

CITY OF FOLEY, ALABAMA
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Foley, 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 Foley, 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 Foley, Alabama's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Foley, Alabama's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Foley, Alabama, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2007 on our consideration of the City of Foley, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 and the schedule of revenues, expenditures and changes in fund balance (budget and actual) on page 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Foley, Alabama's basic financial statements. The combining and individual non-major fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements and other schedules, and schedule of expenditures of federal awards, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Sullivan Greel, LLP

February 8, 2007

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Foley's (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

- The City's total net assets (assets less liabilities) were \$77,161,635 at September 30, 2006. This was an increase of \$3,553,647 from the prior fiscal year.
- For the fiscal year the City received in taxes and other revenue \$22,173,071 and had expenses of \$18,619,424.
- General fund operating revenues exceeded operating expenditures by \$3,776,024 for the fiscal year.
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$24,838,411. The combined governmental funds balance increased \$9,863,961 from the prior year's ending fund balance.
- The General Fund closed with a fund balance of \$11,842,920 reflecting a decrease of \$1,469,046 for the 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 City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

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

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City consist of governmental type funds.

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

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

The City had activity in eleven individual governmental funds during the year. The general obligations warrants series 2006 fund was created to account for \$11,460,000 in bond proceeds to be used for certain capital improvements and equipment purchases. As the result of debt retirement, two funds were inactive and closed during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the capital projects fund, and the general obligations warrants series 2006, which are all considered to be major funds. Data from the other eight governmental 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 elsewhere in this report.

The basic governmental fund financial statements can be found on pages 12 - 15 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 - 35 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents a budgetary comparison statement for the general fund as required supplementary information. Required supplementary information can be found on page 36 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 38 - 45 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STATEMENT OF NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$77,161,635 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (83 percent) reflects its investment in capital assets (e.g., land, buildings, and machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

The following table presents the condensed statement of net assets compared to prior year:

TABLE 1
SUMMARY OF STATEMENT OF NET ASSETS
As of September 30

	<u>2006</u>	<u>2005</u>
Current and other assets	\$26,662,321	\$16,391,939
Capital assets, net	<u>73,921,044</u>	<u>69,635,950</u>
Total assets	<u>100,583,365</u>	<u>86,027,889</u>
Current and other liabilities	2,577,271	1,952,411
Long-term debt	<u>20,844,459</u>	<u>10,467,490</u>
Total liabilities	<u>23,421,730</u>	<u>12,419,901</u>
Net assets:		
Invested in capital assets, net of debt	64,087,413	58,815,982
Restricted	1,283,827	1,662,484
Unrestricted	<u>11,790,395</u>	<u>13,129,522</u>
Total net assets	<u><u>\$77,161,635</u></u>	<u><u>\$73,607,988</u></u>

For more detailed information see the statement of net assets on page 10.

The City is able to report positive balances in all three categories of net assets for both the current and preceding year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

STATEMENT OF ACTIVITIES

The following table presents a condensed version of the City's government-wide statement of activities compared to prior year:

TABLE 2
CHANGES IN NET ASSETS
For the years ended September 30

	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services	\$4,693,461	\$ 4,254,015
Operating grants and contributions	334,576	2,864,626
Capital grants and contributions	401,940	523,896
General revenues:		
Property taxes	1,071,358	889,392
Sales taxes	7,670,677	6,838,942
Utility tax equivalents	4,198,948	4,000,060
Other taxes	343,646	232,606
Forfeitures	26,300	7,018
Sewer assessments	5,161	--
Grants and contributions not restricted to specific programs	1,845,042	946,870
Interest and rents	1,282,218	720,191
Other	280,523	55,682
Gain on sale of capital assets	19,221	282,701
Total revenues	<u>22,173,071</u>	<u>21,615,999</u>
Expenses:		
General government	4,021,630	6,178,536
Public safety	6,393,385	5,243,554
Highways and streets	2,896,709	2,389,327
Sanitation	1,639,974	1,575,998
Economic development	--	32,353
Conservation	--	100,001
Culture and recreation	2,645,022	2,138,774
Interest on long-term debt	1,022,704	603,309
Total expenses	<u>18,619,424</u>	<u>18,261,852</u>
Change in net assets	3,553,647	3,354,147
Net assets – beginning	<u>73,607,988</u>	<u>70,253,841</u>
Net assets – ending	<u>\$77,161,635</u>	<u>\$73,607,988</u>

CITY OF FOLEY FUNDS

The following table presents a summary of the changes in the City's fund balances:

TABLE 3
CHANGE IN FUND BALANCES
September 30, 2006

	Beginning Fund Balance	Increase (Decrease)	Ending Fund Balance
General Fund	\$ 13,311,966	\$ (1,469,046)	\$ 11,842,920
Capital Projects Fund	786,851	(468,716)	318,135
General Obligations 2006	--	11,711,664	11,711,664
Other Funds	875,633	90,059	965,692
Total	<u>\$ 14,974,450</u>	<u>\$ 9,863,961</u>	<u>\$ 24,838,411</u>

General fund expenditures exceeded revenues by \$1,469,046 for fiscal year 2006. The increase in expenditures is primarily due to an increase in operating transfers out including \$648,224 in transfers to service the newly issued 2006A General Obligation Warrant Fund and an increase from last fiscal year of \$1,941,742 in funding of the Capital Projects Fund. Increases also occurred in General Fund Departmental expenditures for personnel costs, capital purchases, professional services and increases in operational type expenses such as fuel, electric, and machinery and equipment maintenance.

