u>\$ 104,835</u>	<u>\$ 2,714,224</u>

CITY OF CULLMAN, ALABAMA  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
Year ended September 30, 2005

	Special Revenue	Capital Projects	Permanent Fund Roy Ingle	Total Nonmajor Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 176,993	\$ -	\$ -	\$ 176,993
Intergovernmental revenues	350,151	20,726	-	370,877
Fines and forfeits	51,986	-	-	51,986
Miscellaneous revenues:				
Interest revenues	29,348	6,478	2,596	38,422
<b>TOTAL REVENUES</b>	<b>\$ 608,478</b>	<b>\$ 27,204</b>	<b>\$ 2,596</b>	<b>\$ 638,278</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	\$ 33	\$ 63,658	\$ -	\$ 63,691
Highways and streets	136,652	78,063	-	214,715
Culture and recreation	-	197	2,568	2,765
Education	43,727	-	-	43,727
Capital outlay	251,406	236,695	-	488,101
<b>Debt service:</b>				
Principal retirement	-	100,000	-	100,000
Interest and fiscal charges	-	54,000	-	54,000
<b>TOTAL EXPENDITURES</b>	<b>\$ 431,818</b>	<b>\$ 532,613</b>	<b>\$ 2,568</b>	<b>\$ 966,999</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 176,660</b>	<b>\$ (505,409)</b>	<b>\$ 28</b>	<b>\$ (328,721)</b>
<b>Other financing sources (uses):</b>				
Sale of assets	\$ -	\$ 123,815	\$ -	\$ 123,815
Capital contributions	78,028	268,649	-	346,677
Operating transfers in	-	8,400	-	8,400
Transfers - Cullman County Commission	(12,973)	-	-	(12,973)
Operating transfers (out)	(161,044)	(525,833)	-	(686,877)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (95,989)</b>	<b>\$ (124,969)</b>	<b>\$ -</b>	<b>\$ (220,958)</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>\$ 80,671</b>	<b>\$ (630,378)</b>	<b>\$ 28</b>	<b>\$ (549,679)</b>
Fund balances at October 1	1,313,216	1,453,617	104,807	2,871,640
<b>FUND BALANCES AT SEPTEMBER 30</b>	<b>\$ 1,393,887</b>	<b>\$ 823,239</b>	<b>\$ 104,835</b>	<b>\$ 2,321,961</b>

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	\$ 135,021	\$ 156,404	\$ 5,055
Certificates of deposit	273,416	380,511	420,000
Interest receivable	193	3,120	6,835
Interfund receivables	-	18,007	-
Due from other governmental units	17,143	21,258	-
TOTAL ASSETS	\$ 425,773	\$ 579,300	\$ 431,890
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Interfund payables	\$ -	\$ 109,941	\$ -
Interfund payables - long-term	-	-	-
Deferred revenue	8,043	8,423	-
TOTAL LIABILITIES	\$ 8,043	\$ 118,364	\$ -
Fund balances (deficit)	417,730	460,936	431,890
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 425,773	\$ 579,300	\$ 431,890

ALABAMA  
SPECIAL REVENUE FUNDS -  
GOVERNMENTAL FUNDS  
2005

<u>Industrial Purpose</u>	<u>Lodging Tax</u>	<u>Corrections/ Court Fund</u>	<u>TOTALS</u>
\$ 19,155	\$ 78,196	\$ 5,671	\$ 399,502
-	-	-	1,073,927
-	-	-	10,148
-	-	-	18,007
-	29,449	-	67,850
<u>\$ 19,155</u>	<u>\$ 107,645</u>	<u>\$ 5,671</u>	<u>\$ 1,569,434</u>
\$ 1,000	\$ -	\$ -	\$ 110,941
-	-	35,000	35,000
-	13,140	-	29,606
<u>\$ 1,000</u>	<u>\$ 13,140</u>	<u>\$ 35,000</u>	<u>\$ 175,547</u>
18,155	94,505	(29,329)	1,393,887
<u>\$ 19,155</u>	<u>\$ 107,645</u>	<u>\$ 5,671</u>	<u>\$ 1,569,434</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	102,124	171,029	76,998
Fines and forfeits	-	-	-
Interest revenue	7,280	11,533	10,512
TOTAL REVENUES	<u>\$ 109,404</u>	<u>\$ 182,562</u>	<u>\$ 87,510</u>
Expenditures:			
Current:			
General government	\$ -	\$ -	\$ -
Highways and streets	-	136,652	-
Education	-	-	-
Capital outlay	-	251,406	-
TOTAL EXPENDITURES	<u>\$ -</u>	<u>\$ 388,058</u>	<u>\$ -</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 109,404</u>	<u>\$ (205,496)</u>	<u>\$ 87,510</u>
Other financing (uses):			
Capital contributions	\$ -	\$ 78,028	\$ -
Transfers - Cullman County Commission	-	-	-
Operating transfers (out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ 78,028</u>	<u>\$ -</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 109,404</u>	<u>\$ (127,468)</u>	<u>\$ 87,510</u>
Fund balances (deficits) at October 1	308,326	588,404	344,380
FUND BALANCES (DEFICIT) AT SEPTEMBER 30	<u>\$ 417,730</u>	<u>\$ 460,936</u>	<u>\$ 431,890</u>

