

City of Madison, Alabama

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Fiscal Year Ended
September 30, 2006**

Prepared by:

Finance Department



City of Madison, Alabama
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2006

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INTRODUCTORY SECTION - PART I





FINANCE DEPARTMENT CITY OF MADISON, ALABAMA

June 19, 2007

Honorable Mayor Arthur S. Kirkindall
Members of the City Council and
Citizens of the City of Madison, Alabama

The Comprehensive Annual Financial Report (CAFR) of the City of Madison, Alabama (the City) for the fiscal year ended September 30, 2006, is hereby submitted. Responsibility for both accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the information, as presented, is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Report

The CAFR is presented in three sections:

1. **Introductory Section** - includes this letter of transmittal, organizational chart, a list of the City's elected officials and a list of department heads.
2. **Financial Section** - includes the Management's Discussion and Analysis (MD&A), basic financial statements for the primary government and its separately presented component units, notes, supplementary schedules and other financial schedules as well as the independent auditor's report on the financial statements and schedules. The financial statements contained herein are in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This is the fourth year the City prepared the CAFR using the financial reporting requirements as prescribed by GASB Statement No 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. GASB Statement 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). The MD&A should be read in conjunction with this letter of transmittal which can be found immediately following the Independent Auditor's Report.

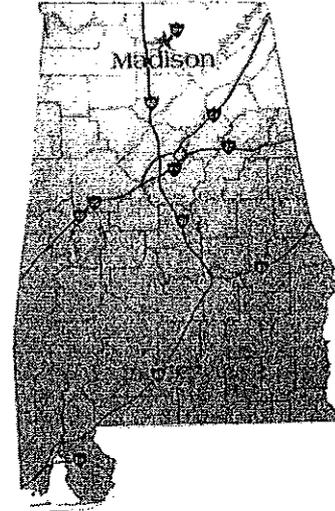
3. **Statistical Section** - includes financial and demographic information, generally presented on a multi-year basis. The statistical section has not been audited.

Profile of the City

The City was incorporated in 1869, and is located in the western part of Madison County in the state of Alabama. The City has a land area of 25 square miles and serves a population of approximately 38,500.

The City of Madison is empowered to levy taxes on real and personal property located within its boundaries. The City also has the power to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the governing council.

The City has operated under the Mayor-Council form of government since 1989. The City is governed by a City Council consisting of seven (7) members. Members of the Council serve on a part-time basis. The Mayor and City Council members are elected to four-year terms. The Mayor is elected at large and the seven (7) council members are elected from within their respective districts.



The City Council is responsible for adopting ordinances, resolutions, budgets, appointing committees and hiring the City Clerk-Treasurer, Police Chief and Fire Chief. The Mayor is responsible for hiring and managing the heads of city departments, affairs of the City and a staff of approximately 320 employees including eleven (11) department heads. The City's departments include:

General Administration	City Council
Police	Finance
Public Works	Human Resources
City Clerk	Mayor's Office
Recreation	Revenue
Fire	Senior Center
Planning, Engineering, and Building	Legal
Court	

The City provides a full range of municipal services which include police, fire protection and suppression and emergency medical services, municipal court, land use planning, building permits and inspection activities, construction and maintenance of streets, sidewalks and other public facilities. The City also provides public library services, sanitation trash services, three cemeteries, parks and recreational facilities and general administrative services.

Madison City Board of Education provides elementary and secondary educational services within the City. Madison City Board of Education is a component unit of the City and the financial activities of Madison City Board of Education are reported separately within the City's financial statements.

Major Initiatives

Progress Report. The City was successful in meeting many of its goals and objectives throughout fiscal year 2006. There were no cuts in programs or services to the citizens. Individual and departmental successes have improved City services and enhanced growth in our community.

During the year, the City completed construction of Maplewood Subdivision Drainage project for a total project cost of \$114,704.

During the year, the City revised the capital improvement plan. A vast number of the capital projects will be constructed by the City's Public Works Department .

The City purchased \$630,250 of capital equipment for construction of the projects in the capital improvement plan.

The landscape maintenance services were outsourced to provide more services for less cost .

The operations of the Facility Management Division were transferred to the Finance Department which will be managed in conjunction with the Purchasing Division.

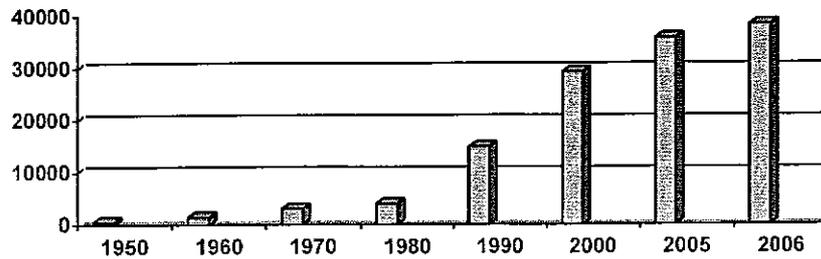
The City increased the fees charged for trash collection services. Fees were increased to promote efficiency by shifting payment of costs for services to the users of the services to avoid general taxation.

Factors Affecting Financial Condition

Local Economy and Outlook. The residential and commercial areas continue to grow within the City. The Madison Industrial Development Board actively recruits and promotes the local economy. Management continues to work with both the City of Madison Chamber of Commerce and the Huntsville/Madison County Chamber of Commerce to promote steady growth for Madison. Retail recruitment efforts will continue. New jobs in the commercial and manufacturing markets have contributed to the City's stability and have added to the growing industrial base of the region.

The City's population grew 7.45 percent from 2005 to 2006. The population is estimated at 38,500 at September 30, 2006. Madison is ranked 10th among Alabama cities.

City of Madison Population



Although mortgage rates are on the rise, new home sales in Madison continue to grow. Single family permits increased from 624 in 2004 to 697 in 2005. This represents an 11.70 percent increase. The average household size is 2.61. High-tech industries located within the corporate limits and within close proximity provide residents with some of the highest salaries in the Southeast. The average household income for 2006 was \$105,000.

A vast majority of the City's residents are employed in managerial and professional jobs. The unemployment rate was 3.40 percent in 2006. The largest employers in the City are Intergraph Corporation, Madison City School System, Wal-Mart Super Center, Kroger Company and Lowe's Home Improvement Warehouse.

The City will continue to promote the development and redevelopment of Madison Boulevard and Highway 72. These corridors are gateways to the City and they are expected to grow with more retail businesses, office buildings, light industrial companies and restaurants. These areas are prime growth areas of the City.

Long-term Financing Planning

At September 30, 2006, the City had \$4,221,678 reserved for capital improvements projects. The City Capital Improvements Program consists of three (3) categories which are building and facilities, parks and recreation, and infrastructure. The building and facilities project is for renovations to the municipal complex. The parks and recreation project is for improvements to greenway trail. The infrastructure improvements include sidewalks, streets and intersections and drainage. Funding of these projects was provided with bond proceeds, gas tax revenue and the City's share of the municipal government capital improvement fund.

Other projects have been identified for consideration for the capital improvements program but the funding sources have not been finalized. Once the funding sources are finalized, the projects become a part of the City's funded Capital Improvements Program.

Cash Management Policies and Practices

The fiscal policy of the City provides for the highest investment returns with the maximum security. Investments are in securities or other obligations authorized for municipal investment by Alabama Code 11-81-19 through 21. The policy provides for retaining sufficient cash on hand to meet the daily cash flow demands. The investment policy is very conservative and details specific collateral and safekeeping requirements. Investment earnings for the year for all governmental funds were \$447,027.

Risk Management

The City has included risk management in the Human Resources and the City Clerk Treasurer Departments. These departments administer all insurance programs of the City. The City is a member of Alabama Municipal Insurance Corporation. The City is provided protection in the areas of comprehensive general liability, auto liability, law enforcement, and officials' liability coverage. Premiums are paid based on coverage.

The City is an active participant in the Municipal Workers' Compensation Fund, Inc., (MWCF). MWCF provides medical and indemnity payments to workers injured while performing their duties for the City. Premiums are paid based on the City of Madison's past claims history.

Although insurance is used for risk financing, some loss exposures are retained by the City and paid for out of the operating budget.

Financial Information

Management of the City is responsible for establishing and maintaining an internal control structure design to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The internal controls structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budget

Management of the City uses the annual budget as a policy document, financial plan, operational guide and a communication tool. The annual budget contains both the estimated revenues to be received during the year and the proposed expenses to be incurred to achieve stated objectives.

State law requires that the City Council appropriates the sums necessary for the operations of city departments and for the interest on the City's bonded and other indebtedness, not exceeding in the aggregate within ten percent (10%) of the City's estimated revenue.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds for which a budget was adopted. The City's budgets are prepared on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control is the departmental level.

State law makes the Mayor the Chief Executive Officer in charge of municipal administration. The Mayor ensures that the budget is prepared for presentation to the City Council in ample time for consideration and adoption before October 1.

The budget preparation is coordinated through the Mayor's Office and the Finance Department. Each department receives a budget preparation package that includes budget schedule, budgetary guidelines, forms, instructions and year-to-date budget reports.

Heads of departments are responsible for preparing and submitting their appropriations requests according to the budget schedule.

The Revenue Department prepares revenue estimates based on historical data and other available information. The objectives of the City are to estimate revenues as accurately as possible to allow use of all available resources and to maintain the required level of reserves.

The Mayor submits a proposed budget to the City Council Finance Committee for review and recommendations. The Committee holds meetings with the Finance Department, Mayor, and Department Heads, as required, to review the proposed budget.

The City Council Finance Committee makes recommended changes to the proposed budget. The Finance Department consolidates all changes in the budget report. The proposed budget document is submitted to the City Council for review and discussion at public work sessions. After all scheduled work sessions have been conducted, the proposed budget is presented to the City Council at a regular council meeting for a public hearing and consideration for adoption.

The budget requires continuous monitoring and occasional revisions that reflect changing operational developments. A revision that causes a net change in the overall budget requires approval of the City Council. A revision that redistributes appropriated funding within a department to different line items does not require the approval of the City Council.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 23 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, the comparisons are presented in the governmental fund subsection of this report, which starts on page 63.

Refer to Note 3 of the basic financial statements for further discussion of the City's budgetary information.

Other Information

The City is required by state law to obtain an annual audit by an independent firm of certified public accountants. The accounting firm of MDA Professional Group, P.C., selected by the Mayor, performed the City's annual audit for the fiscal year ended September 30, 2006.

Awards

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Madison for its comprehensive annual financial report for the fiscal year ended September 30, 2002. This was the third year the City received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

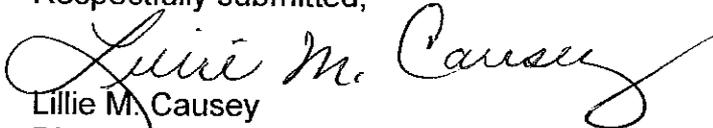
A Certificate of Achievement is valid for a period of one year only.

Acknowledgments

This report was prepared by the dedicated efforts of the City's finance department staff. Each member of the finance department has my sincere appreciation for the contributions made in the preparation of this report. I would like to express my gratitude to the Mayor and City Council for their interest and support in managing the financial affairs of the City in a responsible and progressive manner.

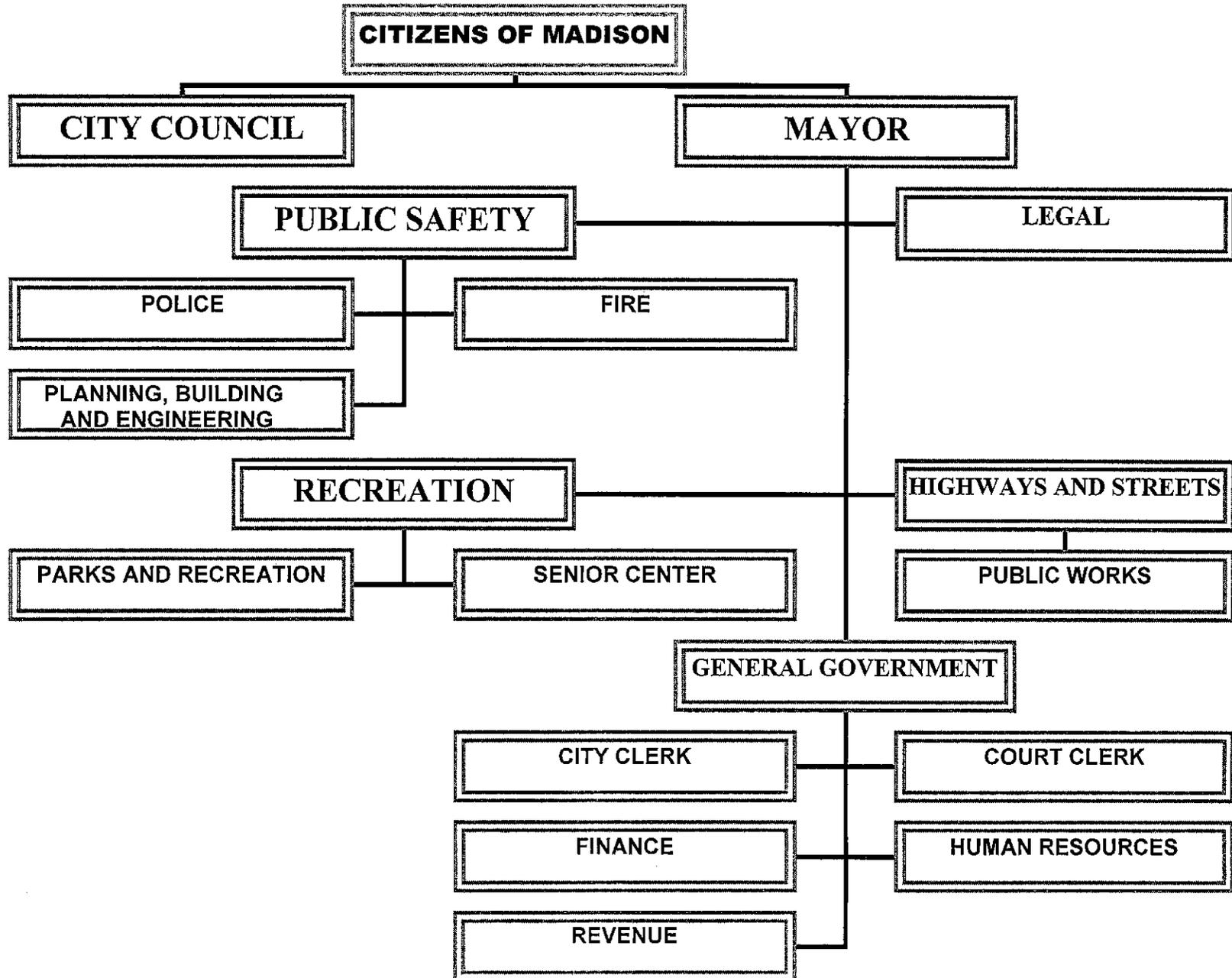
Acknowledgment is given to the representatives of MDA Professional Group, P.C., for their invaluable assistance in producing this financial report.

Respectfully submitted,


Lillie M. Causey
Director of Finance



CITY OF MADISON, ALABAMA
ORGANIZATIONAL CHART





CITY OF MADISON, ALABAMA
List of Elected Officials, Appointed Officials, and Department Heads
September 30, 2006

Elected Officials

Mayor	Arthur S. Kirkindall
Council Member - District One	Cynthia N. McCollum
Council Member - District Two	Steve Haraway, President Pro Tem
Council Member - District Three	Jerry Jennings
Council Member - District Four	Tim Cowles
Council Member - District Five	Tommy Overcash, President of Council
Council Member - District Six	Larry Vannoy
Council Member - District Seven	Bob Wagner

Appointed Officials

Mayor's Aide	Lydia Chipman
City Council Aide	Andrea Garrett

Department Heads

Police Chief	Daniel Busken
Public Works Director	Skip Adkins
City Clerk-Treasurer	Melanie Williard
Recreation Director	Mike Cassell
Fire Chief	Ralph Cobb
Planning, Engineering and Building Director	Bob Atallo
Court Clerk	Rick Honea
Finance Director	Lillie Causey
Human Resources Director	Terri Towry
Revenue Department Director	Cameron Grounds
City Attorney	Anne-Marie Lacy



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT



MDA PROFESSIONAL GROUP, P.C.

Certified Public Accountants and Business Consultants

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PRINCIPAL CITIES WORLDWIDE
THROUGH AGN INTERNATIONAL, LTD.

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Madison
Madison, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Madison, Alabama as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Madison, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Water and Wastewater Board of the City of Madison and the Madison Board of Education discretely presented component units, which represent 100 percent, respectively of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison, Alabama as of September 30, 2006, 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.



Honorable Mayor and City Council
City of Madison
Page two

In accordance with *Government Auditing Standards*, we have also issued a report dated June 19, 2007 on our consideration of the City of Madison's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Madison, Alabama's basic financial statements. The Combining Fund Statements and Other Supplementary Information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Statistical Data section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

MDA Professional Group, P.C.