The Capital Projects fund experienced a \$468,716 decrease in fund balance mainly as a result of the receipt of prior year grant monies receivable that were available for use in the current fiscal year. With the exception of occasional grant revenues, interest earnings and other miscellaneous revenues, the Capital Projects Fund is funded by the General Fund. In the event City Officials plan improvements or additions that could not be supported by revenues and General Fund transfers, bond proceeds, such as the 2006A Series GO Warrant, or other financing sources would be used for funding.

The General Obligations Warrants Series 2006 fund serves both as a debt service fund and holding account for the \$11,460,000 bond proceeds that will be spent within the next two years. City Officials issued the bonds to pay for certain capital improvements and purchases that the General Fund will be unable to support. The majority of these capital expenditures will occur within the Capital Projects Fund.

Other funds experienced an increase in fund balance of \$90,059 compared to a \$99,312 decrease in the prior year. The Fire Advalorem Fund, Library Fund and Corrections Fund all experienced increases in fund balance. The Fire Advalorem Fund received \$155,328 in grant funding while expenditures were down in the Library Fund and revenues were up in the Corrections Fund. The other two special revenue funds experienced decreases in fund balance. The Recreational Activities Fund was started with monies received from Foley Sports, the entity that formerly operated the youth sports program. This cash has since been depleted and the City was aware that additional funding would be required to continue a quality youth sports program. Cash of \$100,000 held in the

CITY OF FOLEY FUNDS (continued)

Gas Tax Fund was used in a joint venture with Baldwin County to replace the bridge at County Road 12. Both the 2004 Refinanced Warrant and 1999 Warrant Funds showed increases in fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's budget for its general fund was approved to begin the fiscal year on October 1, 2005 with revenues of \$17,922,600 and expenditures of \$16,656,898. Revenue budgets increased by a minor amount during the year. Budgeted expenditures were increased by \$2,204,865 by the City Council throughout the year. The majority of this is comprised of increases to capital accounts and anticipated USDA grant related expense. In order to portray a more accurate analysis of General Fund activity, budgeted grant revenues of \$938,246 and expenditures of \$1,574,143 for grants that had no activity during the year are removed. When this analysis is made, actual revenues exceeded budgeted amounts by \$1,941,540 while expenditures were under budget by \$2,118,749. Most all areas of revenues experienced an increase especially Local Taxes, Licenses and Permits and Interest and Rents while under spending can primarily be attributed to vacancies in budgeted personnel and approved capital equipment not being purchased.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets net of depreciation at September 30, 2006, totaled \$73,921,044. Major capital asset events during the current fiscal year included the following:

- Improvements to the Foley Municipal Airport including an improved runway lighting system and a radio control system totaling \$268,943.
- Current year expenditures for the ongoing Library expansion project were \$1,496,378 for a total project cost to date of \$2,200,438.
- The Depot Annex building used to house the donated Goldman Train was completed with current year expenditures of \$125,523 for a total cost of \$355,496.
- Storm water management continues to be an issue due to the primarily flat topography of the area and continued development. A total of \$666,427 was spent for storm water system improvements this fiscal year.
- Work totaling \$239,183 was done this year on the extension of Section Avenue west to County Road 26. This street will run through a City park development area and open two additional access points for the park.
- The City purchased .81 acres of land for \$292,306 at the intersection of Highway 59 and Section Avenue adjacent to the Pedestrian/Bike Trail for future development.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

The following table presents the City's capital assets at year end:

TABLE 4
CAPITAL ASSETS
September 30, 2006

Land and rights of way	\$16,426,472
Buildings and improvements	13,045,919
Property improvements	4,657,832
Infrastructure	52,197,726
Machinery & equipment	9,767,199
Construction in progress	4,669,762
Total	<u>100,764,910</u>
Less: Accumulated depreciation	<u>(26,843,866)</u>
Net capital assets	<u>\$73,921,044</u>

Additional information on the City's capital assets can be found in Note F on pages 28 - 29 of this report.

As of September 30, 2006 the City had \$21,293,631 in outstanding warrants and notes payable, representing a \$10,473,663 increase from the prior year liability. New debt incurred in fiscal year 2006 involved \$11,460,000 general obligation warrants to be used for construction activities.

ECONOMIC FACTORS

The City continues to expand its boundaries through annexation with the addition of three subdivisions and eighteen miscellaneous parcels during the year.

The City relies on taxes (property, sales, lodging, etc.), and fees (license, permits, etc.) for their governmental activities. Certain governmental activities (sanitation, recreational activities, etc.) require the user pay a related fee or charge associated with the service.

The level of taxes, fees and charges for services have a direct bearing on the City's ability to encourage annexation into its corporate limits and promote both residential and commercial development. The City places significant emphasis on encouraging both annexation and economic development. However, the cost to provide police and fire protection versus revenues realized in the unincorporated response jurisdiction is being closely analyzed by City Officials.