\* The D.A.R.E. Fund was transferred to the Cullman County Commission. The law that originally set up this fund suggests that the handling of funds should be exchanged every 5 years.

ALABAMA  
EXPENDITURES AND CHANGES IN  
SPECIAL REVENUE FUNDS -  
GOVERNMENTAL FUNDS  
September 30, 2005

Industrial Purpose	D.A.R.E.*	Lodging Tax	Corrections/ Court Fund	TOTALS
\$ 12,500	\$ -	\$ 164,493	\$ -	\$ 176,993
-	-	-	-	350,151
-	6,921	-	45,065	51,986
23	-	-	-	29,348
<u>\$ 12,523</u>	<u>\$ 6,921</u>	<u>\$ 164,493</u>	<u>\$ 45,065</u>	<u>\$ 608,478</u>
\$ -	\$ -	\$ -	\$ 33	\$ 33
-	-	-	-	136,652
-	43,727	-	-	43,727
-	-	-	-	251,406
<u>\$ -</u>	<u>\$ 43,727</u>	<u>\$ -</u>	<u>\$ 33</u>	<u>\$ 431,818</u>
\$ 12,523	\$ (36,806)	\$ 164,493	\$ 45,032	\$ 176,660
\$ -	\$ -	\$ -	\$ -	\$ 78,028
-	(12,973)	-	-	(12,973)
-	-	(161,044)	-	(161,044)
<u>\$ -</u>	<u>\$ (12,973)</u>	<u>\$ (161,044)</u>	<u>\$ -</u>	<u>\$ (95,989)</u>
\$ 12,523	\$ (49,779)	\$ 3,449	\$ 45,032	\$ 80,671
5,632	49,779	91,056	(74,361)	1,313,216
<u>\$ 18,155</u>	<u>\$ -</u>	<u>\$ 94,505</u>	<u>\$ (29,329)</u>	<u>\$ 1,393,887</u>

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

	Industrial Park	Industrial Access Road	
<u>ASSETS</u>			
Cash equivalents	\$ 438,610	\$ 6,753	
Due from other governmental units	-	20,879	
TOTAL ASSETS	\$ 438,610	\$ 27,632	
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 3,052	\$ 1,485	
Deferred revenue	-	18,306	
TOTAL LIABILITIES	\$ 3,052	\$ 19,791	
Fund balances	435,558	7,841	
TOTAL LIABILITIES AND FUND BALANCES	\$ 438,610	\$ 27,632	

ALABAMA  
CAPITAL PROJECT FUNDS -  
GOVERNMENTAL FUNDS  
2005

<u>Park and Recreation Construction</u>	<u>Transportation Enhancement</u>	<u>TOTALS</u>
\$ 561,644	\$ 12,069	\$ 1,019,076
-	-	20,879
<u>\$ 561,644</u>	<u>\$ 12,069</u>	<u>\$ 1,039,955</u>
\$ 190,523	\$ 3,350	\$ 198,410
-	-	18,306
<u>\$ 190,523</u>	<u>\$ 3,350</u>	<u>\$ 216,716</u>
371,121	8,719	823,239
<u>\$ 561,644</u>	<u>\$ 12,069</u>	<u>\$ 1,039,955</u>