Huntsville, Alabama
June 19, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended September 30, 2006

Management of the City of Madison (the City) offers readers of the City's financial statements this Management's Discussion and Analysis (MD&A) which provides a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. Information in the MD&A is based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, the Basic Financial Statements and the accompanying Notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City's assets totaled \$72,236,911 at September 30, 2006. This amount represents \$51,900,432 in capital assets, \$3,519,196 in unrestricted cash, \$16,817,283 in temporarily restricted cash and other assets. Total assets increased by \$14,008,335 in 2006.
- The City's liabilities totaled \$105,887,751 at September 30, 2006 consisting of \$102,719,811 in long-term debt and \$3,167,940 in accounts payable and other liabilities. Total liabilities decreased by \$1,936,529 over the prior year.
- Total assets of the City are less than total liabilities by \$33,650,840 (deficit) at the close of fiscal year 2006. This deficit is due to \$58,300,000 of long-term debt for general obligation school warrants which the assets less the related debt are reported in the financial statements of the Madison City Board of Education, a discretely presented component unit of the City.
- In the governmental activities, the City generated \$5,832,030 in charges for services and \$11,529,172 in grants and contributions. Expenses for the governmental activities were \$27,368,534 of which \$17,361,202 was funded by charges for services and contributions and the remaining \$10,007,332 funded by general revenues. The City received \$25,952,196 in general revenues for fiscal year 2006, which consisted of \$5,840,049 in property taxes, \$11,415,565 in sales tax, \$901,443 in motor fuel taxes and \$7,795,139 in other revenues.
- Unreserved fund balance in the general fund was \$3,855,965 at September 30, 2006, which represents 76.01 percent or \$1,665,253 increase over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's Basic Financial Statements. The Basic Financial Statements and Supplementary Information are

Management's Discussion and Analysis - continued

presented using the integrated approach as prescribed by GASB Statement No. 34. The City's Basic Financial Statements are comprised of three components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements and Required Supplementary Information

The Basic Financial Statements present financial information about the City as a whole and information about the City's activities. This report also contains other financial and statistical schedules in addition to the Basic Financial Statements.

1. Government-wide Financial Statements

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

The Statement of Net Assets presents information on all of the City's assets and liabilities (including long-term debt), with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the City's financial health is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. The focus of the Statement of Activities is to present the major program costs with the major matching resources. If the program costs are not recovered by grants and direct charges, the costs are paid from general taxes and other general revenues. This Statement summarizes and simplifies the user's analysis to make a determination to which programs are self-supporting and/or subsidized by general revenues.

The government-wide financial statements distinguish functions/programs of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions/programs that are intended to recover all or a significant portion of their costs through user fees or charges (business type activities).

The governmental activities of the City are as follows:

- General Government - includes centralized services such as general administration, city clerk, court clerk, city council, finance, human resources, mayor's office, revenue, information technology, and legal services.
- Public Safety - includes police, fire, planning, engineering and building services.

Management's Discussion and Analysis - continued

- Highways and Streets - includes the City's public works administration and support to trash collections, street maintenance and operations, street and local improvements and construction.
- Parks and Recreation - includes the operations and maintenance of city parks, sport programs, services for senior citizens and other recreational events.

The City of Madison has no functions that are classified as business-type activities.

As described in the notes to the financial statements, other entities' activities are included in the government-wide financial statements because of the relationship of these legally separate entities to the City. Financial information of the Water and Wastewater Board and the Madison City Board of Education are collectively referred to in the financial statements as Discretely Presented Component Units. This discussion and analysis focuses on the primary government. Refer to Note A regarding the availability of separately issued component unit financial statements.

The government-wide financial statements can be found on pages 18 and 19 of this report.

2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The City has the following type of fund:

Governmental Funds. The Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds statements emphasize available financial resources rather than net income as the government-wide financial statements.

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

Management's Discussion and Analysis - continued

The City maintains twenty-five (25) individual governmental funds. The governmental fund statements present three (3) major funds separately: General Fund, Water Distribution Storage Fund and 2001 Capital Improvement Fund. The other twenty-two (22) non-major funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements, which can be found beginning on page 63 of this report.

The City of Madison adopted an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 20 through 24 of this report.

3. Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements (the basic financial statements). Information such as significant accounting policies and detail of certain assets and liabilities are included in the notes which should be read in conjunction with the basic financial statements. The notes to the financial statements can be found on pages 25 through 60 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 62 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section discusses and analyzes significant changes from the prior year in the government-wide financials.

Analysis of Net Assets

The City's net assets reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, infrastructure and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis - continued

The City's assets are less than total liabilities by \$33,650,840 (deficit) at September 30, 2006. As noted earlier, this deficit is due to \$58,300,000 of long-term debt for general obligation warrants of which the net assets are reported in the financial statements of the Madison City Board of Education, a discretely presented component unit of the City. The following is a condensed statement of net assets and analysis of the change in the City's financial position from the prior year.

CITY OF MADISON'S NET ASSETS

	Governmental Activities		
	Septembers 30, 2006	September 30, 2005	Change
Current and other assets	\$20,336,479	\$ 16,799,899	\$3,536,580
Capital assets	51,900,432	41,428,677	10,471,755
Total assets	72,236,911	58,228,576	14,008,335
Long term liability outstanding	102,719,811	104,800,047	(2,080,236)
Other liabilities	3,167,940	3,024,233	143,707
Total liabilities	105,887,751	107,824,280	(1,936,529)
Net assets:			
Invested in capital assets, net of related debt	39,911,335	29,627,406	10,283,929
Restricted	9,054,091	8,734,990	319,101
Unrestricted (deficit)	(82,616,266)	(87,958,100)	5,341,834
Total net assets (deficit)	\$(33,650,840)	\$(49,595,704)	\$15,944,864

Management's Discussion and Analysis - continued

CITY OF MADISON'S CHANGES IN NET ASSETS

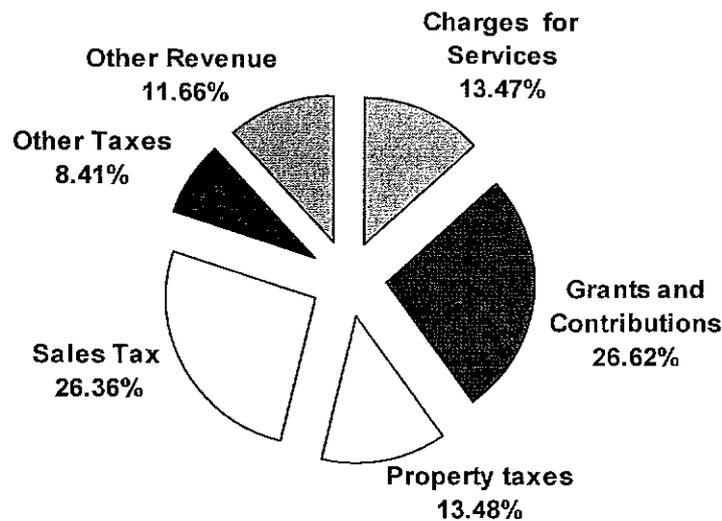
	Governmental Activities		
	Septembers 30, 2006	September 30, 2005	Change
Revenues:			
Program revenues:			
Charges for services	\$ 5,832,030	\$ 4,857,562	\$ 974,468
Operating grant and contribution	719,661	571,702	147,959
Capital grants and contribution	10,809,511	5,818,671	4,990,840
General revenue:			
Property taxes and payment in lieu of taxes	5,840,049	4,977,999	862,050
Other taxes	15,062,015	13,600,790	1,461,225
Other	5,050,132	5,696,324	(646,192)
Total revenues	43,313,398	35,523,048	7,790,350
Expenses:			
General Administration	1,637,763	1,843,331	(205,568)
Police	4,492,227	4,224,855	267,372
Public Works	3,683,936	3,519,441	164,495
City Clerk	593,326	514,980	78,346
Recreation	1,807,848	1,735,813	72,035
Fire	3,794,817	3,415,526	379,291
Planning, Engineering & Bldg.	1,108,540	1,113,999	(5,459)
Court	820,348	728,975	91,373
City Council	166,233	166,347	(114)
Finance	676,174	412,043	264,131
Human Resources	2,607,912	2,334,041	273,871
Mayor's Office	222,821	205,702	17,119
Revenue	193,477	177,909	15,568
Senior Center	240,054	221,414	18,640
Information Technology	0	195,542	(195,542)
Legal	270,325	238,394	31,931
Interest on Long-term debt	5,052,733	5,187,096	(134,363)
Total expenses	27,368,534	26,235,408	1,133,126
Increase in net assets	15,944,864	9,287,640	6,657,224
Net assets (deficit) beginning of year	(49,595,704)	(58,883,344)	9,287,640
Net assets (deficit) end of year	\$(33,650,840)	\$(49,595,704)	\$15,944,864

Management's Discussion and Analysis - continued

Governmental Activities

Governmental activities increased the City's net assets by \$15,944,864 with total revenues of \$43,313,398 and total expenses of \$27,368,534. Revenues consisted primarily of \$5,832,030 for charges for services, \$11,529,172 for grants and contributions, \$5,840,049 for property taxes, \$11,415,565 for sales taxes, \$3,646,450 for other taxes, and \$5,050,132 for other revenue.

Revenues by Source - Governmental Activities

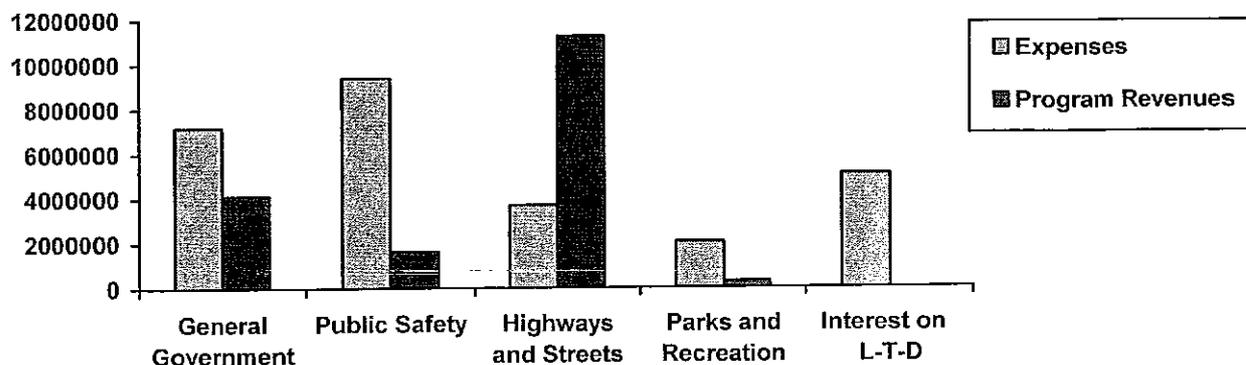


Charges or services increased by \$974,468 over the prior year with growth in privilege licenses, building permits and trade permits. Property taxes increased by \$862,050 from the prior year. Other taxes increased by \$1,461,225 over the prior year due mainly to growth in sales tax.

As discussed earlier, the City's governmental activities are categorized in the following programs: general government, public safety, highways and streets and parks and recreation. All governmental programs utilize general revenue to support their functions. The programs are serviced by various departments and the expenses for the services are allocated to each department.

Management's Discussion and Analysis - continued

Expenses and Program Revenues - Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

Governmental Funds

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

The combined fund balances of the City's governmental funds were \$11,700,630 at September 30, 2006, an increase of \$2,873,295 from the prior fiscal year. Of the total combined fund balances, \$4,346,967 constitutes unreserved fund balance, which is generally available for spending at the City's discretion, although it is subject to certain limitations inherent in the funds where the balances are retained. The remainder of the total fund balance, or \$7,353,663 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders, pay debt service, or has generally been committed for other purposes.

The general fund is the chief operating fund of the City. At the end of fiscal year 2006, unreserved fund balance of the general fund totaled \$3,855,965. The total fund balance was \$5,127,354. Unreserved fund balance represents 12.37 percent of the total general fund expenditures.

Management's Discussion and Analysis - continued

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are summarized as follows:

- \$1,093,434 increase for total revenues
- \$1,926,052 increase for total expenditures

Of the \$1,926,052 increase in expenditures, \$1,185,729 was allocated for capital outlay. During the year, revenues exceeded budget by \$963,098 and expenditures exceeded budget by \$8,145,932 of which \$9,975,519 was donated assets that is recorded as capital outlay expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets for governmental activities as of September 30, 2006, totaled \$51,900,432 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Acquired land in the amount of \$2,438,064.
- Purchased heavy equipment for use in construction of capital improvement projects; a total cost of \$630,250.
- A variety of improvements to streets and highways were completed for a total cost of \$439,690.
- Completed construction of Maplewood drainage project; a cost of \$114,704.

Management's Discussion and Analysis - continued

CITY OF MADISON'S CAPITAL ASSETS
(net of depreciation)

	Governmental Activities		
	September 30, 2006	September 30, 2005	Change
Land	\$ 8,867,115	\$ 6,429,050	\$ 2,438,065
Buildings	8,249,086	8,461,565	(212,479)
Building improvements	904,222	930,759	(26,537)
Improvements other than buildings	964,538	1,007,397	(42,859)
Vehicles and equipment	7,687,422	7,131,013	556,409
Infrastructure	23,905,835	16,133,609	7,772,226
Other	0	175	(175)
Construction in progress	1,322,214	1,335,109	(12,895)
	<u>\$51,900,432</u>	<u>\$41,428,677</u>	<u>\$10,471,755</u>

Additional information on the City's capital assets can be found in Note 4 on pages 41 and 42 of this report.

Long-Term Debt. As of September 30, 2006, the City has \$103,866,975 of long-term debt outstanding. Of this amount, \$102,045,000 is general obligation warrants backed by the full faith and credit of the City and \$1,821,975 comprised of capital lease obligations collateralized by certain vehicles and equipment.

Changes in debt outstanding are as follows:

	Governmental Activities		
	September 30, 2006	September 30, 2005	Change
Capital lease obligations	\$ 1,821,975	\$ 1,363,423	\$ 458,552
General obligation warrants	102,045,000	104,650,000	(2,605,000)
Less deferred amount for:			
Issuance discounts	(1,147,164)	(1,213,376)	66,212
	<u>\$102,719,811</u>	<u>\$104,800,047</u>	<u>\$(2,080,236)</u>

Management's Discussion and Analysis - continued

Long-Term Debt - continued

Other than debt paid from proprietary fund revenue sources (e.g. sewer debt and revenue bonds), State of Alabama law limits the amount of general obligation debt cities can issue for purposes other than schools and drainage systems to twenty percent of the assessed value of real and personal property. Of the \$102,045,000 outstanding debt, the amount of \$58,300,000 is outstanding general obligation school warrants, which is not charged against the allowable debt limit. As of September 30, 2006, the City's allowable debt limit was \$86,948,924. The City was in compliance with its debt limit at \$43,745,000.

Debt Limitation and Ratings

The City's general obligation bond rating by Moody's Investor Services, Inc. is A1 and Standards and Poor's is AA-.

Additional information on the City's long-term debt can be found in Note 4 on pages 47 through 49 of this report.

Additional Information

The Mayor and City Council considered many factors when developing the 2007 annual operating budget including the state of the surrounding local economies. In this manner, the City conservatively approved a general fund budget anticipating a slow to moderate growth which consists of \$21,818,298 for revenues, \$2,114,968 for other financing sources and \$1,300,985 of beginning resources. Expenses were approved for \$24,969,504 and \$264,747 for other financing uses.

The fund balance of the general fund projected to decrease \$1,300,985. Although the fund balance of the general fund was projected to decrease, the projected fund balance is more than 10 percent of the estimated revenues which is required by the City's fiscal policy.

Request for Information

This financial report is designed as a general overview of the City's finances and to demonstrate accountability for the money it receives from taxpayers, customers, and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 100 Hughes Road, City of Madison, Alabama, 35758. The City's telephone number is (256) 772-5600. Updated financial information may be obtained on the City's website at www.madison.al.gov.