BASIC FINANCIAL STATEMENTS

City of Foley, Alabama
STATEMENT OF NET ASSETS
September 30, 2006

ASSETS	
Cash - general operating	\$ 13,145,692
Certificates of deposit	51,273
Investments	11,841,296
Receivables	
Utility tax equivalents	411,677
Sales tax	240,739
Other	846,919
Inventories	54,197
Prepaid insurance	35,862
Equity in Alabama Municipal Insurance Corporation	34,666
Capital assets (net of accumulated depreciation)	<u>73,921,044</u>
Total assets	<u>100,583,365</u>
LIABILITIES	
Accounts payable	1,180,717
Accrued expenses	224,365
Retainage payable	49,672
Deferred revenue	1,759
Non-current liabilities:	
Due within one year	
General obligation warrants	850,000
Notes payable	100,000
Compensated absences	170,758
Due in more than one year	
General obligation warrants	14,143,631
Notes payable	6,200,000
Compensated absences	278,536
Deferred revenue	<u>222,292</u>
Total liabilities	<u>23,421,730</u>
NET ASSETS	
Invested in capital assets, net of related debt	64,087,413
Restricted for:	
Debt service	252,262
Current and future projects	1,031,565
Unrestricted	<u>11,790,395</u>
Total net assets	<u>\$ 77,161,635</u>

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

City of Foley, Alabama
STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Function/Program Activities					
Governmental Activities					
General government	\$ 4,021,630	\$ 1,620,218	\$ --	\$ 68,247	\$ (2,333,165)
Public safety	6,393,385	1,598,572	167,097	155,328	(4,472,388)
Highways and streets	2,896,709	--	138,998	--	(2,757,711)
Sanitation	1,639,974	1,328,124	--	--	(311,850)
Economic environment	--	--	--	157,975	157,975
Culture and recreation	2,645,022	146,547	28,481	20,390	(2,449,604)
Interest on long-tem debt	1,022,704	--	--	--	(1,022,704)
Total governmental activities	<u>\$ 18,619,424</u>	<u>\$ 4,693,461</u>	<u>\$ 334,576</u>	<u>\$ 401,940</u>	<u>(13,189,447)</u>

General Revenues:

Property taxes	1,071,358
Sales taxes	7,670,677
Utility tax equivalents	4,198,948
Taxes - other	343,646
Forfeitures	26,300
Sewer assessments	5,161
Grants and contributions not restricted to specific programs	1,845,042
Interest and rents	1,282,218
Other	280,523
Gain on sale of capital assets	19,221
Total general revenues	<u>16,743,094</u>
 Change in net assets	 3,553,647
 Net assets - beginning of year	 <u>73,607,988</u>
 Net assets - end of year	 <u>\$ 77,161,635</u>

City of Foley, Alabama
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2006

ASSETS	General Fund	Capital Projects Fund	General Obligation Warrants Series 2006	Other Governmental Funds	Total Governmental Funds
Cash - general operating	\$ 11,546,948	\$ 341,501	\$ 320,918	\$ 936,325	\$ 13,145,692
Certificates of deposit	--	--	--	51,273	51,273
Investments	492,676	--	11,348,620	--	11,841,296
Receivables					
Utility tax equivalents	411,677	--	--	--	411,677
Gasoline excise tax	--	--	--	5,090	5,090
Auto advalorem & license	13,364	--	--	--	13,364
Sales tax	240,739	--	--	--	240,739
Sanitation	29,951	--	--	--	29,951
Sewer assessments	7,048	--	--	--	7,048
Grants	242,763	19,265	--	89,669	351,697
Other	390,602	7,041	42,126	--	439,769
Due from other funds	25,237	--	--	19,230	44,467
Inventories	54,197	--	--	--	54,197
Prepaid insurance	35,862	--	--	--	35,862
Equity in Alabama Municipal Insurance Corporation	34,666	--	--	--	34,666
Total assets	<u>\$ 13,525,730</u>	<u>\$ 367,807</u>	<u>\$ 11,711,664</u>	<u>\$ 1,101,587</u>	<u>\$ 26,706,788</u>
LIABILITIES					
Accounts payable	\$ 1,071,818	\$ --	\$ --	\$ 108,899	\$ 1,180,717
Accrued expenses	224,365	49,672	--	--	274,037
Due to other funds	19,230	--	--	25,237	44,467
Deferred revenue	367,397	--	--	1,759	369,156
Total liabilities	<u>1,682,810</u>	<u>49,672</u>	<u>--</u>	<u>135,895</u>	<u>1,868,377</u>
FUND BALANCES					
Reserved for:					
Debt service	--	--	--	252,262	252,262
Current and future projects	--	318,135	11,711,664	713,430	12,743,229
Inventory	54,197	--	--	--	54,197
Unreserved:					
Designated for contingencies	1,517,450	--	--	--	1,517,450
Undesignated general fund	10,271,273	--	--	--	10,271,273
Total fund balances	<u>11,842,920</u>	<u>318,135</u>	<u>11,711,664</u>	<u>965,692</u>	<u>24,838,411</u>
Total liabilities and fund balances	<u>\$ 13,525,730</u>	<u>\$ 367,807</u>	<u>\$ 11,711,664</u>	<u>\$ 1,101,587</u>	<u>\$ 26,706,788</u>

City of Foley, Alabama
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2006

Fund balances - total governmental funds		\$ 24,838,411
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 governmental funds.		
Governmental capital assets	\$ 100,764,910	
Less accumulated depreciation	<u>(26,843,866)</u>	73,921,044
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Warrants payable, net of deferred refunding, discounts and issue costs	(14,993,631)	
Notes payable	(6,300,000)	
Compensated absences	<u>(449,294)</u>	(21,742,925)
Deferred revenue in governmental funds is susceptible to full accrual accounting in the government-wide financial statements.		
Revenue that is deferred because it is not available to finance current expenditures.		<u>145,105</u>
Net assets of governmental activities		<u><u>\$ 77,161,635</u></u>