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

	Industrial Park	Industrial Access Road
<b>Revenues:</b>		
Intergovernmental revenues	\$ -	\$ 20,726
Miscellaneous revenues:		
Interest revenues	-	-
<b>TOTAL REVENUES</b>	<b>\$ -</b>	<b>\$ 20,726</b>
<b>Expenditures:</b>		
<b>Current:</b>		
General government	\$ 63,658	\$ -
Highways and streets	-	78,063
Culture and recreation	-	-
Capital outlay	216,595	-
<b>Debt service:</b>		
Principal retirement	100,000	-
Interest and fiscal charges	54,000	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 434,253</b>	<b>\$ 78,063</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (434,253)</b>	<b>\$ (57,337)</b>
<b>Other financing sources (uses):</b>		
Sale of assets	\$ 123,815	\$ -
Capital contributions	-	-
Operating transfers in	-	-
Operating transfers (out)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 123,815</b>	<b>\$ -</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES (UNDER) EXPENDITURES</b>	<b>\$ (310,438)</b>	<b>\$ (57,337)</b>
Fund balances at October 1	745,996	65,178
<b>FUND BALANCES AT SEPTEMBER 30</b>	<b>\$ 435,558</b>	<b>\$ 7,841</b>

ALABAMA  
EXPENDITURES AND CHANGES IN  
CAPITAL PROJECT FUNDS -  
GOVERNMENTAL FUNDS  
September 30, 2005

<u>Park and Recreation Construction</u>	<u>Transportation Enhancement</u>	<u>TOTALS</u>
\$ -	\$ -	\$ 20,726
5,771	707	6,478
<u>\$ 5,771</u>	<u>\$ 707</u>	<u>\$ 27,204</u>
\$ -	\$ -	\$ 63,658
-	-	78,063
82	115	197
-	20,100	236,695
-	-	100,000
-	-	54,000
<u>\$ 82</u>	<u>\$ 20,215</u>	<u>\$ 532,613</u>
\$ 5,689	\$ (19,508)	\$ (505,409)
\$ -	\$ -	\$ 123,815
268,649	-	268,649
8,400	-	8,400
<u>(525,833)</u>	<u>-</u>	<u>(525,833)</u>
<u>\$ (248,784)</u>	<u>\$ -</u>	<u>\$ (124,969)</u>
\$ (243,095)	\$ (19,508)	\$ (630,378)
614,216	28,227	1,453,617
<u>\$ 371,121</u>	<u>\$ 8,719</u>	<u>\$ 823,239</u>

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

September 30, 2005

	<u>Water Department</u>	<u>Utilities Board Water Division</u>	<u>TOTALS</u>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash equivalents	\$ 6,774,326	\$ 145,060	\$ 6,919,386
Certificates of deposit	2,519,343	-	2,519,343
Interest receivable	10,361	-	10,361
Accounts receivable	120,824	1,850	122,674
Interfund receivables	966	276,150	277,116
Due from other governmental units	601,841	-	601,841
Inventories	405,152	-	405,152
Prepaid insurance	21,206	22,866	44,072
Prepaid interest	54,952	-	54,952
Prepaid utility tax	10,248	-	10,248
TOTAL CURRENT ASSETS	<u>\$ 10,519,219</u>	<u>\$ 445,926</u>	<u>\$ 10,965,145</u>
<b>Restricted assets:</b>			
Cash equivalents	\$ 1,646,507	\$ 1,633,065	\$ 3,279,572
State revolving funds receivable	5,487,611	-	5,487,611
Interest receivable	-	2,991	2,991
TOTAL RESTRICTED ASSETS	<u>\$ 7,134,118</u>	<u>\$ 1,636,056</u>	<u>\$ 8,770,174</u>
<b>Capital assets:</b>			
Land	\$ 185,844	\$ 483,960	\$ 669,804
Buildings	68,450	6,432,731	6,501,181
Improvements other than buildings	19,463,130	8,631,426	28,094,556
Machinery and equipment	989,633	7,063,756	8,053,389
Less accumulated depreciation	(10,755,477)	(9,192,301)	(19,947,778)
	<u>\$ 9,951,580</u>	<u>\$ 13,419,572</u>	<u>\$ 23,371,152</u>
Construction in progress	3,338,258	2,178,748	5,517,006
TOTAL CAPITAL ASSETS	<u>\$ 13,289,838</u>	<u>\$ 15,598,320</u>	<u>\$ 28,888,158</u>
<b>Other assets:</b>			
Deferred debt expense	\$ 394,406	\$ 291,345	\$ 685,751
Prepaid interest - noncurrent	18,629	-	18,629
Interfund receivables - long-term	922,059	-	922,059
TOTAL OTHER ASSETS	<u>\$ 1,335,094</u>	<u>\$ 291,345</u>	<u>\$ 1,626,439</u>
TOTAL ASSETS	<u>\$ 32,278,269</u>	<u>\$ 17,971,647</u>	<u>\$ 50,249,916</u>