BASIC FINANCIAL STATEMENTS



CITY OF MADISON, ALABAMA
STATEMENT OF NET ASSETS
September 30, 2006

	Primary Government	Component Units	
	Governmental Activities	The Water and Wastewater Board	Madison City Board of Education
ASSETS			
Cash and cash equivalents	\$ 3,519,196	\$ 4,477,829	\$ 18,526,051
Investments	-	-	160,000
Receivables, net			
Tax and tax equivalents	6,826,957	-	-
Other	629,836	1,395,935	2,173,348
Inventory	-	398,749	78,001
Prepaid expenditures	297,478	-	-
Other	39,460	30,470	-
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	7,256,028	3,139,135	-
Grants receivable	274,265	-	-
Other receivable	-	692,875	-
Capital assets (net of accumulated depreciation):			
Land	8,867,115	93,127,522	5,925,116
Buildings	8,249,087	-	58,747,335
Building improvements	904,222	-	-
Improvements other than buildings	964,538	-	4,655,738
Machinery and equipment	7,687,422	-	1,150,430
Vehicles	-	-	1,367,009
Infrastructure	23,905,834	-	-
Construction in progress	1,322,214	20,306,666	5,082,195
Bond issue costs, (net of accumulated amortization)	1,493,259	944,354	-
Total assets	72,236,911	124,513,535	97,865,223
LIABILITIES			
Accounts payable and other current liabilities	1,914,612	1,294,790	5,168,505
Interest payable	1,213,943	431,988	-
Deferred revenue	39,385	-	145,806
Noncurrent liabilities:			
Due within one year	3,136,888	2,360,000	465,340
Due in more than one year	99,582,923	50,369,772	9,873,308
Total liabilities	105,887,751	54,456,550	15,652,959
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	39,911,335	60,704,416	66,589,176
Restricted for:			
Highways and streets	968,954	-	-
Debt service	583,169	2,560,906	-
Capital Improvements	4,221,678	635,875	902,160
Water Distribution and Storage Project	2,890,546	-	-
Other purposes	389,744	-	-
Unrestricted (deficit)	(82,616,266)	6,155,788	14,720,928
Total net assets (deficit)	\$(33,650,840)	\$ 70,056,985	\$ 82,212,264

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

CITY OF MADISON, ALABAMA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units	
						The Water and Wastewater Board	Madison City Board of Education
Primary government:							
Governmental activities:							
General Administration	\$ 1,637,763	\$ 3,883,220	\$ 244,156	\$ -	\$ 2,489,613	\$ -	\$ -
Police Protection	4,492,227	929,819	252,295	50,711	(3,259,402)	-	-
Public Works	3,683,936	701,200	-	10,542,266	7,559,530	-	-
City Clerk	593,326	-	-	-	(593,326)	-	-
Recreation	1,607,848	199,431	3,069	101,000	(1,504,348)	-	-
Fire	3,794,817	1,820	219,891	115,534	(3,457,572)	-	-
Planning, Building and Engineering	1,108,540	116,540	-	-	(992,000)	-	-
Court	820,348	-	-	-	(820,348)	-	-
City Council	166,233	-	-	-	(166,233)	-	-
Finance	676,174	-	-	-	(676,174)	-	-
Human Resources	2,607,912	-	-	-	(2,607,912)	-	-
Mayor's Office	222,821	-	-	-	(222,821)	-	-
Revenue	193,477	-	-	-	(193,477)	-	-
Senior Center	240,054	-	250	-	(239,804)	-	-
Legal	270,325	-	-	-	(270,325)	-	-
Interest on long-term debt	5,052,733	-	-	-	(5,052,733)	-	-
Total governmental activities	<u>\$27,368,534</u>	<u>\$ 5,832,030</u>	<u>\$ 719,661</u>	<u>\$10,809,511</u>	<u>(10,007,332)</u>	<u>-</u>	<u>-</u>
Component units:							
The Water and Wastewater Board	\$ 9,898,694	\$11,536,154	\$ -	\$ 4,336,685	-	\$ 5,974,145	-
Madison City Board of Education	63,056,751	5,643,368	36,188,041	1,708,839	-	-	(19,516,503)
Total component units	<u>\$72,955,445</u>	<u>\$17,179,522</u>	<u>\$36,188,041</u>	<u>\$ 6,045,524</u>	<u>-</u>	<u>5,974,145</u>	<u>(19,516,503)</u>
General revenues:							
Property taxes and payments in lieu of taxes					5,840,049	-	10,848,893
Sales and use taxes					11,415,565	-	6,041,563
Franchise taxes					264,641	-	-
Motor fuel taxes					901,443	-	-
Alcoholic beverage taxes					769,249	-	-
Rental Taxes					355,019	-	-
Lodging Taxes					872,677	-	-
Other Taxes					483,421	-	113,274
Unrestricted investment earnings					447,027	264,132	842,459
Miscellaneous					4,761,282	-	3,202,250
Loss on Sale of fixed assets					(158,177)	-	-
Total general revenues					<u>25,952,196</u>	<u>264,132</u>	<u>21,048,439</u>
Change in net assets					15,944,864	6,238,277	1,531,936
Net assets - beginning of year, restated					<u>(49,595,704)</u>	<u>63,818,708</u>	<u>80,680,328</u>
Net assets - end of year					<u>\$ (33,650,840)</u>	<u>\$70,056,985</u>	<u>\$82,212,264</u>

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

**CITY OF MADISON, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2006**

	General	Water Distribution and Storage Project Fund	2001 Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$3,519,196	\$ 735,104	\$2,494,240	\$2,939,412	\$ 9,687,952
Cash with fiscal agent	-	-	-	583,169	583,169
Receivables, net					
Tax and tax equivalents	3,929,799	2,638,933	-	218,961	6,787,693
Grants	-	-	-	2,250	2,250
Other	343,147	-	-	134,979	478,126
Prepaid expenditures	297,478	-	-	-	297,478
Restricted assets:					
Cash and cash equivalents	504,103	-	-	-	504,103
Grants receivable	272,015	-	-	-	272,015
Due from other funds	524,895	-	795	224,175	749,865
Total Assets	\$9,390,633	\$3,374,037	\$2,495,035	\$4,102,946	\$ 19,362,651
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 218,419	\$ -	\$ 78,427	\$ 158,534	\$ 455,380
Accrued compensation and benefits	526,072	-	-	-	526,072
Due to other funds	224,174	500,275	-	25,415	749,864
Deferred revenue	2,960,467	2,390,271	30,000	215,820	5,596,558
Other liabilities	334,147	-	-	-	334,147
Total Liabilities	4,263,279	2,890,546	108,427	399,769	7,662,021
Fund Balances:					
Reserved for:					
Encumbrances	197,793	-	496,440	22,198	716,431
Prepaid expenditures	297,478	-	-	-	297,478
Restricted assets	776,118	-	1,890,168	3,090,299	5,756,585
Debt service	-	-	-	583,169	583,169
Unreserved, reported in:					
General fund	3,855,965	-	-	-	3,855,965
Special revenue funds	-	483,491	-	7,511	491,002
Total fund balances	5,127,354	483,491	2,386,608	3,703,177	11,700,630
Total Liabilities and Fund Balances	\$9,390,633	\$3,374,037	\$2,495,035	\$4,102,946	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	51,900,432
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	5,787,606
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(103,039,508)</u>

Net assets (deficit) of governmental activities \$ (33,650,840)

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

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

	General	Water Distribution and Storage Project Fund	2001 Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property and payment in lieu of taxes	\$ 2,870,625	\$ 2,196,476	\$ -	\$ 199,622	\$ 5,266,723
Sales and use	9,035,751	2,338,971	-	-	11,374,722
Franchise	264,641	-	-	-	264,641
Alcoholic beverage	769,249	-	-	-	769,249
Rental	355,019	-	-	-	355,019
Lodging	872,677	-	-	-	872,677
Other	182,100	-	-	-	182,100
Licenses and permits	3,752,459	-	-	-	3,752,459
Intergovernmental	733,411	-	-	1,173,194	1,906,605
Charges for services	1,030,116	-	-	53,370	1,083,486
Fines	696,991	-	-	216,983	913,974
Investment earnings	140,832	70,571	102,294	133,330	447,027
Contributions and donations	9,221	-	-	1,250	10,471
Other revenues	528,417	60	562,517	4,594,370	5,685,364
Total revenues	21,241,509	4,606,078	664,811	6,372,119	32,884,517
EXPENDITURES					
Current:					
General Administration	828,898	4,945	36,915	489,437	1,360,195
Police Protection	4,264,968	-	-	72,128	4,337,096
Public Works	2,527,547	-	104,793	486,538	3,118,878
City Clerk	589,262	-	-	-	589,262
Recreation	1,586,149	-	13,670	-	1,599,819
Fire	3,577,029	-	-	1,983	3,579,012
Planning, Engineering and Building	1,068,121	-	19,578	487	1,088,186
Court	816,962	-	-	-	816,962
City Council	163,735	-	-	-	163,735
Finance	658,035	-	-	-	658,035
Human Resources	2,605,761	-	-	-	2,605,761
Mayor's Office	221,642	-	-	-	221,642
Revenue	191,091	-	606	-	191,697
Senior Center	230,697	-	-	-	230,697
Legal	269,951	-	-	-	269,951
Debt service:					
Principal	318,409	-	-	2,605,000	2,923,409
Interest	62,360	-	-	5,018,115	5,080,475
Capital outlay	11,199,845	-	692,212	72,847	11,964,904
Total expenditures	31,180,462	4,945	867,774	8,746,535	40,799,716
Excess (deficiency) of revenues over (under) expenditures	(9,938,953)	4,601,133	(202,963)	(2,374,416)	(7,915,199)
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	1,633,645	-	170,004	3,281,761	5,085,410
Transfers to other funds	(367,947)	(4,313,294)	-	(404,169)	(5,085,410)
Donated Assets	9,975,519	-	-	-	9,975,519
Sales of Capital Assets	36,014	-	-	-	36,014
Capital Leases	776,961	-	-	-	776,961
Total other financing sources (uses)	12,054,192	(4,313,294)	170,004	2,877,592	10,788,494
Net change in fund balances	2,115,239	287,839	(32,959)	503,176	2,873,295
Fund balances - beginning of year	3,012,115	195,652	2,419,567	3,200,001	8,827,335
Fund balances - end of year	\$ 5,127,354	\$ 483,491	\$ 2,386,608	\$ 3,703,177	\$ 11,700,630

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

CITY OF MADISON, 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, 2006

Amounts reported for governmental activities in the statement of activities (page 19) are different because:

Net change in fund balances - total governmental funds (page 21)	\$ 2,873,295
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	10,646,124
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	(158,177)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	575,524
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	2,146,448
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(138,350)</u>
Change in net assets of governmental activities (page 19)	<u>\$15,944,864</u>

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

CITY OF MADISON, ALABAMA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the year ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property tax and payments in lieu of taxes	\$ 2,720,595	\$ 2,814,895	\$ 2,870,625	\$ 55,730
Sales and use	8,428,000	8,865,000	9,035,751	170,751
Franchise	247,000	254,000	264,641	10,641
Alcoholic beverage	737,986	750,986	769,249	18,263
Rental	345,000	345,000	355,019	10,019
Lodging	775,000	795,000	872,677	77,677
Other	189,000	189,000	182,100	(6,900)
Licenses and permits	3,137,788	3,305,000	3,752,459	447,459
Intergovernmental	518,509	659,582	733,411	73,829
Charges for services	929,867	965,917	1,030,116	64,199
Fines	715,000	715,000	696,991	(18,009)
Investment earnings	46,350	46,350	140,832	94,482
Contribution and donations	11,297	11,297	9,221	(2,076)
Other revenues	349,888	527,687	528,417	730
Total revenues	19,151,280	20,244,714	21,241,509	996,795
EXPENDITURES				
Current:				
General Administration	740,900	913,280	828,898	84,382
Police Protection	4,451,479	4,563,529	4,264,968	298,561
Public Works	2,616,642	2,649,413	2,527,547	121,866
City Clerk	595,857	606,743	589,262	17,481
Recreation	1,778,536	1,765,329	1,586,149	179,180
Fire	3,394,003	3,692,156	3,577,029	115,127
Planning, Engineering, and Building	1,316,223	1,169,477	1,068,121	101,356
Court	748,143	748,773	816,962	(68,189)
City Council	177,307	177,307	163,735	13,572
Finance	543,166	720,178	658,035	62,143
Human Resources	2,986,446	3,017,472	2,605,761	411,711
Mayor's Office	372,526	347,912	221,642	126,270
Revenue	186,175	207,480	191,091	16,389
Senior Center	244,828	246,258	230,697	15,561
Legal	320,375	323,512	269,951	53,561
Debt service:				
Principal	301,137	345,846	318,409	27,437
Interest	59,294	78,695	62,360	16,335
Capital outlay	275,441	1,461,170	11,199,845	(9,738,675)
Total expenditures	21,108,478	23,034,530	31,180,462	(8,145,932)
Excess (deficiency) of revenues over (under) expenditures	(1,957,198)	(2,789,816)	(9,938,953)	(7,149,137)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	1,485,120	1,629,730	1,633,645	3,915
Transfers to other funds	(259,047)	(259,047)	(367,947)	(108,900)
Capital Leases	81,801	1,063,707	776,961	(286,746)
Sale of Capital Assets	9,247	42,112	36,014	(6,098)
Donated Assets	-	-	9,975,519	9,975,519
Total other financing sources (uses)	1,317,121	2,476,502	12,054,192	9,577,690
Net change in fund balance	(640,077)	(313,314)	2,115,239	2,428,553
Fund balance - beginning of year	3,012,115	3,012,115	3,012,115	-
Fund balance - end of year	\$ 2,372,038	\$ 2,698,801	\$ 5,127,354	\$ 2,428,553

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

CITY OF MADISON, ALABAMA
WATER DISTRIBUTION AND STORAGE PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental:				
Property tax and payment in lieu	\$ 2,101,794	\$ 2,171,794	\$ 2,196,476	\$ 24,682
Sales and use taxes	2,125,000	2,268,000	2,338,971	70,971
Other Revenue	-	-	60	60
Investment earnings	16,000	30,000	70,571	40,571
Total revenues	4,242,794	4,469,794	4,606,078	136,284
EXPENDITURES				
Current:				
General Administration	7,500	7,500	4,945	2,555
Total expenditures	7,500	7,500	4,945	2,555
Excess (deficiency) of revenues over under expenditures	4,235,294	4,462,294	4,601,133	138,839
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(4,178,904)	(4,323,514)	(4,313,294)	10,220
Total other financing sources (uses)	(4,178,904)	(4,323,514)	(4,313,294)	10,220
Net change in fund balance	56,390	138,780	287,839	149,059
Fund balance - beginning of year	195,652	195,652	195,652	-
Fund balance - end of year	<u>\$ 252,042</u>	<u>\$ 334,432</u>	<u>\$ 483,491</u>	<u>\$ 149,059</u>



NOTES TO FINANCIAL STATEMENTS

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Madison, Alabama (the City) was incorporated under the laws of the State of Alabama in 1869 and operates under an elected Mayor-Council form of government.

The City complies with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Madison (the primary government) and its component units, entities for which the City is considered to be financially accountable. Each component unit of the City is discretely presented in a separate column in the basic financial statements to emphasize the fact that it is legally separate from the City. Each discretely presented component unit has a September 30 year-end.

DISCRETELY PRESENTED COMPONENT UNITS

Water and Wastewater Board

The Water and Wastewater Board (the "Board") of the City of Madison is a public corporation organized under Alabama Code Sections 11-50-310 through 324, inclusive. The Board provides water and wastewater services to the residents and businesses in the City. The Board consists of five members who manage all property and business of this corporation. The members of the Board are appointed by the City Council of the City of Madison. The City issued general obligation warrants which were used for water and wastewater purposes. The financial statements of the Board are reported in a separate column to emphasize that they are legally separate from the City. The Board is reported as a proprietary fund type.

Madison City Board of Education

The Board of Education consists of five members appointed by the City Council. The Board of Education is vested with all powers necessary and proper, as authorized by the state law or regulation of the Alabama State Board of Education, for the administration and management of free public schools in the City. The City issued general obligation warrants which were used for school purposes. The financial statements of Madison City Board of Education are reported in a separate column to emphasize that they are legally separate from the City. Madison City Board of Education is reported as a governmental fund type.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued -

Madison City Board of Education - Continued -

Complete financial statements of the Water and Wastewater Board and Madison Board of Education discretely presented component units may be obtained at the administrative office of the entity.

Water and Wastewater Board
Palmer Road
Madison, Alabama 35758

Madison Board Education
211 Celtic Drive
Madison, Alabama 35758

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued -

Governmental funds are used to account for the City's general government activities. Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within forty-five (45) days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, compensated absences, and claims and judgments, are recorded only when payment is due.

Property taxes, sales and use taxes, alcoholic beverage taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other taxes and receipts are considered to be measurable and available only when cash is received by the government.

Payments in lieu of taxes are revenues from other governmental entities paid in lieu of property taxes.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports the following major governmental funds:

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

The *water distribution and storage project fund* accounts for the ½ cent sales tax and the 5 ½ mill property tax.

The *capital improvement fund* accounts for a variety of public works and capital improvement projects in the City consisting of public safety, recreation, streets, drainage and other improvements. Financing was provided by the sale of general obligation warrants.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued -

The City reports the following fund types:

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Debt service funds are used to account for the accumulation of resources and payment of general obligation bond principal and interest from government resources.

Capital projects funds are used to account for financial resources segregated from acquisition of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards (GASB).

During the course of normal operations, the City has numerous transactions between funds to provide services to pay debt, etc. These transactions are generally reflected as operating transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. These transactions are recorded as expenditures in the reimbursing fund and as reductions of the expenditure in the fund reimbursed. As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements.

In the government-wide financial statements, amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use unrestricted resources first, then restricted resources as they are needed, except in the case of grant monies which are used for their required purpose.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury, State of Alabama, Alabama counties, or the general obligations of Alabama municipalities.

Investments for the City, as well as for its component units, are stated at fair market value.

2. Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds".

All trade and property tax receivables are shown net of an allowance for un-collectibles.

Property taxes are levied on October 1 for the prior fiscal year beginning October 1, at which time a lien is attached. These taxes are due and payable October 1 and delinquent after December 31 each year after which a penalty and interest are required to be charged. Revenue is recognized in the year when the taxes are levied and collected at the fund level and in the year for which they are levied at the government-wide level. The taxes are collected by the Madison County Tax Collector and remitted to the City.

3. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased except commodities donated by the federal government, which are expensed when consumed.

4. Restricted Assets

Certain proceeds of general obligation warrants, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet and statement of net assets because their use is limited by applicable warrant indentures. In addition, cash accounts and other assets restricted for specific purposes are classified as restricted assets on the balance sheet and statement of net assets.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued -

5. Capital Assets

Capital assets of the City, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, or if inadequate records were available to determine the actual cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and infrastructure	40-60
Building improvements	15-40
Machinery, equipment, and other	3-25

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused annual and sick leave benefits. There is no liability for unpaid accumulated sick leave. No sick leave is paid upon separation from the City's services. Employees can carry a maximum of 200 hours of unused annual leave forward into the next leave year. Any accumulated annual leave that exceeds this amount at the end of the leave year will be forfeited. Upon separation from City service, an employee will be paid for all accrued annual leave. Annual leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. All unused annual leave is accrued when earned by the employee in the government-wide financial statements and is considered a current liability.