City of Foley, Alabama
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2006

	General Fund	Capital Projects Fund	General Obligation Warrants Series 2006	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 946,143	\$ --	\$ --	\$ 125,215	\$ 1,071,358
Local taxes	7,670,677	--	--	--	7,670,677
Taxes - other	285,028	--	--	58,618	343,646
Licenses and permits	2,579,042	--	--	--	2,579,042
State and Federal assistance	169,087	87,512	--	322,606	579,205
Charges	1,371,376	--	--	78,618	1,449,994
Fines and forfeitures	351,779	--	--	83,689	435,468
Utility tax equivalents	4,198,948	--	--	--	4,198,948
Interest and rents	1,111,678	13,685	363,044	16,105	1,504,512
Sewer assessments	5,161	--	--	--	5,161
Contributions and donations	2,010	138,998	--	16,248	157,256
Other	254,965	521	--	4,013	259,499
Total revenues	<u>18,945,894</u>	<u>240,716</u>	<u>363,044</u>	<u>705,112</u>	<u>20,254,766</u>
Expenditures					
Current:					
General government	3,603,568	42,475	--	--	3,646,043
Public safety	5,610,689	172,200	--	28,832	5,811,721
Highways and streets	1,023,046	277,996	--	--	1,301,042
Sanitation	1,492,756	--	--	--	1,492,756
Culture and recreation	2,224,201	--	--	122,802	2,347,003
Capital expenditures	1,048,108	3,692,207	--	555,999	5,296,314
Debt service:					
Principal	161,054	216,667	270,000	270,000	917,721
Interest	6,448	498,583	316,815	139,449	961,295
Bond cost	--	--	143,520	--	143,520
Total expenditures	<u>15,169,870</u>	<u>4,900,128</u>	<u>730,335</u>	<u>1,117,082</u>	<u>21,917,415</u>
Excess (deficiency) of revenues over expenditures	3,776,024	(4,659,412)	(367,291)	(411,970)	(1,662,649)
Other financing sources (uses)					
Bond proceeds	--	--	11,460,000	--	11,460,000
Bond discount	--	--	(29,269)	--	(29,269)
Transfers in	--	4,190,696	648,224	502,029	5,340,949
Transfers out	(5,340,949)	--	--	--	(5,340,949)
Capital leases	21,768	--	--	--	21,768
Proceeds from sale of assets	74,111	--	--	--	74,111
Total other financing sources (uses)	<u>(5,245,070)</u>	<u>4,190,696</u>	<u>12,078,955</u>	<u>502,029</u>	<u>11,526,610</u>
Net change in fund balances	(1,469,046)	(468,716)	11,711,664	90,059	9,863,961
Fund balances, beginning of year	13,311,966	786,851	--	875,633	14,974,450
Fund balances, end of year	<u>\$ 11,842,920</u>	<u>\$ 318,135</u>	<u>\$ 11,711,664</u>	<u>\$ 965,692</u>	<u>\$ 24,838,411</u>

City of Foley, Alabama
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

Net change in fund balances - total governmental funds		\$ 9,863,961
--	--	--------------

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are capitalized and depreciated over their estimated useful lives.

Expenditures for capital assets	\$ 5,296,314	
Less current year depreciation	<u>(2,800,046)</u>	2,496,268

Contributions of capital assets are not reported as income in governmental funds		1,843,716
--	--	-----------

Changes in deferred revenue		45,173
-----------------------------	--	--------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.

Bond proceeds	(11,460,000)	
Capital lease proceeds	(21,768)	
Principal payments - bonds, notes and capital leases payable	<u>917,721</u>	(10,564,047)

Expenses and revenues related to the issuance of debt are amortized over the life of the debt:

Bond issuance costs	82,111	
Original issue discount	<u>29,269</u>	111,380

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.

Amortization of current year bond costs	(6,970)	
Amortization of current year bond discount	(4,667)	
Amortization of current year loss on bond refunding	(9,359)	
Change in long-term compensated absences	(176,466)	
Other	9,548	
Disposal of fixed assets	<u>(54,890)</u>	<u>(242,804)</u>

Change in net assets of governmental activities		<u>\$ 3,553,647</u>
---	--	---------------------

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City was incorporated under the laws of the State of Alabama and operates under an elected Mayor-Council form of government.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies.

1. Financial Reporting Entity

In evaluating the City as a reporting entity, management has addressed potential component units (traditionally separate reporting entities) for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. In accordance with GASB Statement No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations are Component Units", the City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Excluded from the financial statements are the following boards, for which a lack of influence, control and dependency exist: The Utilities Board of the City of Foley, the Medical Clinic Board, and the Industrial Development Board. These boards are governed by their own board of directors, prepare and adopt an annual operating budget which is not influenced by the City, have the authority to issue debt securities which are not an obligation of the City nor secured by City revenues, and have responsibility for any operating deficits which may occur and must fund such deficits through prior year surplus or other financing sources.

2. Basic Financial Statements - GASB Statement No. 34

Financial reporting requirements include a management's discussion and analysis, basic financial statements consisting of government-wide and fund financial statements, required supplementary information, and other supplementary information.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

2. Basic Financial Statements - GASB Statement No. 34 -- (Continued)

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The reporting model focus is on both the City as a whole and the fund financial statements, including the major individual funds of the government. The government-wide statement of net assets is presented on a consolidated basis on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities reflects both the gross and net cost per functional category (general government, public safety, highways and streets, etc.) that are otherwise being supported by general government revenues (property taxes, sales taxes, fines, permit and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, which must be directly associated with the function (general government, public safety, highways and streets, etc.). 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 operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants and contributions column includes operating specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and a basis of accounting other than the government-wide statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

3. Measurement Focus, Basis of Accounting, and Financial Statements 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.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

**3. Measurement Focus, Basis of Accounting, and Financial Statements Presentation
--(Continued)**

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

Property taxes, sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The government 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 *capital projects fund* is used to account for financial resources for the acquisition or construction of major capital items.