(Continued)

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

	<u>Water Department</u>	<u>Utilities Board Water Division</u>	<u>TOTALS</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Current liabilities:			
Accounts payable	\$ 26,848	\$ 158,461	\$ 185,309
Utility tax payable	14,403	-	14,403
Interfund payables	323,936	1,492	325,428
Accrued payroll	16,043	22,784	38,827
Estimated compensated absences - current portion	13,297	22,417	35,714
Deferred revenue	-	18,156	18,156
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 394,527</b>	<b>\$ 223,310</b>	<b>\$ 617,837</b>
Liabilities payable from restricted assets:			
Accounts payable - contractor	\$ 332,583	\$ -	\$ 332,583
Accrued interest payable	173,781	34,648	208,429
Current maturities on long-term liabilities	900,000	930,000	1,830,000
<b>TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>\$ 1,406,364</b>	<b>\$ 964,648</b>	<b>\$ 2,371,012</b>
Long-term liabilities:			
Warrants/bonds payable	\$ 14,363,159	\$ 7,891,510	\$ 22,254,669
Estimated compensated absences	35,774	66,835	102,609
Interfund payables	39,281	922,059	961,340
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 14,438,214</b>	<b>\$ 8,880,404</b>	<b>\$ 23,318,618</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 16,239,105</b>	<b>\$ 10,068,362</b>	<b>\$ 26,307,467</b>
Net assets:			
Invested in capital assets, net of related liabilities	\$ 4,510,413	\$ 7,076,096	\$ 11,586,509
Restricted for debt service and capital activity	572,726	671,408	1,244,134
Unrestricted	10,956,025	155,781	11,111,806
<b>TOTAL NET ASSETS</b>	<b>\$ 16,039,164</b>	<b>\$ 7,903,285</b>	<b>\$ 23,942,449</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 32,278,269</b>	<b>\$ 17,971,647</b>	<b>\$ 50,249,916</b>

CITY OF CULLMAN, ALABAMA  
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET ASSETS - WATER SYSTEM (PROPRIETARY FUND)  
Year ended September 30, 2005

	<u>Water Department</u>	<u>Utilities Board Water Division</u>	<u>Elimination</u>	<u>TOTALS</u>
Operating revenues:				
Charges for sales and services	\$ 7,123,455	\$ 3,395,412	\$ (3,395,412)	\$ 7,123,455
Charges for service connections	119,910	-	-	119,910
Miscellaneous	11,376	668	-	12,044
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 7,254,741</b>	<b>\$ 3,396,080</b>	<b>\$ (3,395,412)</b>	<b>\$ 7,255,409</b>
Cost of purchased water	\$ 3,395,412	\$ -	\$ (3,395,412)	\$ -
Operating expenses:				
Salaries and wages	\$ 395,859	\$ 658,145	\$ -	\$ 1,054,004
Payroll taxes	29,813	48,581	-	78,394
Employees retirement	29,670	70,777	-	100,447
Employees insurance	61,679	127,673	-	189,352
Telephone	10,768	4,348	-	15,116
Utilities	16,703	570,740	-	587,443
Billing, accounting, and collection fees	59,009	-	-	59,009
Office supplies and expenses	4,229	21,098	-	25,327
Professional services	15,709	9,360	-	25,069
Engineering services	11,922	1,975	-	13,897
Other contracted services	1,370	3,712	-	5,082
Testing services	-	10,364	-	10,364
Dues and subscriptions	3,277	2,442	-	5,719
Travel, registrations, and education	2,426	6,671	-	9,097
Permits and licenses	675	-	-	675
Printing and advertising	94	-	-	94
Uniforms	6,021	4,907	-	10,928
Small tools and equipment	4,448	5,581	-	10,029
Chemicals and supplies	3,649	274,092	-	277,741
Repairs and maintenance - system and equipment	239,485	143,721	-	383,206
Insurance	36,139	33,646	-	69,785
Miscellaneous	1,655	17,372	-	19,027
Depreciation	500,456	568,029	-	1,068,485
<b>TOTAL COST OF PURCHASED WATER AND OPERATING EXPENSES</b>	<b>\$ 4,830,468</b>	<b>\$ 2,583,234</b>	<b>\$ (3,395,412)</b>	<b>\$ 4,018,290</b>
<b>OPERATING INCOME</b>	<b>\$ 2,424,273</b>	<b>\$ 812,846</b>	<b>\$ -</b>	<b>\$ 3,237,119</b>