The compensated absences policy of the Water and Wastewater Board is the same as stated for the City.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued -

6. *Compensated Absences - Continued*

The compensated absences policy for Madison Board of Education states that professional and support personnel are provided 2-5 days of personal leave per year with pay depending on years of service. The State provides funding, at the substitute rate, for up to 2 days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to 2 days of unused personal leave. Professional and support personnel may convert unused, un-reimbursed personal leave to sick leave at the end of the scholastic year. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is reported in the financial statements.

Employees with 10 years or less in service with Madison City Schools are allowed 10 working days. Employees with 11 years or greater in service with Madison City Schools are allowed 15 working days. Unused vacation leave can be carried over to succeeding years to a maximum of 2 years of accrued leave as of June 30 of each year.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate unlimited days of sick leave. Employees may use their accrued sick leave as membership service in determining the total year of creditable service in the Teachers' Retirement System, with no additional cost to Madison Board of Education. The State provides partial funding for substitutes employed while employees are on sick leave. Most of the salaries paid to employees utilizing sick leave are paid from state and federal funds. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded in the financial statements.

7. *Long-Term Obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued -

8. Fund Equity

Government-wide statements - Equity is classified as net assets, and displayed in three components:

- a) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and outstanding balances of any bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of those assets.
- b) Restricted net assets - Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental fund equity is classified as fund balances. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates in the Preparation of Financial Statements

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

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

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

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

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

Bonds payable	\$102,045,000
Less: Deferred charge for issuance costs (to be amortized as interest expense)	(1,493,259)
Less: Issuance discount (to be amortized as interest expense)	(1,147,164)
Accrued interest payable	1,213,943
Capital lease payable	1,821,975
Compensated absences	<u>599,013</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets governmental activities</i>	<u>\$103,039,508</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net change in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The details of this difference are as follows:

Capital outlay	\$ 11,964,904
Depreciation expense	<u>(1,318,780)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 10,646,124</u>

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006**

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS -
Continued -**

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

Another element of that reconciliation states "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is a decrease to net assets." The decrease of this \$158,177 difference is as follows:

In the statement of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. \$ (158,177)

Another element of that reconciliation states "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

The details of this difference are as follows:

Debt issued or incurred:	
Capital leases financing	\$ (776,961)
Principal repayments	
General obligation debt	2,605,000
Payments on capital leases	<u>318,409</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	 <u>\$ 2,146,448</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - Continued -

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

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$138,350 difference are as follows:

Compensated absences	\$ (40,287)
Accrued interest	27,742
Amortization of issuance costs	(75,946)
Amortization of bond discounts	(66,211)
Deferred Expense	<u>16,352</u>
<i>Net adjustment to net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	<u><u>\$(138,350)</u></u>

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Federal Forfeiture Fund, the Police Block Grant Fund and the Fire CPR Fund of the special revenue funds, and the capital projects funds. The capital projects funds are budgeted over the life of the respective project and not on an annual basis. All annual appropriations lapse at fiscal year end.

The budget preparation is coordinated through the Mayor's Office and the Finance Department. Each head of the City departments is responsible for preparing and submitting their appropriation requests according to the budget schedule. The Mayor submits the proposed budget to the City Council Finance Committee. The City Council Finance Committee holds meetings to review and make recommended changes to the proposed budget. After the City Council Finance Committee completes a final review of the proposed budget, the proposed budget document is submitted to the City Council for work sessions. After all scheduled work sessions have been conducted, the proposed budget is presented to the City Council at a regular scheduled council meeting for a public hearing and consideration for adoption before October 1.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

A. Budgetary Information - Continued -

The City adopts a line item budget. There are two types of budget amendments. The first type causes a net change in the overall budget. This type of amendment may result from an increase or decrease to revenues and/or expenditures. Budget amendments of this nature are legislature and require the approval of the City Council.

The second type of budget amendment does not cause any net change in the overall budget. The effect is that it redistributes appropriated funding within a department to different line items without causing an increase or decrease in the budget. The exceptions are amendments, within a department, in excess of \$1,000, funding increase or decrease to the personnel compensation, and funding increase or decrease to the capital outlay line item. These types of amendments require approval of the City Council Finance Committee.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments have not been fulfilled in the current year and will be re-appropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

The City maintains a level of control at the department level. The following departments had expenditures exceeding appropriations:

<u>Fund</u>	<u>Department</u>	<u>Amount</u>
General	Court	\$ 68,189
	Capital Outlay	\$9,738,675

C. Deficit Fund Balance

There were no funds with a deficit fund balance as of September 30, 2006.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year-end, the City's carrying amount of deposits and bank balance were covered by federal depository insurance or by collateral held as part of the State of Alabama's SAFE Program. The program insures all accounts specified as public funds for the majority of banks located within the State of Alabama.

At September 30, 2006, the City had the following investments held by a trustee:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Money Market Mutual Funds comprised of U.S. Treasury Bills	<u>\$583,169</u>	36 - 41

Interest rate risk - In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

Credit risk - State statutes limit the City's investments to U.S. Treasury obligations, State of Alabama and Alabama County obligations, and general obligations of Alabama municipalities. At September 30, 2006, the City's investments consisted of Goldman Sachs Treasury Instrument Funds and Dreyfus Treasury Prime Cash Management Funds. Both funds are comprised of U.S. Treasury Bills. The Goldman Sachs Treasury Instrument Fund is Aaa rated by Standard & Poor's Ratings Group. The Dreyfus Treasury Prime Cash Management Fund is not rated.

Custodial credit risk - This is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy limits its investments to no more than 50% may be invested with a single financial institution with the exception of cash, certificates of deposit, U.S. Treasury securities, and authorized pools. At September 30, 2006 the City's investments consisted solely of U.S. Treasury Bills held by one financial institution.

At year-end the Water and Wastewater Board's, a discretely presented component unit, carrying amount of deposits and bank balance were maintained by an institution whose accounts are insured up to \$100,000 by an Agency of the Federal Government and the excess collateralized by securities pledged by the financial institution. Act No. 2002-748 passed by the Alabama Legislature makes it mandatory for all deposits of public funds to be secured by collateral pledged to the Security for Alabama Funds Enhancement (SAFE) collateral pool established by the State Treasurer's Office. The Water and Wastewater is enrolled in this program.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

At September 30, 2006, unrestricted deposits on hand at banks and in certificates of deposit of the Madison City Board of Education, a discretely presented component unit, were fully collateralized by banks qualifying under the Security for Alabama Funds Enhancement Act (SAFE) as qualified public depositories.

B. Deferred Revenue and Receivables

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue and unearned revenue* reported in the governmental funds are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	\$ 2,930,000	\$ -
Property taxes receivable (special revenue fund)	2,600,820	-
Capital Projects Funds restricted for roads/drainage	-	30,000
General Fund - Property Rental	-	9,385
Taxes unavailable-general fund	21,082	-
Taxes unavailable-special revenue fund	<u>5,271</u>	<u>-</u>
 Total deferred/unearned revenue for governmental funds	 <u>\$ 5,557,173</u>	 <u>\$ 39,385</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

B. Deferred Revenue and Receivables - Continued

Receivables

Receivables as of year end for the City's individual major funds and nonmajor funds are as follows:

	<u>General</u>	<u>Water Distribution and Storage Project Fund</u>	<u>2001 Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receivables:					
Taxes	\$3,929,799	\$2,638,933	\$ -	\$218,961	\$ 6,787,693
Grants	-	-	-	2,250	2,250
Other	343,147	-	-	134,979	478,126
Grants-restricted	<u>272,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>272,015</u>
Total receivables	<u>\$4,544,961</u>	<u>\$2,638,933</u>	<u>\$ -</u>	<u>\$356,190</u>	<u>\$7,540,084</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

C. Capital Assets

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

Primary Government

	<u>Balance October 1, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance September 30, 2006</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 6,429,050	\$ 2,438,065	\$ -	\$ 8,867,115
Construction in progress	<u>1,335,109</u>	<u>442,987</u>	<u>(455,882)</u>	<u>1,322,214</u>
Total capital assets, not being depreciated	7,764,159	2,881,052	(455,882)	10,189,329
Capital assets, being depreciated:				
Buildings	10,869,345	4,975	-	10,874,320
Improvements to buildings	999,556	25,043	(11,850)	1,012,749
Improvements other than buildings	1,389,971	14,931	(3,599)	1,401,303
Machinery and equipment	10,832,272	1,299,586	(497,786)	11,634,072
Infrastructure	16,585,124	8,179,007	-	24,764,131
Other	<u>3,500</u>	<u>-</u>	<u>(3,500)</u>	<u>-</u>
Total capital assets, being depreciated	40,679,768	9,523,542	(516,735)	49,686,575
Less accumulated depreciation for:				
Buildings	(2,407,780)	(217,453)	-	(2,625,233)
Improvements to buildings	(68,797)	(49,705)	9,975	(108,527)
Improvements other than buildings	(382,574)	(54,955)	764	(436,765)
Machinery and equipment	(3,701,259)	(589,710)	344,319	(3,946,650)
Infrastructure	(451,515)	(406,782)	-	(858,297)
Other	<u>(3,325)</u>	<u>(175)</u>	<u>3,500</u>	<u>-</u>
Total accumulated depreciation	<u>(7,015,250)</u>	<u>(1,318,780)</u>	<u>358,558</u>	<u>(7,975,472)</u>
Total capital assets, being depreciated, net	<u>33,664,518</u>	<u>8,204,762</u>	<u>(158,177)</u>	<u>41,711,103</u>
Governmental activities, capital assets, net	<u>\$41,428,677</u>	<u>\$11,085,814</u>	<u>\$ (614,059)</u>	<u>\$51,900,432</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

C. Capital Assets - Continued -

Depreciation expense is charged to functions of the primary government as follows:

General Administration	\$ 135,409
Police	161,411
Public Works	554,987
City Clerk	4,064
Recreation	197,957
Fire	205,733
Planning, Engineering and Building	20,354
Court Clerk	3,386
City Council	2,498
Finance	8,895
Human Resources	2,151
Mayor's Office	1,179
Revenue	1,780
Senior Center	9,357
Information Technology	9,245
Legal	<u>374</u>
Total depreciation expense - governmental activities	<u>\$1,318,780</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

C. Capital Assets - Continued -

Discretely presented components units

The following is a summary of changes in the Water and Wastewater Board, a discretely presented component unit, capital assets during the fiscal year:

	Balance October 1, 2005	Increase	Decrease	Balance September 30, 2006
Water system	\$ 45,269,091	\$ 3,016,579	\$ -	\$ 48,285,670
Sewer system	67,734,080	3,436,624	72,500	71,098,204
General plant	5,216,627	336,597	-	5,553,224
Construction in progress	<u>19,182,772</u>	<u>7,913,694</u>	<u>6,789,800</u>	<u>20,306,666</u>
 Total capital assets, being depreciated	 137,402,570	 14,703,494	 6,862,300	 145,243,764
 Less accumulated depreciation for:				
Water system	11,191,314	1,193,074	-	12,384,388
Sewer system	13,346,019	1,747,567	-	15,093,586
General plant	<u>3,900,635</u>	<u>430,967</u>	<u>-</u>	<u>4,331,602</u>
Total accumulated depreciation	<u>28,437,968</u>	<u>3,371,608</u>	<u>-</u>	<u>31,809,576</u>
 Water and Wastewater Board's capital assets, net	 <u>\$ 108,964,602</u>	 <u>\$ 11,331,886</u>	 <u>\$ 6,862,300</u>	 <u>\$ 113,434,188</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

C. Capital Assets - Continued -

Discretely presented components units - Continued -

The following is a summary of the Madison City Board of Education's, a discretely presented component unit, capital assets during the fiscal year:

	Balance October 1, 2005	Additions	Retirements and Reclassifications	Balance September 30, 2006
Governmental Activities:				
Land	\$ 5,925,116	\$ -	\$ -	\$ 5,925,116
Land improvements	7,473,389	5,829	-	7,479,219
Buildings	75,726,847	9,951	-	75,736,797
Equipment	2,416,008	87,366	-	2,503,374
Construction in progress	-	5,082,195	-	5,082,195
Vehicles	<u>3,899,149</u>	<u>334,233</u>	<u>-</u>	<u>4,233,382</u>
Total at historic cost	<u>\$95,440,509</u>	<u>\$ 5,519,574</u>	<u>\$ -</u>	<u>\$ 100,960,083</u>
Less accumulated depreciation for:				
Land improvements	2,481,071	342,410	-	2,823,481
Buildings	15,487,035	1,502,427	-	16,989,462
Equipment	1,177,306	175,638	-	1,352,944
Vehicles	<u>2,546,164</u>	<u>320,209</u>	<u>-</u>	<u>2,866,373</u>
Total accumulated depreciation	<u>21,691,576</u>	<u>2,340,684</u>	<u>-</u>	<u>24,032,260</u>
Governmental Activities Capital Assets, Net	<u>\$73,748,933</u>	<u>\$ 3,178,890</u>	<u>\$ -</u>	<u>\$76,927,823</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

D. Interfund receivables, payables, and transfers

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

Due to/from other funds (Primary Government):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water Distribution and Storage Project Fund	\$ 499,480
	Domestic Violence Fund	2,250
	TVA Tax Fund	23,165
Gasoline Taxes and Inspection Fees Fund	General	12,222
Domestic Violence Fund	General	2,385
Correctional Fund	General	126,142
2001 Capital Improvement Fund	Water Distribution and Storage Project Fund	795
Cemetery Fund	General	<u>83,426</u>
	Total	<u>\$ 749,865</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

D. Interfund receivables, payables, and transfers - Continued -

Interfund transfers:

<u>Transfer From</u>	<u>Transfer To</u>	
General Fund	Nonmajor Governmental Funds	\$ 267,947
General Fund	2001 Capital Improvement Fund	100,000
Nonmajor Governmental Funds	General Fund	334,165
Water Distribution and Storage Project Fund	General Fund	1,299,480
Water Distribution and Storage Project Fund	Nonmajor Governmental Funds	3,013,814
Nonmajor Governmental Funds	2001 Capital Improvement Fund	<u>70,004</u>
	Total	<u>\$5,085,410</u>

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

E. Leases

The government entered into a lease agreement as lessee for financing the acquisition of a city-wide communication system, police vehicles, computers, fire trucks and other equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, are recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:	<u>Governmental Activities</u>
Machinery and equipment	\$2,406,340
Less: Accumulated depreciation	<u>304,642</u>
Total	<u>\$2,101,698</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

E. Leases - Continued -

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2007	\$ 520,799
2008	488,334
2009	396,233
2010	224,716
2011 - 2013	<u>415,687</u>
Total minimum lease payments	2,045,769
Less: amount representing interest	<u>(223,794)</u>
Present value of minimum lease payments	<u>\$1,821,975</u>

F. Long-term debt

The government issues general obligation warrants to provide funds for the acquisition and construction of major capital facilities. General obligation warrants have been issued for general government activities. In addition, general obligation warrants have been issued to refund general obligation warrants.

General obligation warrants are direct obligations and pledge the full faith and credit of the government. These warrants generally are issued as 25 or 30-year serial warrants, except for refunding issues.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

F. Long-term debt - Continued -

General obligation warrants currently outstanding as of September 30, 2006, are as follows:

	<u>Range of Interest Rates</u>	<u>Amount</u>
<u>General Obligation Warrants</u>		
Series 1998-C	4.50%-5.00%	\$ 16,150,000
Series 2001	3.25%-5.35%	9,195,000
Series 2005	4.70%-5.75%	18,400,000
 <u>General Obligation School Warrants</u>		
Series 1998-A	4.95%-5.20%	5,975,000
Series 1998-B	4.10%-5.00%	10,625,000
Series 1999	3.70%-5.00%	11,485,000
Series 2000	4.80%-5.70%	2,795,000
Series 2001-A	2.15%-5.125%	7,400,000
Series 2002	1.65%-5.125%	<u>20,020,000</u>
		 <u>\$102,045,000</u>

Annual debt service requirements to maturity for general obligation warrants and general obligation school warrants are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,690,000	\$ 4,912,829
2008	2,820,000	4,799,522
2009	3,400,000	4,677,084
2010	3,570,000	4,525,203
2011	3,750,000	4,365,619
2012-2016	21,280,000	18,972,342
2017-2021	26,150,000	13,230,398
2022-2026	27,265,000	6,382,275
2027-2031	9,820,000	1,276,912
2032	<u>1,300,000</u>	<u>33,312</u>
	 <u>\$102,045,000</u>	 <u>\$63,175,496</u>

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006**

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

F. Long-term debt - Continued -

Revenue bonds

The Water and Wastewater Board, a discretely presented component unit, issues bonds where the Board pledges income derived from the acquired or constructed assets to pay debt service.