The *general obligation warrants series 2006 fund* is used to account for financial resources related to the issuance of the series 2006 bonds, as well as accumulating resources for the payment of interest and principal on the long-term debt.

Additionally, the government reports the following fund types:

Special Revenue Funds: These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes.

Debt Service Funds: These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

**3. Measurement Focus, Basis of Accounting, and Financial Statements Presentation
--(Continued)**

Capital Projects Funds: Capital project funds account for financial resources designated to construct or acquire general fixed assets and major improvements.

4. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During the months of July and August, Administration meets with each of the department heads to discuss a proposed budget for that department for the fiscal year commencing the following October 1.
2. Administration then drafts budgets for the General Fund, which include proposed expenditures and the means of financing them.
3. On or before September 1, a proposed budget is submitted to the Mayor and City Council. Prior to October 1, the budgets are legally enacted through passage of a resolution.
4. The City Council may amend the budget through resolution as needed.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP) and in accordance with Alabama law.
6. With the exception of construction work in progress, appropriations lapse at the end of each fiscal year.

5. Revenue Recognition

All ad valorem taxes levied by the state, county and any municipality in Baldwin County are assessed by the Tax Assessor and collected by the Tax Collector of Baldwin County. The Baldwin County property tax calendar requires the Tax Assessor to assess, and attach taxes as enforceable liens on property as of September 30, and taxes are due October 1 through December 31. Property taxes not paid by January 1 are considered delinquent. Tax collections received by the County Tax Collector are remitted to the City on a monthly basis.

All amounts remitted to the City within the bill paying period are included in revenue. Taxes collected within the fiscal year but remitted to the City after the fiscal year-end are accrued in both the government-wide and fund financial statements.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

6. Deferred Revenue

The fund financial statements include both unearned revenue and revenue that is not considered available to finance current expenditures. The government-wide financial statements include only unearned revenue.

7. Inventories

Inventories are valued on the first in first out basis. Inventory consists of expendable supplies held in the General Fund for consumption. The cost is recorded as an expenditure at the time individual inventory items are used (consumption method).

8. Prepaid Items

Payments to vendors for services that will benefit periods beyond September 30, 2006, are recorded as prepaid items.

9. Capital Assets

The accounting treatment of capital assets depends on whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets include property, buildings, infrastructure and machinery and other equipment. Capital assets other than infrastructure are defined by the City to be items with an estimated useful life of three years or more and an individual cost in excess of \$1,000. Capital assets are recorded at cost where historical cost is available or at estimated historical cost if actual cost was not available. Donated capital assets are recorded at their estimated fair value at time of donation. The costs of normal repair and maintenance that do not add to the value of the asset or materially extend the asset's useful life are expensed. Upon sale or retirement of property, buildings, machinery and other equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

9. Capital Assets -- (Continued)

Depreciation is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

Buildings	20 - 50 years
Improvements (Building and Property)	7 - 30 years
Infrastructure (Drainage, Streets, Bridges, Sidewalks, etc.)	10 - 50 years
Infrastructure (Sewer)	75 years
Machinery and equipment	5 - 20 years
Automobiles and equipment	5 - 15 years
Office equipment	5 - 10 years

Geographical location in relation to sea level and non-mountainous conditions make road base virtually maintenance free and therefore the City chose to treat this portion of infrastructure as non-depreciable.

In the fund financial statements, capital assets are accounted for as capital outlay expenditures upon acquisition.

10. Compensated Absences

City employees are granted vacation and sick leave based on City policy. In the event of termination, an employee is paid for accumulated vacation hours not to exceed 160 hours. Employees are paid for overtime accumulated and unpaid to the date of termination.

Vacation, sick pay, and overtime are accrued in accordance with GASB Statement No. 16. Unpaid compensated absences are recorded as a liability when the benefits are earned in the government-wide financial statements. For governmental funds, there is no legal requirement to accumulate expendable available financial resources to liquidate the obligation; these expenditures are recognized in governmental funds when payments are made to employees.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

11. Equity Classifications

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) the City’s own laws through its enabling legislation and other provisions of its laws and regulations.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

The fund equity of the governmental fund financial statements is classified as fund balance. Fund balance is further classified as reserved and unreserved.

12. Use of Estimates

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

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE B - CASH AND INVESTMENTS

The Council manages custodial credit risk, which is the risk that in the event of a bank failure the City's deposits may not be returned, by approving, by resolution, all banks or other financial institutions utilized as depositories for City funds. Prior to approval, each proposed depository must provide evidence of its designation by the Alabama State Treasurer as a qualified public depository under the Security of Alabama Funds Enhancement Act (SAFE). From time to time, the Council may request that the depository provide evidence of its continuing designation as a qualified public depository. The enactment of the SAFE program changed the way all Alabama public deposits are collateralized. In the past, the bank pledged collateral directly to each individual public entity. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all its public depositories on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss. At September 30, 2006, the City's reported amount of deposits was \$13,145,692. The actual bank balance was \$13,543,841, consisting entirely of deposits with financial institutions in checking and money market accounts.