(Continued)

CITY OF CULLMAN, ALABAMA  
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET ASSETS - WATER SYSTEM (PROPRIETARY FUND) - CONTINUED  
Year ended September 30, 2005

	<u>Water Department</u>	<u>Utilities Board Water Division</u>	<u>Elimination</u>	<u>TOTALS</u>
Nonoperating revenues (expenses):				
Interest earned	\$ 97,314	\$ 34,336	\$ -	\$ 131,650
Interest expense	(479,613)	(223,004)	-	(702,617)
Amortization of debt expense	(23,064)	(33,206)	-	(56,270)
Paying agent/trustee fees	(3,180)	(9,925)	-	(13,105)
Sale of assets	14,856	91,270	-	106,126
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ (393,687)</u>	<u>\$ (140,529)</u>	<u>\$ -</u>	<u>\$ (534,216)</u>
INCREASE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	<u>\$ 2,030,586</u>	<u>\$ 672,317</u>	<u>\$ -</u>	<u>\$ 2,702,903</u>
Capital contributions	-	31,844	-	31,844
NET INCREASE IN NET ASSETS	<u>\$ 2,030,586</u>	<u>\$ 704,161</u>	<u>\$ -</u>	<u>\$ 2,734,747</u>
Net assets - October 1	14,008,578	7,199,124	-	21,207,702
NET ASSETS AT SEPTEMBER 30	<u>\$ 16,039,164</u>	<u>\$ 7,903,285</u>	<u>\$ -</u>	<u>\$ 23,942,449</u>

CITY OF CULLMAN,  
COMBINING SCHEDULE OF  
WATER SYSTEM

Year ended  
Increase (Decrease) in

	Water Department
Cash flows from operating activities:	
Cash received from customers	\$ 7,171,044
Cash payments for purchased water	(3,357,538)
Cash payments for operating expenses	(629,589)
Cash payments to employees	(392,825)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,791,092
Cash flows from noncapital and related financing activities:	
Grants	\$ -
Cash flows (used in) capital and related financing activities:	
Interfund receivables/payables - long-term	\$ (166,820)
Acquisition and construction of capital assets	(1,479,642)
Proceeds from sale of assets	22,215
Interest and fiscal charges paid	(502,671)
Debt issuance costs	(22,875)
Proceeds from long-term debt	917,872
Principal payments of long-term debt	(770,000)
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (2,001,921)
Cash flows from investing activities:	
Proceeds from certificates of deposit	\$ 4,933,940
Interest received	91,223
Payments for purchase of certificates of deposit	(4,837,110)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 188,053
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 977,224
Cash and cash equivalents at beginning of year	7,443,609
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 8,420,833
Cash and cash equivalents consisted of the following:	
	Water Department
Cash equivalents - current asset	\$ 6,774,326
Cash equivalents - restricted asset	1,646,507
TOTALS	\$ 8,420,833

ALABAMA  
 CASH FLOWS -  
 (PROPRIETARY FUND)  
 September 30, 2005  
 Cash and Cash Equivalents

Utilities Board Water Division	Elimination	TOTALS
\$ 3,356,406	\$ (3,357,538)	\$ 7,169,912
-	3,357,538	-
(1,369,114)	-	(1,998,703)
(631,709)	-	(1,024,534)
<hr/>		
\$ 1,355,583	\$ -	\$ 4,146,675
\$ 50,000	\$ -	\$ 50,000
\$ 155,725	\$ -	\$ (11,095)
(514,981)	-	(1,994,623)
100,966	-	123,181
(184,017)	-	(686,688)
-	-	(22,875)
-	-	917,872
(905,000)	-	(1,675,000)
<hr/>		
\$ (1,347,307)	\$ -	\$ (3,349,228)
\$ -	\$ -	\$ 4,933,940
32,111	-	123,334
-	-	(4,837,110)
<hr/>		
\$ 32,111	\$ -	\$ 220,164
\$ 90,387	\$ -	\$ 1,067,611
1,687,738	-	9,131,347
<hr/>		
\$ 1,778,125	\$ -	\$ 10,198,958

Utilities Board Water Division	Elimination	TOTALS
\$ 145,060	\$ -	\$ 6,919,386
1,633,065	-	3,279,572
<hr/>		
\$ 1,778,125	\$ -	\$ 10,198,958