Revenue bonds outstanding at September 30, 2006, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,360,000	\$ 2,073,786
2008	2,435,000	1,975,323
2009	2,630,000	1,884,377
2010	2,735,000	1,787,576
2011	2,830,000	1,685,434
2012-2016	15,905,000	6,700,569
2017-2021	18,515,000	3,245,446
2022-2025	<u>5,875,000</u>	<u>322,672</u>
	<u>\$53,285,000</u>	<u>\$19,675,183</u>

Changes in long-term liabilities

During the year ended September 30, 2006, the following changes occurred in the City's long-term liabilities:

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>
Capital lease obligations	\$ 1,363,423	\$ 776,961	\$ 318,409	\$ 1,821,975
General obligation warrants payable	104,650,000	-	2,605,000	102,045,000
Less deferred amounts for: Issuance discounts	<u>(1,213,376)</u>	<u>66,212</u>	<u>-</u>	<u>(1,147,164)</u>
Long-term liabilities	<u>\$ 104,800,047</u>	<u>\$ 843,173</u>	<u>\$ 2,923,409</u>	<u>\$ 102,719,811</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

F. Long-term debt - Continued -

During the year ended September 30, 2006, the following changes in the liabilities reported for the Water and Wastewater Board, a discretely presented component unit:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006
Revenue bonds	\$55,555,000	\$ -	\$2,270,000	\$53,285,000
Long-term liabilities	<u>\$55,555,000</u>	<u>\$ -</u>	<u>\$2,270,000</u>	<u>\$53,285,000</u>

G. Restricted assets

The statement of net assets shows certain amounts as restricted net assets. These amounts are restricted in their use by parties outside the City such as creditors, grantors, or contributors, or restricted by law or regulation. Components of restricted net assets include:

<u>Activity</u>	<u>Restricted By</u>	
Highways and streets	Law	\$ 968,954
Debt service	General Obligation Warrants	583,169
Senior Center	Law	4,395
Library	Law	38,689
Capital Improvement	Law	4,221,678
Federal Foreiture	Law	52,922
Domestic Violence	Grantor	2,250
Grants	Grantor	272,015
Water Distribution	Law	2,890,546
Neighborhood Park	Law	18,920
Fire CPR	Law	<u>553</u>
Total restricted assets		<u>\$9,054,091</u>

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 4. DETAILED NOTES ON ALL FUNDS - Continued

The balance sheet - governmental funds shows reserved fund balances for the following:

The reserve for restricted assets in the general fund (\$776,118 at September 30, 2006) is designated to be available for special purposes.

The reserve for encumbrances (\$716,431) is reserved for the payment of encumbered goods and services.

NOTE 5. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from the past three fiscal years have not exceeded commercial insurance coverage.

The Madison Board of Education is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Madison Board of Education has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The SIF is self-insured up to \$2 million per occurrence. The SIF purchases commercial insurance for claims that in the aggregate exceed \$2 million. Errors and omissions insurance is purchased from the Alabama School Boards Insurance Trust (ASBIT, a public entity risk pool. The ASBIT collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Madison Board of Education purchases commercial insurance for fidelity bonds and automobile coverage. Settled claims in the past three years have not exceeded the commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board. The plan was established to provide a uniform plan of health insurance for current and retired employees of state education institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5. OTHER INFORMATION

A. Risk Management - Continued -

based on the amounts necessary to fund coverage. The Board contributes the specified amount monthly to the PEEHIF for each employee.

The State Board of Adjustments is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

B. Related Party Transaction

On September 23, 1991, the City and the Water and Wastewater Board, a discretely presented component unit, entered into a franchise agreement for the operation of certain utility systems from the City. This franchise agreement was granted for the purpose of confirming and clarifying the holder of ownership interest in and to water and sewer improvements and fire hydrants previously dedicated to the City, which were transferred to the Board by the City. The Water and Wastewater Board pays the City, no later than September 1 of each year, a sum of money equal to three percent of its gross revenues from sales of utility services for the preceding fiscal year (exclusive of impact, administrative and tap fees) whether such sales occur within or outside the corporate limits of the City. During the fiscal year ended September 30, 2006, the City received \$235,547 from the Water and Wastewater Board.

The North Alabama Gas District is governed by a Board of Directors composed of five members, two of whom are members of the City Council. The City received distributions based on the District's annual income. The City has no significant influence over the management, budget or policies of the District. During the fiscal year ended September 30, 2006, the City received \$198,149 from the North Alabama Gas District.

C. Related Organizations

The City's elected officials are responsible for appointing members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City's elected officials appoint the board members of the Architectural Review Board, Beautification Board, Community Education Committee, Industrial Development Board, and Recreation Advisory Board.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5. OTHER INFORMATION - Continued

D. Subsequent Events

On October 9, 2006, the City of Madison accepted a grant from the U.S. Department of Homeland Security in the amount of \$1,502,532 (\$621,000 federal share and \$881,532 local share).

On October 9, 2006, the City of Madison approved the purchase of a radio activated traffic preemption system in the amount of \$257,140.

On November 27, 2006, the City of Madison accepted a Firefighters Assistance grant in the amount of \$90,550.

On December 1, 2006, the City of Madison issue refunding warrants of \$37,980,000.

On December 19, 2006, the City of Madison contracted for construction of Sullivan Street/Palmer Road intersection project in the amount of \$988,907.

On December 19, 2006, the City of Madison accepted a donation from Madison County Commission in the amount of \$37,500.

On December 19, 2006, the City of Madison accepted a training grant for fire department in the amount of \$23,600.

On February 12, 2007, the City of Madison approved an agreement for a citizen service request management system in the amount of \$14,995.

On February 12, 2007, the City of Madison accepted a traffic enforcement grant in the amount of \$3,000.

On February 12, 2007, the City of Madison contracted to purchase software for the police department in the amount of \$50,000.

On February 12, 2007, the City of Madison contracted for improvements to Palmer Park in the amount of \$25,396.

On February 12, 2007, the City of Madison approved the purchase of land for Gillespie Road Extension project in the amount of \$30,000.

On February 26, 2007, the City of Madison contracted for construction of intersection improvements in the amount of \$128,500.

On February 26, 2007, the City of Madison contracted for improvements to Dublin Park indoor swimming pool in the amount of \$48,900.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5. OTHER INFORMATION - Continued

D. Subsequent Events - continued

On February 26, 2007, the City of Madison contracted for construction of renovations to Madison City Hall – Main Level in the amount of \$389,000.

On February 26, 2007, the City of Madison approved an agreement with City of Huntsville, Alabama, for infrastructure improvement for approximately \$500,000.

On March 12, 2007, the City of Madison contracted for construction of intersection improvements in the amount of 249,031.

On March 12, 2007, the City of Madison contracted for construction of improvement to Royal Cemetery in the amount of \$26,799.

On March 26, 2007, the City of Madison approved construction of intersection improvement for Will Halsey and Hughes Road in the amount of \$40,000.

On March 26, 2007, the City of Madison approved construction of improvement for Dublin Park Soccer Field in the amount of \$100,000.

On April 23, 2007, the City of Madison approved the lease purchase of a ladder truck in the amount of \$675,846.

On April 23, 2007, the City of Madison approved the purchase of weapons for the police department in the amount of \$16,330.

On April 23, 2007, the City of Madison accepted a donation in the amount of \$50,000 for intersection improvement for Wall Triana and Gillespie Road.

On April 23, 2007, the City of Madison accepted a donation in the amount of approximately \$20,000 for improvement to Dublin Park.

E. Commitments and Contingencies

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

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 such amounts, if any, are expected to be immaterial.

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan

Primary Government:

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 and departments.

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 that 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 are provided to plan members.

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 Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

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

Funding Policy

The System members are required to contribute five percent (5%) of their annual covered salary. Effective January 1, 2001, the member contribution rate for correctional officers, certified full-time firefighters and certified full-time law enforcement officers.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006**

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Funding Policy - continued -

increased to 6% of employees' compensation. The City is required to contribute at an actuarially determined rate. The current rate is 7.34% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the Retirement Systems of Alabama.

Annual Pension Cost

For fiscal year September 30, 2006, the City's annual pension cost of \$843,001 was equal to the City's required annual contributions. The required contribution was determined as part of the September 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increases of 4.61% to 7.75% per year. There are no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.50%. The actuarial valuation of System assets was determined using 5-year smoothed market values. The System's un-funded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2005 was 19 years.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/03	\$520,379	100%	\$ -
9/30/04	\$683,889	100%	\$ -
9/30/05	\$781,835	100%	\$ -

Pension Plan - Discretely Presented Component Unit

Water and Wastewater Board

Plan Description

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

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Plan Description - continued -

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the Water and Wastewater Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, 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 are provided to plan members.

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 Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

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

Funding Policy

The System members are required to contribute five percent (5%) of their annual covered salary. The Water and Wastewater Board is required to contribute at an actuarially determined rate. The current rate is 5.68% of annual covered payroll. The contribution requirements of plan members and the Water and Wastewater Board are established and may be amended by the Retirement Systems of Alabama.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006**

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Annual Pension Cost

For fiscal year September 30, 2006, the Water and Wastewater Board's annual pension cost of \$134,827 was equal to the Water and Wastewater Board's required annual contributions. The required contribution was determined as part of the September 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increases of 4.61% to 7.75% per year. There are no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.50%. The actuarial valuation of System assets was determined using 5-year smoothed market values. The System's un-funded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2005 was 12 years.

The following is the Board's schedule of funding progress for the three most recently available actuarial valuations:

Actuarial Valuation Date	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 % of Covered Payroll ((b-a)/c)
9/30/2005	\$3,194,583	\$3,817,812	\$623,228	83.7%	\$2,009,355	31.0%
9/30/2004	2,791,773	3,202,197	410,424	87.2%	1,849,110	22.2%
9/30/2003	2,523,567	3,088,306	564,739	81.7%	1,864,646	30.3%

Madison City Board of Education

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

CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Madison City Board of Education - Continued -

Substantially all employees of the Madison City Board of Education are members of the Teachers' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of Madison City Board of Education. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 30 years of service. Retirement benefits are calculated by two methods with the retirees receiving payment under the method that 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 are provided to plan members.

The Teachers' Retirement System was established October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by the state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefits provisions are established by the Code of Alabama 1975, 16-25-1 through 16-25-113, as amended, and 36-27B-1 through 36-27B-6, as amended.

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

Funding Policy

Employees of the Madison City Board of Education are required to contribute 5 percent of their salary to the Teachers' Retirement System. The Madison City Board of Education is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Alabama Legislature the contribution rate for the following fiscal year, with the legislature setting this rate in the annual appropriation bill.

**CITY OF MADISON, ALABAMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2006**

NOTE 5. OTHER INFORMATION - Continued

F. Defined Benefits Pension Plan - Continued -

Madison City Board of Education - Continued -

The percentages of the contributions and the amount of contributions made by the Madison City Board of Education and the Madison City Board of Education's employees equal the required contribution for each year as follows:

Fiscal Year Ended September 30	<u>2006</u>	<u>2005</u>
Total percentages of covered payroll	97.46%	96.60%
<u>Contributions:</u>		
Percentage contribution by the Board	8.17%	8.17%
Percentage contribution by employees	5.00%	5.00%
Amount contributed by the Board	\$2,508,771	\$1,934,388
Amount contributed by employees	<u>1,535,358</u>	<u>1,375,813</u>
Total contributions	<u>\$4,044,129</u>	<u>\$3,310,201</u>

REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF MADISON, ALABAMA
SCHEDULE OF FUNDING PROGRESS - EMPLOYEES' RETIREMENT
SYSTEMS OF ALABAMA
September 30, 2006**

Actuarial Valuation Payroll Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)*	Accrued AAL (UAAL) (b-a)	Funded Ratio (a/b)	Unfunded Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/01**	\$11,268,887	\$12,442,734	\$1,173,847	90.6%	\$7,727,425	15.2%
9/30/02***	\$12,263,619	\$14,649,335	\$2,385,716	83.7%	\$8,578,763	27.8%
9/30/03****	\$13,411,765	\$16,711,791	\$3,300,026	80.3%	\$9,469,986	34.8%
9/30/04*****	\$15,065,617	\$18,645,556	\$3,579,939	80.8%	\$10,763,008	33.3%
9/30/05	\$17,063,082	\$21,641,106	\$4,578,024	78.8%	\$11,030,637	41.5%

* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

** Reflect 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.



**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

**CITY OF MADISON, ALABAMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,585,392	\$ -	\$1,354,020	\$ 2,939,412
Cash with fiscal agent	-	583,169	-	583,169
Receivables, net				
Taxes and tax equivalent	218,961	-	-	218,961
Grants	2,250	-	-	2,250
Other	134,979	-	-	134,979
Due from other funds	224,175	-	-	224,175
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 2,165,757</u></u>	<u><u>\$ 583,169</u></u>	<u><u>\$1,354,020</u></u>	<u><u>\$ 4,102,946</u></u>
LIABILITIES				
Accounts payable	\$ 158,534	\$ -	\$ -	\$ 158,534
Due to other funds	25,415	-	-	25,415
Deferred Revenue	215,820	-	-	215,820
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	399,769	-	-	399,769
FUND BALANCES				
Reserved for:				
Encumbrances	22,198	-	-	22,198
Restricted assets	1,736,279	-	1,354,020	3,090,299
Debt Service	-	583,169	-	583,169
Unreserved	7,511	-	-	7,511
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,765,988</u>	<u>583,169</u>	<u>1,354,020</u>	<u>3,703,177</u>
Total liabilities and fund balances	<u><u>\$ 2,165,757</u></u>	<u><u>\$ 583,169</u></u>	<u><u>\$1,354,020</u></u>	<u><u>\$ 4,102,946</u></u>

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

CITY OF MADISON, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES				
Taxes:				
Property and payment in lieu of taxes	\$ 199,622	\$ -	\$ -	\$ 199,622
Intergovernmental	1,173,194	-	-	1,173,194
Fines	216,983	-	-	216,983
Charges for Services	53,370	-	-	53,370
Investment earnings	68,954	8,370	56,006	133,330
Contributions and donations	1,250	-	-	1,250
Other revenue	-	4,594,370	-	4,594,370
	<u>-</u>	<u>4,594,370</u>	<u>-</u>	<u>4,594,370</u>
Total Revenues	1,713,373	4,602,740	56,006	6,372,119
EXPENDITURES				
General Administration	489,057	380	-	489,437
Police Protection	72,128	-	-	72,128
Public Works	486,538	-	-	486,538
Fire	1,983	-	-	1,983
Planning, Engineering and Building	487	-	-	487
Debt Service:				
Principal	-	2,605,000	-	2,605,000
Interest	-	5,018,115	-	5,018,115
Capital Outlay	72,847	-	-	72,847
	<u>72,847</u>	<u>-</u>	<u>-</u>	<u>72,847</u>
Total Expenditures	1,123,040	7,623,495	-	8,746,535
Excess (deficiency) of revenues over (under) expenditures	590,333	(3,020,755)	56,006	(2,374,416)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	267,947	3,013,814	-	3,281,761
Transfers to other funds	(404,169)	-	-	(404,169)
	<u>(136,222)</u>	<u>3,013,814</u>	<u>-</u>	<u>2,877,592</u>
Total other financing sources (uses)	(136,222)	3,013,814	-	2,877,592
Net change in fund balances	454,111	(6,941)	56,006	503,176
Fund balances - beginning of year	1,311,877	590,110	1,298,014	3,200,001
Fund balances - end of year	<u>\$1,765,988</u>	<u>\$ 583,169</u>	<u>\$1,354,020</u>	<u>\$ 3,703,177</u>

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



NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Gasoline Taxes and Inspection Fee Fund - This fund is used to account for the City's share of the State 7-cent, 5-cent, 4-cent, petroleum inspection fees and the City's 2-cent gasoline taxes. State law requires these gasoline taxes to be used for the operation and maintenance of streets and highways. The state limits the use of the 4-cent gasoline tax to resurfacing, restoring and rehabilitating roads and bridges. The City's 2-cent gasoline tax is used for the operation and maintenance of streets.

TVA Tax Distribution Fund - This fund is used to account for contributions to the school system.

Senior Center Donation Fund - This fund is used to account for the operation of the City's senior center. Funds provided to the City for the senior center may be used only for that purpose.

Library Fund - This fund is used to account for the operation of the City Public Library.

Japanese Garden Donation Fund - This fund is used to account for revenues and expenditures for the proposed Japanese Garden for Dublin Park. There is no approved budget for this fund.

Correctional Fund - This fund is used to account for correction fines restricted by the State to be used for the operation and maintenance of municipal jail services and court related purposes.

Municipal Government Capital Improvement Fund - This fund is used to account for expenditures of revenues received from the state solely for capital improvements.

Federal Forfeiture Fund - This fund is used to account for sharing funds received from the U.S. Department of Justice and the U.S. Department of the Treasury. There is no approved budget for this fund.

Cemetery Fund - This fund is used to account for expenditures of revenues received from cemetery services.

Domestic Violence Fund - This fund is used to account for revenues and expenditures for the Violence Against Women grant.

Police Block Grant Fund - This fund is used to account for funds received from the state solely for police protection. There is no approved budget for this fund.

Fire CPR Fund - This fund is used to account for expenditures of revenues received from CPR services. There is no approved budget for this fund.