Although the City has not adopted a formal investment policy, it manages its credit risk by restricting, by state statute, to investments in bonds, notes or treasury bills of the United States or in obligations of any agency or instrumentality of the United States of America. At September 30, 2006, the City held U.S. Treasury Notes with fair values totaling \$492,676, with a weighted average maturity of 250 days. The City's investments also include certificates of deposit totaling \$51,273, with a weighted average maturity of 67 days. As part of the participation in the Alabama Municipal Funding Corporation's 2006-A bond pool, the bond trustee held in the bond project fund a guaranteed investment contract totaling \$11,348,620. The funds are available to be used by the City for appropriate construction activities.

NOTE C - UTILITY TAX EQUIVALENTS

Monthly tax equivalent payments are made to the City by the Utilities Board of the City of Foley based on a percentage of the retained earnings of the Utilities Board. The annual tax equivalent rate for fiscal year 2006 was 4.25%.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE D - PENSION PLANS

DEFINED BENEFIT PENSION PLAN

1. Plan Description

The City of Foley, Alabama contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system (PERS), 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 of Foley, Alabama. 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. If a member dies prior to retirement, death benefits are calculated and paid to the beneficiary(s) based on the member's age, service credit, employment status and eligibility for retirement.

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 Systems of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

2. Funding Policy

Alabama PERS members are required to contribute 5% of their annual covered payroll. Certified police and firefighters are required to contribute 6% of their annual covered payroll. The City is required to contribute at an actuarially determined rate; the rate for fiscal year ended September 30, 2006 was 5.52% of annual covered payroll. The contribution requirements of plan members and the City are mandated by state statutes.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE D - PENSION PLANS -- (Continued)

DEFINED BENEFIT PENSION PLAN -- (Continued)

3. Annual Pension Cost

For 2006, the City's annual pension cost of \$317,648 was equal to the City's required and actual 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) 8.0% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.61% to 7.75% per year, and (c) 0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. Any unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2005 was within a 14 year period.

THREE-YEAR TREND INFORMATION

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
9/30/04	\$ 223,822	100%	\$ --
9/30/05	\$ 264,633	100%	\$ --
9/30/06	\$ 317,648	100%	\$ --

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c)</u>
9/30/00	\$5,574,155	\$5,092,685	\$ (481,470)	109.5%	\$3,552,549	(13.6%)
9/30/01	\$6,028,217	\$5,755,883	\$ (272,334)	104.7%	\$3,626,428	(7.5%)
9/30/02	\$6,373,068	\$6,406,139	\$ 33,071	99.5%	\$3,933,007	0.8%
9/30/03	\$6,802,266	\$7,039,957	\$ 237,691	96.6%	\$4,118,813	5.8%
9/30/04	\$7,433,787	\$7,818,545	\$ 384,757	95.1%	\$4,678,529	8.2%
9/30/05	\$8,070,427	\$8,763,450	\$ 693,023	92.1%	\$5,307,881	13.1%

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE D - PENSION PLANS -- (Continued)

VOLUNTEER FIREMEN'S RETIREMENT PLAN

1. Plan Description

The City of Foley, Alabama contributes to a Length of Service Awards Program, Defined Benefit Pension Plan, for the benefit of the City's Volunteer Firemen. The City is responsible for the investment and administrative functions with respect to the pension plan.

Since the firemen are volunteers, benefits are based upon a length of service formula effective July 1, 1994. All volunteers age 21-45 with 12 months of service are eligible. Under the provisions of the plan, pension benefits vest 100% after five years of service. Prior to five years of service, there is no vesting. Members receive benefits beginning on the first of the month following attainment of entitlement age (65). Benefits are \$10.00 multiplied by total years of service. Past and future service calculated as of July 1, 1994 is limited to 30 years. After July 1, 1994, past service is limited to ten years and future service to 30 years. Service prior to July 1, 1984 is excluded. The plan is funded entirely by the City. Also, the pension plan provides for death benefits immediately and certain disability benefits.

2. Funding Policy

The contribution requirements are actuarially determined annually.

3. Contributions Required and Contributions Made

Periodic contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method, with frozen initial past service liability. Normal cost is funded on a current basis. Any unfunded actuarial accrued liability is funded within a 20-year period. Actual assumptions included a 5.25% investment rate of return.

THREE-YEAR TREND INFORMATION

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Normal</u> <u>Pension</u> <u>Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/04	\$ 10,669	100%	\$ --
6/30/05	\$ 8,997	100%	\$ --
6/30/06	\$ 10,458	100%	\$ --

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE D - PENSION PLANS -- (Continued)

VOLUNTEER FIREMEN'S RETIREMENT PLAN -- (Continued)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
6/30/01	\$ 105,565	\$ 109,051	\$ 3,486	96.8%
6/30/02	\$ 131,030	\$ 122,056	\$ (8,974)	107.4%
6/30/03	\$ 81,957	\$ 93,722	\$ 11,765	87.4%
6/30/04	\$ 96,783	\$ 102,952	\$ 6,169	94.0%
6/30/05	\$ 113,394	\$ 136,506	\$ 23,112	83.1%

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE E - DEFERRED COMPENSATION PLAN

Employees of the City of Foley may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect to Service for State and Local Governments).

The deferred compensation plan is available to all eligible employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

The deferred compensation plan is administered by the Employees' Retirement System of Alabama as fiduciary. Under the terms of an IRS Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts are held by the financial institution, until paid or made available to the employees or beneficiaries.