CITY OF CULLMAN,  
COMBINING SCHEDULE OF CASH FLOWS  
WATER SYSTEM

Year ended  
Increase (Decrease) in Cash

	<u>Water Department</u>
Cash flows from operating activities:	
Operating income	\$ 2,424,273
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	500,456
Accounts receivable	(19,980)
Interfund receivables	3,640
Due from other governments	(67,357)
Inventories	(11,618)
Prepaid insurance	(6,086)
Prepaid utility tax	3,051
Accounts payable	(114,951)
Utility tax payable	1,602
Interfund payables	75,028
Accrued payroll	3,248
Compensated absences	(214)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,791,092</u>

ALABAMA  
FROM OPERATING ACTIVITIES -  
(PROPRIETARY FUND)

September 30, 2005  
and Cash Equivalents

<u>Utilities Board</u> <u>Water Division</u>	<u>TOTALS</u>
\$ 812,846	\$ 3,237,119
568,029	1,068,485
(1,800)	(21,780)
(37,874)	(34,234)
-	(67,357)
-	(11,618)
(764)	(6,850)
-	3,051
(11,119)	(126,070)
-	1,602
(171)	74,857
6,417	9,665
20,019	19,805
<u>\$ 1,355,583</u>	<u>\$ 4,146,675</u>

CITY OF CULLMAN, ALABAMA  
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET ASSETS - PARK AND RECREATION (PROPRIETARY FUND)  
Year ended September 30, 2005

	<u>Park and Recreation</u>	<u>Golf Course</u>	<u>TOTALS</u>
Operating revenues:			
Charges for sales and services	\$ 788,908	\$ 488,663	\$ 1,277,571
Miscellaneous	19,865	8,349	28,214
TOTAL OPERATING REVENUES	<u>\$ 808,773</u>	<u>\$ 497,012</u>	<u>\$ 1,305,785</u>
Cost of operating revenues	\$ 96,590	\$ 23,310	\$ 119,900
Operating expenses:			
Salaries and wages	\$ 791,374	\$ 268,363	\$ 1,059,737
Nonemployee compensation	85,914	-	85,914
Payroll taxes	63,892	20,476	84,368
Employees retirement	40,533	13,641	54,174
Employees insurance	81,742	26,899	108,641
Telephone	15,833	1,718	17,551
Utilities	202,721	29,504	232,225
Office supplies and expenses	21,105	10,495	31,600
Professional services	4,821	3,640	8,461
Tournament fees	4,082	-	4,082
Dues and subscriptions	2,019	-	2,019
Travel, registrations, and education	8,777	-	8,777
Rent	32,400	-	32,400
Printing and advertising	23,410	-	23,410
Small tools and equipment	4,118	405	4,523
Chemicals and supplies	199,891	67,169	267,060
Repairs and maintenance - system and equipment	134,898	48,818	183,716
Insurance	32,333	11,119	43,452
Miscellaneous	34,304	8,256	42,560
Depreciation	235,863	93,232	329,095
TOTAL COST OF OPERATING REVENUES AND OPERATING EXPENSES	<u>\$ 2,116,620</u>	<u>\$ 627,045</u>	<u>\$ 2,743,665</u>
OPERATING (LOSS)	<u>\$ (1,307,847)</u>	<u>\$ (130,033)</u>	<u>\$ (1,437,880)</u>

(Continued)

CITY OF CULLMAN, ALABAMA  
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET ASSETS - PARK AND RECREATION (PROPRIETARY FUND) - CONTINUED  
Year ended September 30, 2005

	Park and Recreation	Golf Course	TOTALS
Nonoperating revenues (expenses):			
Interest earned	\$ 2,209	\$ 955	\$ 3,164
Interest expense	(20,162)	(27,358)	(47,520)
Amortization of debt expense	-	(2,605)	(2,605)
Paying agent/trustee fees	-	(2,000)	(2,000)
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ (17,953)	\$ (31,008)	\$ (48,961)
(DECREASE) IN NET ASSETS BEFORE TRANSFERS	\$ (1,325,800)	\$ (161,041)	\$ (1,486,841)
Transfers in	1,975,850	-	1,975,850
NET INCREASE (DECREASE) IN NET ASSETS	\$ 650,050	\$ (161,041)	\$ 489,009
Net assets (deficit) - October 1	5,096,525	(532,934)	4,563,591
NET ASSETS (DEFICIT) AT SEPTEMBER 30	\$ 5,746,575	\$ (693,975)	\$ 5,052,600