CITY OF MADISON, ALABAMA
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	Gasoline Taxes and Inspection Fees Fund	TVA Tax Distribution Fund	Senior Center Donation Fund	Library Fund	Japanese Garden Donation Fund	Correctional Fund	Municipal Government Capital Improvement Fund	Federal Forfeiture Fund	Cemetery Fund	Domestic Violence Fund	Police Block Grant Fund	Fire CPR Fund	Total Nonmajor Governmental Funds
ASSETS													
Cash and cash equivalents	\$ 948,221	\$ 61,363	\$ 4,355	\$ 36,927	\$ -	\$ -	\$ 481,050	\$ 52,922	\$ -	\$ -	\$ 1	\$ 553	\$ 1,585,392
Receivables, net													
Tax and tax equivalents				218,961									218,961
Grants										2,250			2,250
Other	122,645	12,334											134,979
Due from other funds	12,222					126,142			83,426	2,385			224,175
Total assets	\$ 1,083,088	\$ 73,697	\$ 4,355	\$ 255,888	\$ -	\$ 126,142	\$ 481,050	\$ 52,922	\$ 83,426	\$ 4,635	\$ 1	\$ 553	\$ 2,165,757
LIABILITIES													
Accounts payable	\$ 114,134	\$ 43,021	\$ -	\$ 1,379	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 158,534
Due to Other Funds		23,165								2,250			25,415
Deferred Revenue				215,820									215,820
Total liabilities	114,134	66,186	-	217,199	-	-	-	-	-	2,250	-	-	399,769
FUND BALANCES													
Reserved for:													
Encumbrances	5,310			1,000					15,888				22,198
Restricted assets	963,644		4,355	37,689		126,142	481,050	52,922	67,536	2,385	1	553	1,736,279
Unreserved		7,511											7,511
Total fund balances	968,954	7,511	4,355	38,689	-	126,142	481,050	52,922	83,426	2,385	1	553	1,765,988
Total liabilities and fund balances	\$ 1,083,088	\$ 73,697	\$ 4,355	\$ 255,888	\$ -	\$ 126,142	\$ 481,050	\$ 52,922	\$ 83,426	\$ 4,635	\$ 1	\$ 553	\$ 2,165,757

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

CITY OF MADISON, ALABAMA
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Gasoline Taxes and Inspection Fees Fund	TVA Tax Distribution Fund	Senior Center Donation Fund	Library Fund	Japanese Garden Donation Fund	Correctional Fund	Municipal Government Capital Improvement Fund	Federal Forfeiture Fund	Cemetery Fund	Domestic Violence Fund	Police Block Grant Fund	Fire CPR Fund	Total Nonmajor Governmental Funds
REVENUES													
Intergovernmental:													
Gasoline Taxes	\$ 901,443	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 901,443
TVA Tax Proceeds	-	66,186	-	-	-	-	-	-	-	-	-	-	66,186
Property Tax	-	-	-	199,622	-	-	-	-	-	-	-	-	199,622
Other	-	-	-	-	-	-	174,003	1,693	-	-	-	-	175,696
Grant	-	-	-	-	-	-	-	-	-	29,869	-	-	29,869
Charges for Services	-	-	-	-	-	-	-	-	51,550	-	-	1,820	53,370
Fines	-	-	-	-	-	216,983	-	-	-	-	-	-	216,983
Contributions and Donations	-	-	250	-	1,000	-	-	-	-	-	-	-	1,250
Investment Earnings	38,238	2,308	216	5,916	20	-	20,211	2,041	-	-	1	3	68,954
Total revenues	939,681	68,494	466	205,538	1,020	216,983	194,214	3,734	51,550	29,869	1	1,823	1,713,373
EXPENDITURES													
Current:													
General Administration	65	43,021	250	441,004	3,217	-	1,500	-	-	-	-	-	489,057
Police department	-	-	-	-	-	-	-	-	-	72,066	62	-	72,128
Public Works	478,916	-	-	-	-	-	-	-	7,622	-	-	-	486,538
Fire	-	-	-	-	-	-	-	-	-	-	-	1,983	1,983
Planning, Engineering and Building	487	-	-	-	-	-	-	-	-	-	-	-	487
Capital outlay	71,552	-	-	1,295	-	-	-	-	-	-	-	-	72,847
Total expenditures	551,020	43,021	250	442,299	3,217	-	1,500	-	7,622	72,066	62	1,983	1,123,040
Excess (deficiency) of revenues over (under) expenditures	388,661	25,473	216	(236,761)	(2,197)	216,983	192,714	3,734	43,928	(42,197)	(61)	(160)	590,333
OTHER FINANCING SOURCES (USES)													
Transfers from other funds	-	-	-	224,767	-	-	-	-	-	43,180	-	-	267,947
Transfers to other funds	(151,000)	(23,165)	-	-	-	(160,000)	(70,004)	-	-	-	-	-	(404,169)
Total other financing sources (uses)	(151,000)	(23,165)	-	224,767	-	(160,000)	(70,004)	-	-	43,180	-	-	(136,222)
Net changes in fund balances	237,661	2,308	216	(11,994)	(2,197)	56,983	122,710	3,734	43,928	983	(61)	(160)	454,111
Fund balances - beginning of year	731,293	5,203	4,139	50,683	2,197	68,159	358,340	49,188	39,498	1,402	62	713	1,311,877
Fund balances - end of year	\$ 968,954	\$ 7,511	\$ 4,355	\$ 38,689	\$ -	\$ 125,142	\$ 481,050	\$ 52,922	\$ 83,426	\$ 2,385	\$ 1	\$ 553	\$ 1,765,988

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



CITY OF MADISON, ALABAMA
GASOLINE TAXES AND INSPECTION FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Intergovernmental:			
State Gasoline Taxes	\$ 589,000	\$ 584,919	\$ (4,081)
2-Cent Gasoline Taxes	311,000	316,524	5,524
Investment Earnings	15,000	38,238	23,238
Total revenues	915,000	939,681	24,681
EXPENDITURES			
Current:			
General Administration	-	65	(65)
Public Works	866,150	478,916	387,234
Planning, Engineering and Building	57,500	487	57,013
Capital Outlay	307,800	71,552	236,248
Total expenditures	1,231,450	551,020	680,430
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(316,450)	388,661	705,111
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	(226,000)	(151,000)	75,000
Total other financing sources (uses)	(226,000)	(151,000)	75,000
Net change in fund balance	(542,450)	237,661	780,111
Fund balance - beginning of year	731,293	731,293	-
Fund balance - end of year	\$ 188,843	\$ 968,954	\$ 780,111

CITY OF MADISON, ALABAMA
TVA TAX DISTRIBUTION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Intergovernmental:			
TVA Tax Proceeds	\$ 55,000	\$ 66,186	\$ 11,186
Investment Earnings	450	2,308	1,858
Total revenues	55,450	68,494	13,044
EXPENDITURES			
Current:			
General Administration	35,750	43,021	(7,271)
Total expenditures	35,750	43,021	(7,271)
EXCESS OF REVENUES OVER EXPENDITURES	19,700	25,473	5,773
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	(19,250)	(23,165)	(3,915)
Total other financing sources (uses)	(19,250)	(23,165)	(3,915)
Net change in fund balance	450	2,308	1,858
Fund balance - beginning of year	5,203	5,203	-
Fund balance - end of year	\$ 5,653	\$ 7,511	\$ 1,858

CITY OF MADISON, ALABAMA
 SENIOR CENTER DONATION FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Donations	\$ 1,000	\$ 250	\$ (750)
Investment Earnings	100	216	116
Total revenues	1,100	466	(634)
EXPENDITURES			
General Administration	-	250	(250)
Total expenditures	-	250	(250)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,100	216	(884)
Fund balance - beginning of year	4,139	4,139	-
Fund balance - end of year	<u>\$ 5,239</u>	<u>\$ 4,355</u>	<u>\$ (884)</u>

CITY OF MADISON, ALABAMA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Intergovernmental:			
Property Tax	\$ 190,000	\$ 199,622	\$ 9,622
Investment Earnings	3,300	5,916	2,616
Total revenues	193,300	205,538	12,238
EXPENDITURES			
Current:			
General Administration	449,850	441,004	8,846
Capital Outlay	-	1,295	(1,295)
Total expenditures	449,850	442,299	7,551
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(256,550)	(236,761)	19,789
OTHER FINANCING SOURCES			
Transfers from other funds	224,047	224,767	720
Total other financing sources	224,047	224,767	720
Net change in fund balance	(32,503)	(11,994)	20,509
Fund balance - beginning of year	50,683	50,683	-
Fund balance - end of year	\$ 18,180	\$ 38,689	\$ 20,509

**CITY OF MADISON, ALABAMA
CORRECTIONAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	<u>Final Amended Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
REVENUES			
Fines	\$ 141,500	\$ 216,983	\$ 75,483
Total revenues	141,500	216,983	75,483
EXPENDITURES			
Current:			
General Administration	-	-	-
Total expenditures	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	141,500	216,983	75,483
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	(160,000)	(160,000)	-
Total other financing sources (uses)	(160,000)	(160,000)	-
Net change in fund balance	(18,500)	56,983	75,483
Fund balance - beginning of year	69,159	69,159	-
Fund balance - end of year	<u>\$ 50,659</u>	<u>\$ 126,142</u>	<u>\$ 75,483</u>

**CITY OF MADISON, ALABAMA
MUNICIPAL GOVERNMENT CAPITAL IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Other	\$ 158,623	\$ 174,003	\$ 15,380
Investment Earnings	7,000	20,211	13,211
Total revenues	165,623	194,214	28,591
EXPENDITURES			
Current:			
General Administration	-	1,500	(1,500)
Capital Outlay	110,000	-	110,000
Total expenditures	110,000	1,500	108,500
EXCESS OF REVENUES OVER EXPENDITURES	55,623	192,714	137,091
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	(300,000)	(70,004)	229,996
Total other financing sources (uses)	(300,000)	(70,004)	229,996
Net change in fund balance	(244,377)	122,710	367,087
Fund balance - beginning of year	358,340	358,340	-
Fund balance - end of year	\$ 113,963	\$ 481,050	\$ 367,087

**CITY OF MADISON, ALABAMA
CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	<u>Final Amended Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
REVENUES			
Charges for Services	\$ 28,000	\$ 51,550	\$ 23,550
Total revenues	28,000	51,550	23,550
EXPENDITURES			
Current:			
Public Works	20,000	7,622	12,378
Capital Outlay	16,000	-	16,000
Total expenditures	36,000	7,622	28,378
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,000)	43,928	51,928
Fund balance - beginning of year	39,498	39,498	-
Fund balance - end of year	<u>\$ 31,498</u>	<u>\$ 83,426</u>	<u>\$ 51,928</u>

**CITY OF MADISON, ALABAMA
DOMESTIC VIOLENCE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Intergovernmental: Grant	\$ 32,400	\$ 29,869	\$ (2,531)
Total revenues	32,400	29,869	(2,531)
EXPENDITURES			
Current: Police Protection	67,018	72,066	(5,048)
Total expenditures	67,018	72,066	(5,048)
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(34,618)	(42,197)	(7,579)
OTHER FINANCING SOURCES			
Transfers from other funds	35,000	43,180	8,180
Total other financing sources	35,000	43,180	8,180
Net change in fund balance	382	983	601
Fund balance - beginning of year	1,402	1,402	-
Fund balance - end of year	<u>\$ 1,784</u>	<u>\$ 2,385</u>	<u>\$ 601</u>

NONMAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

The **debt service fund** is used to account for the accumulation of resources and payment of general obligation bond principal and interest from government resources.

1998-A Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated April 1, 1998. The 11-mill property tax and resources dedicated by Madison City Board of Education will provide 100% of the debt service requirements for the outstanding general obligation school warrants.

1998-B Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated September 1, 1998. The 11-mill property tax and resources dedicated by Madison City Board of Education will provide 100% of the debt service requirements for the outstanding general obligation school warrants.

1998-C Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation warrants dated September 1, 1998. The ½ cent sales tax and the 5½-mill property tax will provide 100% of the debt service requirements for the outstanding general obligation warrants.

1999 Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated March 15, 1999. The 11-mill property tax and resources dedicated by Madison City Board of Education will provide 100% of the debt service requirements for the outstanding general obligation school warrants.

2000 Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated April 1, 2000. The 11-mill property tax and resources dedicated by Madison City Board of Education will provide 100% of the debt service requirements for the outstanding general obligation school warrants.

2001 Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation warrants dated June 1, 2001. The ½ cent sales tax and the 5½-mill property tax will provide 100% of the debt service requirements for the outstanding general obligation warrants.

2001-A Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated November 1, 2001. The 11-mill property tax and resources dedicated by Madison City Board of Education will provide 100% of the debt service requirements for the outstanding general obligation school warrants.

2002 Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated October 1, 2002. The 11-mill property tax and resources dedicated by Madison City Board of Education will provide 100% of the debt service requirements for the outstanding general obligation school warrants.

2005 Bond Fund - This fund is used to account for the accumulation of resources for the payment of the general obligation school warrants dated April 1, 2005. The ½ cent sales tax and the 5½-mill property tax will provide 100% of the debt service requirements for the outstanding general obligation warrants.

CITY OF MADISON, ALABAMA
DEBT SERVICE FUND
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	1998-A Bond Fund	1998-B Bond Fund	1998-C Bond Fund	1999 Bond Fund	2000 Bond Fund	2001 Bond Fund	2001-A Bond Fund	2002 Bond Fund	2005 Bond Fund	Total Nonmajor Governmental Funds
ASSETS										
Cash with fiscal agent	\$ 377	\$ 685	\$ 2,316	\$ 688	\$ 76,917	\$ -	\$ 359	\$ 384	\$ 501,443	\$ 583,169
Total assets	<u>\$ 377</u>	<u>\$ 685</u>	<u>\$ 2,316</u>	<u>\$ 688</u>	<u>\$ 76,917</u>	<u>\$ -</u>	<u>\$ 359</u>	<u>\$ 384</u>	<u>\$ 501,443</u>	<u>\$ 583,169</u>
LIABILITIES										
Total liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES										
Reserved	377	685	2,316	688	76,917	-	359	384	501,443	583,169
Total fund balances	<u>377</u>	<u>685</u>	<u>2,316</u>	<u>688</u>	<u>76,917</u>	<u>-</u>	<u>359</u>	<u>384</u>	<u>501,443</u>	<u>583,169</u>
Total liabilities and fund balances	<u>\$ 377</u>	<u>\$ 685</u>	<u>\$ 2,316</u>	<u>\$ 688</u>	<u>\$ 76,917</u>	<u>\$ -</u>	<u>\$ 359</u>	<u>\$ 384</u>	<u>\$ 501,443</u>	<u>\$ 583,169</u>

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

CITY OF MADISON, ALABAMA
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	1998-A Bond Fund	1998-B Bond Fund	1998-C Bond Fund	1999 Bond Fund	2000 Bond Fund	2001 Bond Fund	2001-A Bond Fund	2002 Bond Fund	2005 Bond Fund	Total Nonmajor Governmental Funds
REVENUES										
Investment earnings	\$ 694	\$ 362	\$ 1,138	\$ 358	\$ 196	\$ -	\$ 418	\$ 1,182	\$ 4,022	\$ 8,370
Other revenues	457,000	974,865	-	981,248	285,493	-	561,551	1,334,213	-	4,594,370
Total revenues	457,694	975,227	1,138	981,606	285,689	-	561,969	1,335,395	4,022	4,602,740
EXPENDITURES										
Current:										
General Administration	41	-	-	-	-	-	25	57	257	380
Debt service										
Principal	150,000	445,000	-	425,000	130,000	420,000	215,000	445,000	375,000	2,605,000
Interest	307,345	529,865	797,095	556,248	158,775	456,855	346,738	890,111	975,083	5,018,115
Total expenditures	457,386	974,865	797,095	981,248	288,775	876,855	561,763	1,335,168	1,350,340	7,623,495
Excess (deficiency) of revenues over (under) expenditures	308	362	(795,957)	358	(3,086)	(876,855)	206	227	(1,346,318)	(3,020,755)
OTHER FINANCING SOURCES										
Transfers from other funds	-	-	797,095	-	-	876,855	-	-	1,339,864	3,013,814
Total other financing sources	-	-	797,095	-	-	876,855	-	-	1,339,864	3,013,814
Net changes in fund balances	308	362	1,138	358	(3,086)	-	206	227	(6,454)	(6,941)
Fund balances - beginning of year	69	323	1,178	330	80,003	-	153	157	507,897	590,110
Fund balances - end of year	\$ 377	\$ 685	\$ 2,316	\$ 688	\$ 76,917	\$ -	\$ 359	\$ 384	\$ 501,443	\$ 583,169

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

CITY OF MADISON, ALABAMA
1998-A BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Investment Earnings	\$ 300	\$ 694	\$ 394
Other Revenues	457,645	457,000	(645)
Total revenues	457,945	457,694	(251)
EXPENDITURES			
Current:			
General Administration	-	41	(41)
Debt Service:			
Principal	150,000	150,000	-
Interest	307,645	307,345	300
Total expenditures	457,645	457,386	259
EXCESS OF REVENUES OVER EXPENDITURES	300	308	8
Fund balance - beginning of year	69	69	-
Fund balance - end of year	\$ 369	\$ 377	\$ 8

CITY OF MADISON, ALABAMA
 1998-B BOND FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Investment Earnings	\$ 300	\$ 362	\$ 62
Other Revenues	974,866	974,865	(1)
Total revenues	975,166	975,227	61
EXPENDITURES			
Debt Service:			
Principal	445,000	445,000	-
Interest	529,866	529,865	1
Total expenditures	974,866	974,865	1
EXCESS OF REVENUES OVER EXPENDITURES	300	362	62
Fund balance - beginning of year	323	323	-
Fund balance - end of year	\$ 623	\$ 685	\$ 62

CITY OF MADISON, ALABAMA
1998-C BOND FUND
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Investment Earnings	\$ 600	\$ 1,138	\$ 538
Total revenues	600	1,138	538
EXPENDITURES			
Debt Service: Interest	797,095	797,095	-
Total expenditures	797,095	797,095	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(796,495)	(795,957)	538
OTHER FINANCING SOURCES			
Transfers from other funds	797,095	797,095	-
Total other financing sources	797,095	797,095	-
Net change in fund balance	600	1,138	538
Fund balance - beginning of year	1,178	1,178	-
Fund balance - end of year	\$ 1,778	\$ 2,316	\$ 538