NOTE F - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2006:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending</u> <u>Balance</u>
Land	\$15,795,073	\$ 581,395	\$ (7,581)	\$ 57,585	\$16,426,472
Buildings	12,595,835	90,619	--	359,465	13,045,919
Property improvements	4,609,230	69,911	(21,309)	--	4,657,832
Infrastructure	49,905,952	1,680,086	--	611,688	52,197,726
Machinery & equipment	8,596,927	1,269,817	(99,545)	--	9,767,199
Construction in progress	<u>2,250,298</u>	<u>3,448,202</u>	<u>--</u>	<u>(1,028,738)</u>	<u>4,669,762</u>
Totals	93,753,315	<u>\$ 7,140,030</u>	<u>\$ (128,435)</u>	<u>\$ --</u>	100,764,910
Less accumulated depreciation	<u>24,116,718</u>				<u>26,843,866</u>
Capital assets, net	<u>\$69,636,597</u>				<u>\$73,921,044</u>

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE F - CAPITAL ASSETS -- (Continued)

Construction in progress consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Justice Center Lake	\$ 413,888	\$ --	\$ --	\$ 413,888
Street (James Road)	--	20,000	--	20,000
Pedestrian/Bike Trail (Phase II)	52,025	24,468	--	76,493
Historical/Street Scape Project	121,253	--	--	121,253
Library Expansion	704,060	1,496,378	--	2,200,438
Southeast Drainage Project	87,843	--	87,843	--
Softball Field & Concession (Soccer)	28,141	--	--	28,141
Depot Building for Train Exhibit	229,973	125,523	355,496	--
Airport Improvement Grant (#2)	572,057	9,374	581,431	--
Storm Water System Improvement	26,150	666,427	--	692,577
Antique Rose Trail	540	13,050	--	13,590
Signal Warrants & Turnlanes	--	64,934	--	64,934
Airport-Runway Lights & Radio Control	-	268,943	--	268,943
County Road 20 Widening	13,200	176,350	--	189,550
Glenlakes Drainage	--	6,450	--	6,450
City Hall-4 Offices & Security System	--	31,600	--	31,600
Section St Ext-Hickory to CR65	--	239,183	--	239,183
Beulah Hgts Ped Way (TEA Grant)	--	7,500	--	7,500
Fire Station II-Building/Paving	--	58,770	--	58,770
Fire Trng Ctr.-Burn Room/Conv'd Area	--	26,065	--	26,065
FBE Industrial Park Road Extension	--	4,980	--	4,980
Antique Rose Trail PIII/Lake	--	2,730	--	2,730
Nurse Dispensary	1,168	2,800	3,968	--
CDBG DR-05-026 (9 th Ave Drainage)	--	202,677	--	202,677
Totals	<u>\$ 2,250,298</u>	<u>\$ 3,448,202</u>	<u>\$ 1,028,738</u>	<u>\$ 4,669,762</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 310,475
Public safety	510,431
Highways and streets	1,579,785
Sanitation	129,571
Culture and recreation	<u>269,784</u>
Total depreciation expense	<u>\$ 2,800,046</u>

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE G - LONG-TERM DEBT

The general obligation warrants and notes payable as of September 30, 2006 were as follows:

General Obligation Warrants:

\$4,115,000 Series 1999, General Obligation Warrants dated
June 1, 1999, due in annual installments from \$175,000 to
\$310,000 plus semi-annual interest varying from 4.50% to 5.125% \$ 3,065,000

\$1,295,000 Series 2004, General Obligation Warrants dated
March 1, 2004, due in annual installments from \$110,000 to
\$135,000 plus semi-annual interest varying from 2% to 3.2% 1,080,000

\$11,460,000 Series 2006A, General Obligation Warrants dated
January 12, 2006, due in semi-annual installments from \$280,000
to \$510,000 plus monthly interest at a variable rate (3.76%
at September 30, 2006) 11,190,000

Total General Obligation Warrants \$ 15,335,000

Notes Payable:

\$1,000,000 note payable to an individual, due in three annual
installments of \$100,000 plus interest beginning March 11, 2005.
Final payment due of \$700,000 plus interest on March 11, 2008;
6% per annum \$ 800,000

\$5,500,000 note payable to an individual, interest payable monthly
beginning July 8, 2004 at local bank prime rate plus 1%. Balance
due at maturity on December 1, 2008 5,500,000

Total Notes Payable \$ 6,300,000

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE G - LONG-TERM DEBT -- (Continued)

The principal maturities and related interest requirements for the general obligation warrants and notes payable for the next five fiscal years and thereafter are as follows:

General Obligation Warrants:

Fiscal Year Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 850,000	\$ 603,890	\$ 1,453,890
2008	885,000	571,303	1,456,303
2009	920,000	537,221	1,457,221
2010	955,000	501,287	1,456,287
2011	1,000,000	463,202	1,463,202
2012 - 2016	5,570,000	1,671,965	7,241,965
2017 - 2020	<u>5,155,000</u>	<u>495,527</u>	<u>5,650,527</u>
 TOTALS	 <u>\$ 15,335,000</u>	 <u>\$ 4,844,395</u>	 <u>\$ 20,179,395</u>

Notes Payable:

Fiscal Year Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 100,000	\$ 556,750	\$ 656,750
2008	700,000	550,750	1,250,750
2009	<u>5,500,000</u>	<u>127,187</u>	<u>5,627,187</u>
 TOTALS	 <u>\$ 6,300,000</u>	 <u>\$ 1,234,687</u>	 <u>\$ 7,534,687</u>