CITY OF CULLMAN, ALABAMA  
SCHEDULE OF GENERAL OBLIGATION WARRANTS  
September 30, 2005

GENERAL OBLIGATION WARRANTS

Dated 7-1-94

Maturing July 1

Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2006	6.75%	\$ 50,000	\$ 26,149
2007	6.75	50,000	22,775
2008	6.75	50,000	19,416
2009	6.75	50,000	16,013
2010	6.75	50,000	12,649
2011	6.75	50,000	9,274
2012	6.75	50,000	5,906
2013	6.75	50,000	2,522
TOTALS		<u>\$ 400,000</u>	<u>\$ 114,704</u>

NOTE: Amount of interest for warrants dated 7-1-94 is computed at 6.75% 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
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>\$ 3,995,000</u>	<u>\$ 944,318</u>

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

SCHEDULE OF GENERAL OBLIGATION WARRANTS - CONTINUED

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>
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>\$ 3,070,000</u>	<u>\$ 521,973</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>
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>\$ 2,515,000</u>	<u>\$ 232,996</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>
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>\$ 800,000</u>	<u>\$ 216,000</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, 2005

<u>GENERAL OBLIGATION SEWER WARRANT</u>			
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>
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>\$ 6,460,000</u>	<u>\$ 1,976,975</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, 2005

<u>GENERAL OBLIGATION SEWER WARRANT</u>			
Series 2000-SRF Dated 12-22-99			
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>
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		<u>\$ 9,700,000</u>	<u>\$ 3,478,667</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, 2005

**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
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
<b>TOTALS</b>		<b><u>\$ 1,535,000</u></b>	<b><u>\$ 497,525</u></b>

**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
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
<b>TOTALS</b>		<b><u>\$ 3,955,000</u></b>	<b><u>\$ 1,527,225</u></b>

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, 2005

**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
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>\$ 1,550,000</u>	<u>\$ 136,878</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
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, 2005

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
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		<u>\$ 735,000</u>	<u>\$ 109,582</u>

GENERAL OBLIGATION SEWER WARRANT

Series 2005-CWSRF-DL Dated 1-1-05

Maturing February 15

Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2006	3.05%	\$ -	\$ -
2007	3.05	-	4,875
2008	3.05	150,000	123,068
2009	3.05	155,000	118,416
2010	3.05	160,000	113,613
2011	3.05	165,000	108,656
2012	3.05	170,000	103,547
2013	3.05	175,000	98,286
2014	3.05	180,000	92,873
2015	3.05	190,000	87,230
2016	3.05	195,000	81,359
2017	3.05	200,000	75,335
2018	3.05	205,000	69,159
2019	3.05	210,000	62,830
2020	3.05	220,000	56,273
2021	3.05	225,000	49,486
2022	3.05	235,000	42,471
2023	3.05	240,000	35,228
2024	3.05	245,000	27,831
2025	3.05	255,000	20,206
2026	3.05	265,000	12,276
2027	3.05	270,000	4,117
TOTALS		<u>\$ 4,110,000</u>	<u>\$ 1,387,135</u>

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, 2005

<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>
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
<b>TOTALS</b>		<u>\$7,715,000</u>	<u>\$2,015,847</u>	<b>TOTALS</b>		<u>\$2,410,000</u>	<u>\$ 828,625</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, 2005

GENERAL OBLIGATION WATER SYSTEM WARRANT			
Series 2004-DWSRF-DL Dated 01-20-04			
Maturing February 15			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2006	3.05%	\$ 105,000	\$ 66,492
2007	3.05	110,000	81,435
2008	3.05	110,000	78,080
2009	3.05	115,000	74,649
2010	3.05	120,000	71,065
2011	3.05	120,000	67,405
2012	3.05	125,000	63,669
2013	3.05	130,000	59,780
2014	3.05	135,000	55,739
2015	3.05	135,000	51,621
2016	3.05	140,000	47,428
2017	3.05	145,000	43,081
2018	3.05	150,000	38,583
2019	3.05	155,000	33,931
2020	3.05	160,000	29,128
2021	3.05	165,000	24,171
2022	3.05	170,000	19,062
2023	3.05	175,000	13,801
2024	3.05	180,000	8,387
2025	3.05	185,000	2,821
<b>TOTALS</b>		<u>\$2,830,000</u>	<u>\$ 930,328</u>