CITY OF MADISON, ALABAMA
 1999 BOND FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Investment Earnings	\$ 300	\$ 358	\$ 58
Other Revenues	981,248	981,248	-
Total revenues	981,548	981,606	58
EXPENDITURES			
Debt Service:			
Principal	425,000	425,000	-
Interest	556,248	556,248	-
Total expenditures	981,248	981,248	-
EXCESS OF REVENUES OVER EXPENDITURES	300	358	58
Fund balance - beginning of year	330	330	-
Fund balance - end of year	<u>\$ 630</u>	<u>\$ 688</u>	<u>\$ 58</u>

CITY OF MADISON, ALABAMA
2000 BOND FUND
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	<u>Final Amended Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES			
Investment Earnings	\$ 20	\$ 196	\$ 176
Other Revenues	288,776	285,493	(3,283)
Total revenues	288,796	285,689	(3,107)
EXPENDITURES			
Debt Service:			
Principal	130,000	130,000	-
Interest	158,776	158,775	1
Total expenditures	288,776	288,775	1
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20	(3,086)	(3,106)
Fund balance - beginning of year	80,003	80,003	-
Fund balance - end of year	<u>\$ 80,023</u>	<u>\$ 76,917</u>	<u>\$ (3,106)</u>

CITY OF MADISON, ALABAMA
2001 BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Investment Earnings	\$ -	\$ -	\$ -
Total revenues	-	-	-
EXPENDITURES			
Debt Service:			
Principal	420,000	420,000	-
Interest	456,855	456,855	-
Total expenditures	876,855	876,855	-
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(876,855)	(876,855)	-
OTHER FINANCING SOURCES			
Transfers from other funds	876,855	876,855	-
Total other financing sources	876,855	876,855	-
Net change in fund balance	-	-	-
Fund balance - beginning of year	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ -

CITY OF MADISON, ALABAMA
2001-A BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Investment Earnings	\$ 300	\$ 418	\$ 118
Other Revenues	561,739	561,551	(188)
Total revenues	562,039	561,969	(70)
EXPENDITURES			
Current:			
General Administration	-	25	(25)
Debt Service:			
Principal	215,000	215,000	-
Interest	346,739	346,738	1
Total expenditures	561,739	561,763	(24)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	300	206	(94)
Fund balance - beginning of year	153	153	-
Fund balance - end of year	\$ 453	\$ 359	\$ (94)

CITY OF MADISON, ALABAMA
2002 BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Final Amended Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Investment Earnings	\$ 600	\$ 1,182	\$ 582
Other Revenues	1,335,112	1,334,213	(899)
Total revenues	1,335,712	1,335,395	(317)
EXPENDITURES			
Current:			
General Administration	-	57	(57)
Debt Service:			
Principal	445,000	445,000	-
Interest	890,112	890,111	1
Total expenditures	1,335,112	1,335,168	(56)
EXCESS OF REVENUES OVER EXPENDITURES	600	227	(373)
Fund balance - beginning of year	157	157	-
Fund balance - end of year	\$ 757	\$ 384	\$ (373)

**CITY OF MADISON, ALABAMA
2005 BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	<u>Final Amended Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES			
Investment Earnings	\$ 300	\$ 4,022	\$ 3,722
Total revenues	300	4,022	3,722
EXPENDITURES			
Current:			
General Administration	-	257	(257)
Debt Service:			
Principal	375,000	375,000	-
Interest	975,084	975,083	1
Total expenditures	1,350,084	1,350,340	(256)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,349,784)	(1,346,318)	3,466
OTHER FINANCING SOURCES			
Transfers from other funds	1,350,084	1,339,864	(10,220)
Total other financing sources	1,350,084	1,339,864	(10,220)
Net change in fund balance	300	(6,454)	(6,754)
Fund balance - beginning of year	507,897	507,897	-
Fund balance - end of year	<u>\$ 508,197</u>	<u>\$ 501,443</u>	<u>\$ (6,754)</u>

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS FUNDS

The **capital projects fund** is used to account for financial resources segregated for the acquisition and construction of major capital facilities.

Forward Purchase Bond Account - This fund is used to account for the Forward Purchase contract fees for the series 1995 General Obligation Warrants.

**CITY OF MADISON, ALABAMA
 CAPITAL PROJECTS FUNDS
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2006**

	Forward Purchase Bond Account	Total Nonmajor Governmental Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 1,354,020	\$ 1,354,020
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,354,020</u>	<u>\$ 1,354,020</u>
LIABILITIES	\$ -	\$ -
FUND BALANCES		
Reserved	<u>1,354,020</u>	<u>1,354,020</u>
	<u> </u>	<u> </u>
Total fund balances	<u>1,354,020</u>	<u>1,354,020</u>
	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,354,020</u>	<u>\$ 1,354,020</u>

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

CITY OF MADISON, ALABAMA
CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Forward Purchase Bond Account	Total Nonmajor Governmental Fund
REVENUES		
Investment earnings	\$ 56,006	\$ 56,006
Total revenues	56,006	56,006
EXPENDITURES		
Total expenditures	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	56,006	56,006
FUND BALANCE AT BEGINNING OF YEAR	1,298,014	1,298,014
FUND BALANCE AT END OF YEAR	\$ 1,354,020	\$ 1,354,020

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

**CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**



CITY OF MADISON, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE
SEPTEMBER 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Governmental funds capital assets:		
Land	\$ 8,867,115	\$ 6,429,050
Buildings	10,874,320	10,869,345
Improvements to buildings	1,012,749	999,556
Improvements other than buildings	1,401,303	1,389,971
Machinery and equipment	11,634,072	10,832,272
Infrastructure	24,764,131	16,585,124
Other	-	3,500
Construction in progress	<u>1,322,214</u>	<u>1,335,109</u>
 Total governmental funds capital assets	 <u>\$ 59,875,904</u>	 <u>\$ 48,443,927</u>
 Investments in governmental funds capital assets by source:		
Current revenues	\$ 58,614,578	\$ 47,228,699
Federal and state grants	<u>1,261,326</u>	<u>1,215,228</u>
 Total governmental funds capital assets	 <u>\$ 59,875,904</u>	 <u>\$ 48,443,927</u>

CITY OF MADISON, ALABAMA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 September 30, 2006

Function and Activity	Land	Buildings	Improvements to Buildings	Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Other	Construction in Progress	Total
General Government:									
General Administration	\$ 1,259,270	\$ 3,275,439	\$ 798,392	\$ 22,552	\$ 586,425	\$ 3,694	\$ -	\$ 27,487	\$ 5,973,259
City Clerk	-	-	-	-	68,830	-	-	-	68,830
Court Clerk	-	-	-	-	45,853	-	-	-	45,853
City Council	-	-	-	-	48,709	-	-	-	48,709
Finance	-	2,175	-	-	144,361	-	-	-	146,536
Human Resources	-	-	-	-	36,688	-	-	-	36,688
Mayor's Office	-	-	-	-	18,640	-	-	-	18,640
Revenue	-	-	-	-	27,292	-	-	-	27,292
Information Technology	-	-	-	-	135,345	-	-	-	135,345
Legal	-	-	-	-	6,226	-	-	-	6,226
Total General Government	1,259,270	3,277,614	798,392	22,552	1,118,369	3,694	-	27,487	6,507,378
Public Safety:									
Police	-	6,139	50,146	-	2,782,881	-	-	-	2,839,166
Fire	134,000	2,078,341	18,841	75,310	3,148,045	-	-	-	5,454,537
Planning, Engineering, and Building	-	-	-	-	331,312	-	-	-	331,312
Total Public Safety	134,000	2,084,480	68,987	75,310	6,262,238	-	-	-	8,625,015
Highways and streets:									
Public Works	5,892,368	240,753	-	17,053	3,316,759	24,757,437	-	1,189,445	35,413,815
Total highways and streets	5,892,368	240,753	-	17,053	3,316,759	24,757,437	-	1,189,445	35,413,815
Culture and recreation									
Parks and Recreation	1,581,477	5,271,473	94,445	1,284,598	838,148	3,000	-	105,282	9,178,423
Senior Center	-	-	50,925	1,790	98,558	-	-	-	151,273
Total culture and recreation	1,581,477	5,271,473	145,370	1,286,388	936,706	3,000	-	105,282	9,329,696
Total governmental funds capital assets	\$ 8,867,115	\$ 10,874,320	\$ 1,012,749	\$ 1,401,303	\$ 11,634,072	\$ 24,764,131	\$ -	\$ 1,322,214	\$ 59,875,904

CITY OF MADISON, ALABAMA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Function and Activity	Governmental Funds Capital Assets Oct. 1, 2005	Additions	Transfers In (Out)	Deductions	Governmental Funds Capital Assets Sept. 30, 2006
General Government:					
General Administration	\$ 5,933,594	\$ 39,665	\$ -	\$ -	\$ 5,973,259
City Clerk	67,023	3,135	7,236	(8,564)	68,830
Court Clerk	53,022	8,146	-	(15,315)	45,853
City Council	31,997	19,985	(1,121)	(2,152)	48,709
Finance	131,311	15,225	-	-	146,536
Human Resources	45,915	-	(6,139)	(3,088)	36,688
Mayor's Office	19,927	-	1,445	(2,732)	18,640
Revenue	22,129	5,032	131	-	27,292
Information Technology	146,537	-	(1,152)	(10,040)	135,345
Legal	6,226	-	-	-	6,226
Total General Government	6,457,681	91,188	400	(41,891)	6,507,378
Public Safety:					
Police	2,676,001	338,679	(400)	(175,114)	2,839,166
Fire	5,398,521	59,093	-	(3,077)	5,454,537
Planning, Engineering, and Building	337,948	28,385	(1,671)	(33,350)	331,312
Total public safety	8,412,470	426,157	(2,071)	(211,541)	8,625,015
Highways and streets:					
Public Works	24,212,146	11,309,335	-	(107,666)	35,413,815
Total highways and streets	24,212,146	11,309,335	-	(107,666)	35,413,815
Culture and recreation:					
Parks and Recreation	9,199,357	138,223	671	(159,828)	9,178,423
Senior Center	162,273	-	1,000	(12,000)	151,273
Total culture and recreation	9,361,630	138,223	1,671	(171,828)	9,329,696
Total governmental funds capital assets	\$ 48,443,927	\$ 11,964,903	\$ -	\$ (532,926)	\$ 59,875,904



STATISTICAL SECTION - PART III

Schedule 1
CITY OF MADISON, ALABAMA
Net Assets by Activities Type
Last Four Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Primary government				
Invested in capital assets, net of related debt	\$ 13,924,216	\$ 22,619,851	\$ 29,629,406	\$ 39,911,335
Restricted	11,321,571	8,912,225	8,734,990	9,054,091
Unrestricted	<u>(92,949,757)</u>	<u>(90,415,420)</u>	<u>(87,960,100)</u>	<u>(82,616,266)</u>
Total primary government net assets	<u>\$ (67,703,970)</u>	<u>\$ (58,883,344)</u>	<u>\$ (49,595,704)</u>	<u>\$ (33,650,840)</u>

Schedule 2
CITY OF MADISON, ALABAMA
Changes in Net Assets
Last Four Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General Administration	\$ 1,394,540	\$ 1,498,013	\$ 1,843,331	\$ 1,637,763
Police Protection	3,597,210	3,792,077	4,224,855	4,492,227
Public Works	3,128,318	3,195,581	3,519,441	3,683,936
City Clerk	509,185	497,313	514,980	593,326
Recreation	1,648,624	1,722,553	1,735,813	1,807,848
Fire	2,535,675	3,083,500	3,415,526	3,794,817
Planning and Building	646,654	670,844	1,113,999	1,108,540
Court	733,894	782,283	728,975	820,348
City Council	194,887	148,081	166,347	166,233
Finance	336,586	325,728	412,043	676,174
Human Resources	1,668,221	2,001,359	2,334,041	2,607,912
Mayor's Office	215,210	221,062	205,702	222,821
Revenue	164,043	172,564	177,909	193,477
Engineering*	317,077	508,776	-	-
Senior Center	192,828	205,440	221,414	240,054
Information Technology	165,658	264,432	195,542	-
Legal	321,162	331,916	238,394	270,325
Interest on long-term debt	5,242,670	5,339,585	5,187,096	5,052,733
Total governmental activities expenses	23,012,442	24,761,107	26,235,408	27,368,534
Program Revenues				
Governmental activities:				
Charges for services:				
General Administration	2,276,788	2,527,571	3,291,409	3,883,220
Police Protection	815,943	775,629	726,247	929,819
Public Works	268,497	281,387	557,889	701,200
Recreation	203,199	213,074	212,315	199,431
Fire	-	-	876	1,820
Planning and Building	47,487	70,134	68,826	116,540
Operating grants and contributions	275,534	462,353	571,702	719,661
Capital grants and contributions	5,694,581	7,551,944	5,818,671	10,809,511
Total governmental activities program revenues	9,582,029	11,882,092	11,247,935	17,361,202
Total primary government net expense	(13,430,413)	(12,879,015)	(14,987,473)	(10,007,332)
General Revenues and other Changes in Net Assets				
Governmental activities:				
Property taxes and payments in lieu of taxes	4,038,035	4,363,486	4,977,999	5,840,049
Sales and use taxes	8,950,553	9,594,767	10,262,568	11,415,565
Franchise taxes	223,573	221,689	254,292	264,641
Motor fuel taxes	864,166	855,290	901,617	901,443
Alcoholic beverage taxes	749,075	683,839	714,943	769,249
Rental taxes	362,116	339,205	323,682	355,019
Lodging taxes	420,887	669,228	766,627	872,677
Other taxes	172,257	318,803	377,061	483,421
Unrestricted investment earnings	237,034	130,950	241,056	447,027
Miscellaneous	-	4,618,776	5,614,248	4,761,282
Loss on sale of fixed assets	(504)	(96,392)	(158,980)	(158,177)
Transfers	(17,076,132)	-	-	-
Total governmental activities	(1,058,940)	21,699,641	24,275,113	25,952,196
Change in net assets governmental activities	\$ (14,489,353)	\$ 8,820,626	\$ 9,287,640	\$ 15,944,864

* Engineering is included in Planning and Building for 2005 - 2006.

Schedule 3
CITY OF MADISON, ALABAMA
Fund Balances Governmental Funds
Last Four Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
General Fund				
Reserved	\$ 376,410	\$ 1,180,616	\$ 821,403	\$ 1,271,389
Unreserved	2,323,275	1,555,491	2,190,712	3,855,965
Total general fund	<u>\$ 2,699,685</u>	<u>\$ 2,736,107</u>	<u>\$ 3,012,115</u>	<u>\$ 5,127,354</u>
All Other Governmental Funds				
Reserved	\$ 8,394,699	\$ 5,944,429	\$ 5,614,365	\$ 6,082,274
Unreserved, reported in				
Special revenue funds	389,544	204,314	200,855	491,002
Total all other governmental funds	<u>\$ 8,784,243</u>	<u>\$ 6,148,743</u>	<u>\$ 5,815,220</u>	<u>\$ 6,573,276</u>
Total all governmental funds	<u>\$ 11,483,928</u>	<u>\$ 8,884,850</u>	<u>\$ 8,827,335</u>	<u>\$ 11,700,630</u>

Schedule 4
CITY OF MADISON, ALABAMA
Changes in Fund Balances Governmental Funds
Last Four Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Revenues				
Taxes	\$ 13,968,476	\$ 15,230,729	\$ 16,324,294	\$ 19,085,131
Licenses and permits	2,162,875	2,299,540	2,950,878	3,752,459
Intergovernmental	1,910,436	2,448,784	2,289,579	1,906,605
Charges for services	585,407	636,908	918,152	1,083,486
Fines	785,322	752,292	708,177	913,974
Investment earnings	237,034	130,950	241,056	447,027
Contributions and donations	17,745	79,092	11,178	10,471
Other revenues	4,173,805	5,633,724	5,342,174	5,685,364
Total revenues	23,841,100	27,212,019	28,785,488	32,884,517
Expenditures				
General administration	1,179,019	1,342,417	1,175,864	1,360,195
Police protection	3,437,120	3,620,001	4,048,121	4,337,096
Public works	2,965,584	2,940,409	3,075,737	3,118,878
City clerk	504,695	492,853	510,793	589,262
Recreation	1,460,023	1,502,170	1,513,105	1,599,819
Fire	2,418,808	2,920,934	3,201,289	3,579,012
Planning and Building	636,677	660,742	1,096,434	1,088,186
Court	730,278	778,990	725,414	816,962
City council	193,299	146,493	164,692	163,735
Finance	327,814	316,854	403,115	658,035
Human resources	1,665,838	1,998,967	2,331,458	2,605,761
Mayor's office	213,934	219,818	204,634	221,642
Revenue	164,043	170,955	174,212	191,697
Engineering*	312,273	502,861	-	-
Senior center	187,685	198,251	214,903	230,697
Information technology	159,160	256,366	186,124	-
Legal	321,014	331,768	238,057	269,951
Capital outlay	8,767,979	10,245,968	8,117,969	11,964,904
Bond issuance costs	260,316	-	206,213	-
Debt service				
Interest	5,210,496	5,329,072	5,241,344	5,080,475
Principal	2,197,496	2,681,158	2,767,134	2,923,409
Total expenditures	33,313,551	36,657,047	35,596,612	40,799,716
Excess (deficiency) of revenues over (under) expenditures	(9,472,451)	(9,445,028)	(6,811,124)	(7,915,199)
Other Financing Sources (Uses)				
Transfers in	4,185,594	4,640,911	5,076,988	5,085,410
Transfers out	(4,185,594)	(4,640,911)	(5,076,988)	(5,085,410)
Donated assets	5,415,607	6,195,060	5,283,826	9,975,519
Sales of capital assets	60,740	40,890	13,270	36,014
Proceeds from borrowing	21,325,000	-	1,250,000	-
Proceeds from refunding	-	-	18,775,000	-
Bond proceeds to refund	-	-	(18,568,787)	-
Bond proceeds transferred to schools	(21,064,684)	-	-	-
Capital leases	1,166,090	610,000	-	776,961
Other	-	-	300	-
Total other financing sources (uses)	6,902,753	6,845,950	6,753,609	10,788,494
Net change in fund balances	\$ (2,569,698)	\$ (2,599,078)	\$ (57,515)	\$ 2,873,295
Debt service as a percentage of noncapital expenditures	30.18%	30.33%	29.14%	27.76%

* Engineering included in Planning and Building for 2005 - 2006.

Schedule 5
CITY OF MADISON, ALABAMA
Assessed Value of Taxable Property
Last Four Fiscal Years

<u>Fiscal Year Ended September 30</u>	<u>Assessed Valuation Amount</u>
2003	307,166,440
2004	324,910,320
2005	405,172,480
2006	434,744,620

Source: License Commissioner and Tax Assessor of Madison County

Schedule 6
CITY OF MADISON, ALABAMA
Principal Property Tax Payers
Current Year

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>
Intergraph Corporation	Computer Sales	\$ 8,171,320	1	1.88%
Flagstone Investors Limited Partnership	Apartment Rental	4,541,520	2	1.04%
Colonial Realty Limited Partnership	Apartment Rental	3,978,340	3	0.92%
Grand Reserve at Madison LLC	Apartment Rental	3,114,680	4	0.72%
Lexington Apartments	Apartment Rental	2,845,020	5	0.65%
Diltina Development Corporation	Real Estate Construction	2,278,520	6	0.52%
MV Apartment LLC	Apartment Rental	2,121,140	7	0.49%
Wal-Mart Stores East, #332	Department Store	2,043,120	8	0.47%
Knology of Huntsville, Inc.	Communication Company	1,947,760	9	0.45%
Lowe's Homes Centers, Inc.	Home Improvement Store	1,741,560	10	0.40%
Total		<u>\$ 32,782,980</u>		7.54%

Assessed Valuation of City at September 30, 2006
\$434,744,620

Schedule 7
CITY OF MADISON, ALABAMA
Property Tax Levies and Collections
Last Four Fiscal Years

Fiscal Year Ended September 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy	
		Amount	Percentage of Levy
2003	*	\$ 3,796,378	*
2004	*	\$ 4,029,419	*
2005	\$ 4,412,597	\$ 4,206,265	95.32%
2006	*	*	*

* Date not available

Source: Madison County Tax Assessor

Schedule 8
CITY OF MADISON, ALABAMA
Ratios of Outstanding Debt by Type
Last Four Fiscal Years

Fiscal Year	General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income*	Per Capita*
2003	108,155,000	1,386,715	109,541,715	9.11%	3,357
2004	105,785,000	1,685,557	107,470,557	6.97%	3,112
2005	104,650,000	1,363,423	106,013,423	6.35%	2,958
2006	102,045,000	1,821,975	103,866,975	5.71%	2,697

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

* See Schedule 11 for personal income and population

Schedule 9
CITY OF MADISON, ALABAMA
Ratio of General Bonded Debt Outstanding
Last Four Fiscal Years

Fiscal Year	General Obligation Bonds	Total	Percentage of Actual Taxable Value of Property	Per Capita*
2003	108,155,000	108,155,000	35.21%	3,315
2004	105,785,000	105,785,000	32.56%	3,064
2005	104,650,000	104,650,000	25.83%	2,921
2006	102,045,000	102,045,000	23.47%	2,651

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

Population data can be found in Schedule 11

Schedule 10
CITY OF MADISON, ALABAMA
Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 33,194,476	\$ 36,761,364	\$ 42,282,880	\$ 46,944,118	\$ 55,022,504	\$ 59,002,296	\$ 61,433,288	\$ 64,982,064	\$ 81,034,496	\$ 86,948,924
Total net debt applicable to limit	<u>19,607,499</u>	<u>29,675,000</u>	<u>29,705,000</u>	<u>31,309,100</u>	<u>30,500,058</u>	<u>37,520,081</u>	<u>36,795,081</u>	<u>36,443,499</u>	<u>35,280,755</u>	<u>36,325,910</u>
Legal debt margin	<u>\$ 13,586,977</u>	<u>\$ 7,086,364</u>	<u>\$ 12,577,880</u>	<u>\$ 15,635,018</u>	<u>\$ 16,522,446</u>	<u>\$ 21,482,215</u>	<u>\$ 24,638,207</u>	<u>\$ 28,538,565</u>	<u>\$ 45,753,741</u>	<u>\$ 50,623,014</u>
Total net debt applicable to the limit as a percentage of debt limit	59.07%	80.72%	70.25%	66.69%	69.97%	63.50%	59.89%	56.08%	43.54%	41.78%

Legal Debt Margin Calculation for Fiscal 2006:

Assessed Value	\$ 434,744,620
Debt limit (20% of total assessed value)	86,948,924
Debt Applicable to limit	
General obligation bonds	102,045,000
Less: Exempt Debt	<u>65,719,090</u>
Total net debt applicable to limit	<u>36,325,910</u>
Legal debt margin	<u>\$ 50,623,014</u>

Note: Under the Constitution of Alabama, the city's general obligation debt may not exceed 20 percent of total assessed property value.

Schedule 11
CITY OF MADISON, ALABAMA
Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Population	Personal Income	Per Capita Personal Income	Unemployment Rate*
2003	32,626	1,202,355,000	36,853	4.30%
2004	34,529	1,542,555,000	44,674	4.50%
2005	35,829	1,670,025,000	46,611	3.10%
2006	38,500	1,818,180,000	47,225	2.40%

Source: City of Madison; State of Alabama; Department of Industrial Relations
 *Madison County

Schedule 12
CITY OF MADIISON, ALABAMA
Principal Employers
Current Year

Employer	Product	Employees	Rank	Percentage of Total City Employment
Intergraph Corporation	Computer Sales	1,000	1	3.29%
Madison City School System	Education	800	2	2.63%
Wal-Mart Super Center	Department Store	430	3	1.41%
City of Madison	Municipal	304	4	1.00%
Kroger Company	Grocery Store	170	5	0.56%
Lowe's Home Improvement Warehouse	Home Improvement Store	160	6	0.53%
Winn-Dixie	Grocery Store	125	7	0.41%
Cracker Barrel	Restaurant	120	8	0.39%
Valleyview Nursing Home	Nursing Home	120	9	0.39%
Packaging Materials	Containers	115	10	0.38%
Ruby Tuesday's	Restaurant	110	11	0.36%
Bruno's	Grocery Store	100	12	0.33%
Holiday Inn	Hotel	90	13	0.30%
Halsey Grocery Company	Wholesale Food	90	14	0.30%
Madison Manor	Nursing Home	86	15	0.28%
Excellance Corporation	Ambulances	75	16	0.25%
Nextel	Electronic Equipment	74	17	0.24%
Applebee's	Restaurant	60	18	0.20%
Water and Wastewater Board	Water and Sewer Services	48	19	0.16%
SEA Wire & Cable Corporation	Computer Cable	45	20	0.15%
Label-Aid Corporation	Labels	40	21	0.13%
Total		4,162		13.69%

Source: City Planning Division

Schedule 13
CITY OF MADISON, ALABAMA
Primary Government
Full-Time Equivalent Employees by Function/Program
Last Ten Fiscal Years

Function	Full-Time Equivalent Employees as of September 30									
	1997*	1998*	1999*	2000	2001	2002	2003	2004	2005	2006
General Government:										
City Clerk Department	4	4	4	4	4	4	4	4	5	5
Court Clerk Department	5	5	5	5	6	6	6	6	6	6
City Council	3	3	3	3	3	3	4	4	4	4
Finance Department	5	5	5	5	5	5	6	6	7	8
Human Resources Department	7	7	6	6	7	7	4	4	4	7
Mayor's Office	3	4	5	6	7	4	3	3	3	3
Revenue Department	3	3	3	3	3	3	3	3	3	3
Legal Department*	0	0	0	0	0	2	2	2	2	2
Public Safety:										
Police Department	59	59	65	70	75	80	80	84	92	98
Fire Department	37	36	38	39	42	42	51	51	52	58
Planning and Building Department	12	13	16	13	13	13	15	15	24	21
Streets and Highways										
Public Works Department	37	37	37	42	46	46	51	51	51	51
Engineering Department**	0	0	0	4	5	5	6	11	0	0
Parks and Recreation										
Recreation Department	27	27	37	40	37	19	32	32	32	32
Senior Center***	0	0	0	0	0	8	6	6	6	6
Total	202	203	224	240	253	247	273	282	291	304

Source: City Finance Department

*Employees are included in the Mayor's Office for 1997 thru 2001

**Employees are included in Planning and Building Department for 1997 thru 1999

***Employees are included in the Recreation Department for 1997 thru 2001

Schedule 14
CITY OF MADISON, ALABAMA
Capital Assets Statistics by Function/Program
Last Ten Fiscal Years

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-Station	1	1	1	1	1	1	1	0	0	0
Fire Stations	2	2	2	2	2	2	3	3	3	3
Parks and Recreation										
Recreation										
Swimming pools	2	2	2	3	3	3	3	3	3	3
Neighborhood parks	32	32	32	32	32	32	32	32	32	32
Tennis Courts	4	4	4	4	4	4	4	4	4	4
Ball fields	12	12	12	12	12	12	12	12	12	12
Soccer fields	6	6	6	6	6	6	6	6	6	6
Senior Center										
Community center (for seniors)	1	1	1	1	1	1	1	1	1	1

Source: Various city departments.



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MEMBERS OF THE AMERICAN
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AFFILIATED OFFICES IN
PRINCIPAL CITIES WORLDWIDE
THROUGH AGN INTERNATIONAL, LTD.

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

Honorable Mayor and City Council
City of Madison
Madison, Alabama

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the City of Madison (the City) as of and for the year ended September 30, 2006, which collectively comprise the City of Madison's basic financial statements, and have issued our report thereon dated June 19, 2007. We did not audit the financial statements of the Water and Wastewater Board of the City of Madison and the Madison Board of Education. Those financial statements were audited by other auditors whose reports have been furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. *Reportable conditions* involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 06-01.

A *material weakness* is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. All of the reportable conditions mentioned above are considered to be material weaknesses.



Honorable Mayor and City Council
City of Madison
Page two

Compliance and Other Matters

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

This report is intended solely for the information and use of the Mayor and the City Council, and is not intended to be and should not be used by anyone other than these specified parties.

MDA Professional Group, P.C.

Huntsville, Alabama
June 19, 2007

MDA PROFESSIONAL GROUP, P.C.

Certified Public Accountants and Business Consultants

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

Mayor and City Council
City of Madison, Alabama
Madison, Alabama

Compliance

We have audited the compliance of the City of Madison, Alabama with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City of Madison, Alabama's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Madison, Alabama's management. Our responsibility is to express an opinion on the City of Madison, Alabama's compliance based on our audit.

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



In our opinion, the City of Madison, Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Madison, Alabama's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01 and 06-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-01 to be a material weakness.

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

MDA Professional Group, P.C.

Huntsville, Alabama
June 19, 2007

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF MADISON, ALABAMA

Year ended September 30, 2006

	Federal CFDA Number	Pass-through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE			
Bulletproof Vest Program (2005)	16.607	-	\$ 3,125
Bulletproof Vest Program (2006)	16.607	-	2,813
Cops in Schools	16.710	-	109,778
Universal Hiring	16.710	-	110,807
Cops 2006 Technology Grant	16.710	-	6,145
<i>Passed through Alabama Department of Economic and Community Affairs:</i>			
Domestic Violence Program (Violence Against Women)	16.588	04-WF-LE-007	29,869
<i>Passed through City of Huntsville from Alabama Department of Homeland Security:</i>			
Grant #3DOF (Reimbursement for Training Exercise)	16.007	3DOF	<u>6,490</u>
<i>TOTAL U.S. DEPARTMENT OF JUSTICE</i>			269,027
Office of National Drug Control Policy			
High Intensity Drug Trafficking Areas Program	7.999	-	<u>11,971</u>
<i>TOTAL OFFICE OF NATIONAL DRUG CONTROL POLICY</i>			11,971
U.S. Department of Homeland Security			
Assistance to Firefighters	97.044	-	117,486
<i>Passed through City of Huntsville dba Huntsville-Madison County Emergency Management Agency:</i>			
Metropolitan Medical Response System	97.071	unknown	15,383
Assistance to Firefighters	97.044	unknown	30,000
<i>Passed through City of Huntsville:</i>			
State Homeland Security Program	97.073	unknown	47,134
<i>Passed through City of Huntsville from Alabama Department of Homeland Security:</i>			
Heavy Rescue Team Structural Collapse Training	97.3DTR	3DTR	<u>23,017</u>
<i>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</i>			233,020
U.S. Department of Transportation			
<i>Passed through North Alabama Highway Safety Office from Alabama Department of Economic and Community Affairs-Law Enforcement Traffic Safety Section</i>			
North Alabama Highway Safety Police Overtime	20.605	06-DT-163-006	6,000
North Alabama Highway Safety Law Enforcement/Traffic Grant	20.605	06-SP-PT-002	<u>3,565</u>
<i>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</i>			<u>9,565</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 523,583

The Accompanying Notes are an Integral Part of this Schedule

SCHEDULE OF FEDERAL AWARDS - Continued

CITY OF MADISON, ALABAMA

Year ended September 30, 2006

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of the City of Madison. The City of Madison receives federal awards both directly from federal agencies and indirectly through pass-through entities. Federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Major Programs

Major programs are identified in the Summary of Auditors' Results section of the Schedule of Findings and Questioned Costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MADISON, ALABAMA

Year ended September 30, 2006

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Reportable conditions identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	Yes
Reportable conditions identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	
Cops In Schools	Unqualified
Universal Hiring	Unqualified
Cops 2006 Technology Grant	Unqualified
High Intensity Drug Trafficking Areas Program	Unqualified
Domestic Violence Program	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
16.710	Cops In Schools
16.710	Universal Hiring
16.710	Cops 2006 Technology Grant
7.999	High Intensity Drug Trafficking Areas Program
16.588	Domestic Violence Program

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

Auditee qualified as low-risk auditee?	No
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(continued)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

CITY OF MADISON, ALABAMA

Year ended September 30, 2006

Section II-Financial Statement Findings:

Finding 06-01: Payroll Functions

Condition: Per review of the Payroll/Personnel System Security Complete Report which details the level of access to the payroll system for all employees, we noted that employees in the Finance Department had access to change employee ID's, create new employee records, and update pay data rates. The Finance Department is also responsible for processing payroll for each pay period.

Effect: Inappropriate access assignments.

Cause: Lack of appropriate review by management of computer access assignments.

Auditors' Recommendation: We recommend only the Human Resource Department be allowed access to change employee ID's, create new employee records, and update pay data rates in order to maintain appropriate segregation of duties. We further recommend periodic review by City management of all system pay rate data.

Views of Responsible Officials and Planned Corrective Actions: The Fiscal Policy (Section III - Internal Control) of the City has been amended to define the level of access to the Payroll/Personnel System for employees in the Finance Department and the Human Resources Department. The Policy is amended as follows:

III. INTERNAL CONTROL

- D. Segregation of Duties - Finance Department and Human Resources Department. Employees in the Finance Department shall not be able to access the payroll/ personnel system to change employees IDs', create new employee records, and/or update pay data rates. These functions shall only be performed by employees in the Human Resources Department. If requested by the Human Resources Department, employees in the Finance Department will be allowed to review non-routine and complex changes made by the employees in the Human Resources Department to ensure accuracy and to avoid delays in the payroll processing cycle.

Management shall monitor the payroll/personnel computer access functions to ensure accessibility is limited by the departments to the proper functions.

(continued)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

CITY OF MADISON, ALABAMA

Year ended September 30, 2006

Section III-Federal Award Findings and Questioned Costs:

Finding 06-01: Payroll Functions

Finding applies to all major programs listed in Section I-Summary of Auditors' Results above.

Finding is described in Section II-Financial Statement Findings above.

Finding 06-02: Reporting

Federal agency: Office of the President-National Drug Task Force
CFDA 7.999, High Intensity Drug Trafficking Areas Program
Award number: 16PGCP598Z

Condition: We noted during our Single Audit testing over compliance with reporting that the Financial Status Report (Form 269) was not being filed by the City in connection with the High Intensity Drug Trafficking Areas Grant (HIDTA). This exception is considered a reportable condition in internal control over compliance with major programs in accordance with A-133.

Questioned Costs: None. We identified no questioned costs in our tests of compliance with this requirement, despite the ineffective internal control.

Effect: Proper reporting requirements are not fulfilled by the City to the awarding agency.

Cause: Miscommunication between City departments regarding assignment of reporting requirement.

Auditors' Recommendation: We recommend that the reporting requirements of federal and state agencies which have awarded grants and other federal monies expended by the City be followed.

Views of Responsible Officials and Planned Corrective Actions: The Grant Administrator (State of Alabama Department of Public Safety) of the High Intensity Drug Trafficking Areas Grant (HIDTA), in coordination with the City, will properly file the Financial Status Report (Form 269) in accordance with HIDTA's reporting requirements. The City shall maintain a copy of the report to document compliance with the reporting requirements.