GENERAL OBLIGATION WATER SYSTEM WARRANT			
Series 2005-DWSRF-DL Dated 02-01-05			
Maturing February 15			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2006	3.05%	\$ -	\$ -
2007	3.05	95,000	46,428
2008	3.05	95,000	72,514
2009	3.05	100,000	69,540
2010	3.05	100,000	66,490
2011	3.05	105,000	63,364
2012	3.05	110,000	60,085
2013	3.05	110,000	56,730
2014	3.05	115,000	53,299
2015	3.05	120,000	49,715
2016	3.05	120,000	46,055
2017	3.05	125,000	42,319
2018	3.05	130,000	38,430
2019	3.05	135,000	34,389
2020	3.05	140,000	30,195
2021	3.05	145,000	25,849
2022	3.05	145,000	21,426
2023	3.05	150,000	16,927
2024	3.05	155,000	12,276
2025	3.05	160,000	7,472
2026	3.05	165,000	2,516
<b>TOTALS</b>		<u>\$2,520,000</u>	<u>\$ 816,019</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, 2005

WATER REVENUE BONDS			
DWSRF Series 1998 Dated 2-01-99			
Maturing August 15			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
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
<b>TOTALS</b>		<u>\$4,515,000</u>	<u>\$1,273,313</u>

WATER REVENUE BONDS			
Series 2002 Dated 3-01-02			
Maturing September 1			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
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
<b>TOTALS</b>		<u>\$1,775,000</u>	<u>\$1,242,428</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
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
<b>TOTALS</b>		<u>\$2,230,000</u>	<u>\$ 162,867</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
2006	3.20%	\$ 155,000	\$ 17,480
2007	3.70	160,000	12,520
2008	4.00	165,000	6,600
<b>TOTALS</b>		<u>\$ 480,000</u>	<u>\$ 36,600</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 PARK AND RECREATION GENERAL OBLIGATION WARRANT  
September 30, 2005

GENERAL OBLIGATION WARRANT			
Dated 11-28-01			
Maturing Monthly on 5th			
Fiscal Year Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2006	7.00%	\$ 17,139	\$ 19,043
2007	7.00	18,378	17,803
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	8,245
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		\$ 279,759	\$ 124,230

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

CITY OF CULLMAN, ALABAMA  
SCHEDULE OF SCHOOL TAX TRANSACTIONS  
Year ended September 30, 2005

	<u>Fund Level</u>	<u>Adjustments</u>	<u>Government- Wide Level</u>
Revenues:			
3 mill ad valorem tax	\$ 654,466	\$ ---	\$ 654,466
7.5 mill ad valorem tax	1,636,164	---	1,636,164
.5 percent sales tax	2,159,590	11,554	2,171,144
Interest	2,439	223	2,662
<b>TOTAL REVENUES</b>	<u>\$4,452,659</u>	<u>\$11,777</u>	<u>\$4,464,436</u>
Expenditures:			
Transfers to Cullman City Board of Education	<u>\$4,465,763</u>	<u>\$ ---</u>	<u>\$4,465,763</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, 2005 and 2004.

September, 2004 revenues received after 30 day availability period	\$(173,160)
September, 2005 revenues received after 30 day availability period	<u>184,937</u>
	<u>\$ 11,777</u>

CITY OF CULLMAN, ALABAMA  
STATISTICAL DATA - UNAUDITED  
September 30, 2005

Computation of legal debt margin:		
Assessed value of real and personal property located within the city limits – Note 1		<u>\$215,972,120</u>
Constitutional debt limit (20% of assessed value – Note 2)		\$ 43,194,424
Amount of debt applicable to debt limit – Note 2:		
General long-term debt outstanding	\$11,676,959	
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	(3,070,000)	
7-1-03 General Obligation Warrants, Series 2003-B	(928,199)	
Less estimated liability for compensated absences – long-term	<u>(617,200)</u>	
	\$ 3,636,560	
Accounts payable of the General Fund	<u>618,659</u>	
Debt applicable to constitutional debt limit	\$ 4,255,219	
Less assets available in Debt Service Fund for payment of principal	<u>(144,398)</u>	\$ 4,110,821
LEGAL DEBT MARGIN – Note 3		<u>\$ 39,083,603</u>

Note 1 – Obtained from unaudited records maintained by the County of Cullman, Alabama and excludes exempt property (\$100,312,360).

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, 2005, 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.