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE G - LONG-TERM DEBT -- (Continued)

The changes in long-term debt for the year were as follows:

	Principal Balance <u>10/01/05</u>	<u>Additions</u>	<u>Reductions</u>	Principal Balance <u>09/30/06</u>	Due Within <u>One Year</u>
General Obligation Warrants:					
Series 1999 General Obligation Warrants	\$ 3,235,000	\$ --	\$ (170,000)	\$ 3,065,000	\$ 175,000
Series 2004 General Obligation Warrants	1,180,000	--	(100,000)	1,080,000	110,000
Series 2006 General Obligation Warrants	<u>--</u>	<u>11,460,000</u>	<u>(270,000)</u>	<u>11,190,000</u>	<u>565,000</u>
	4,415,000	11,460,000	(540,000)	15,335,000	850,000
Less deferred amounts:					
For issuance discounts	(64,823)	(29,269)	4,667	(89,425)	--
For issuance costs	(75,722)	(82,111)	6,970	(150,863)	--
On refunding	<u>(110,440)</u>	<u>--</u>	<u>9,359</u>	<u>(101,081)</u>	<u>--</u>
Total General Obligation Warrants	4,164,015	11,348,620	(519,004)	14,993,631	850,000
Notes payable	6,516,667	--	(216,667)	6,300,000	100,000
Compensated absences	<u>321,735</u>	<u>526,298</u>	<u>(398,739)</u>	<u>449,294</u>	<u>170,758</u>
TOTALS	<u>\$11,002,417</u>	<u>\$11,874,918</u>	<u>\$(1,134,410)</u>	<u>\$21,742,925</u>	<u>\$ 1,120,758</u>

The General Fund generally liquidates claims and judgments, and compensated absences for governmental activities.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE H - CAPITAL LEASES

On April 18, 2005 the City entered into a 36 month lease purchase agreement for various equipment and police cars in the approximated amount of \$1,000,000 with monthly interest payments of 30 day LIBOR plus 1.5%, with the balance due April 2008. As of September 30, 2005, \$139,286 had been purchased through the lease purchase agreement, and an additional \$21,768 was used for purchases during the year ended September 30, 2006. The lease obligation was paid in full during the year ended September 30, 2006.

The items acquired through capital lease are as follows:

Moveable equipment	\$ 161,054
Less accumulated depreciation	<u>(20,846)</u>
Net assets acquired	<u>\$ 140,208</u>

Amortization of the leased equipment is included in depreciation expense.

NOTE I - COMMITMENTS AND CONTINGENCIES

The City had various capital improvement projects in progress at September 30, 2006. In addition, the City had commitments and plans for major capital projects for the fiscal year September 30, 2007. The cost of these projects was estimated by management to be approximately \$9,700,000 at September 30, 2006. The City expects to receive partial funding of approximately \$1,800,000 for these projects from third parties in the form of grants and joint participation reimbursements in 2007.

Various lawsuits are pending against the City. In addition, claims have been filed which have not yet resulted in lawsuits. In the opinion of legal counsel, the potential adverse impact of all these claims, individually or in the aggregate, would not be material to the financial statements of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. City management believes such disallowances, if any, would not be material to the financial statements of the City.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE J - ECONOMIC DEPENDENCY

The City's main revenue sources are derived from local taxes, primarily sales tax on retail businesses, charges for services such as waste removal, and utility tax equivalents (Note C). The revenues are collected on a monthly basis.

NOTE K - INTERFUND RECEIVABLE AND PAYABLES

The following is a detailed listing of interfund receivables and payables shown in the combined balance sheet:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 25,237	\$ 19,230
Non-Major Governmental Funds	19,230	25,237
Total	\$ 44,467	\$ 44,467

NOTE L - INTERFUND TRANSFERS

Interfund transfers from the General Fund were made as follows:

<u>Transfers To</u>	
Capital Projects	\$ 4,190,696
General Obligation Warrants Series 2006	648,224
Non-Major Governmental	502,029
Total	\$ 5,340,949

Transfers to or from other funds are based on budgetary or statutory requirements, occur on a routine basis, and are consistent with the activities of the fund making the transfer.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2006

NOTE M - LEASES

The U.S. Postal Service occupies a City owned facility under a twenty (20) year lease dated October, 1995.

The following is a schedule of minimum rentals to be received under the lease for the period ending September 30:

2007	\$ 140,532
2008	140,532
2009	140,532
2010	140,532
2011	140,532
2012 through 2015	<u>562,128</u>
Totals	<u>\$ 1,264,788</u>

In June 2004 the Utilities Board of The City of Foley entered into a ninety nine (99) year lease with the City for 241+ acres of real property. The terms of the lease provide a one time payment of \$81,400 at inception and monthly payments based on a local bank prime rate plus 1% on the outstanding one-time payment due December 8, 2008 of \$2,750,000.

The following is a schedule of minimum rentals to be received under the lease for the period ending September 30:

2007	\$ 254,375
2008	254,375
2009	<u>2,813,594</u>
Totals	<u>\$ 3,322,344</u>

NOTE N - 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; injuries to employees; and natural disasters. The City carries commercial insurance to cover these risks. During the year the City had no significant reductions in insurance coverage from the prior year. In addition, there have been no settlements that exceeded the City's insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

City of Foley, Alabama
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 926,490	\$ 926,490	\$ 946,143	\$ 19,653
Local taxes	7,008,161	7,008,161	7,670,677	662,516
Taxes - other	122,485	122,485	285,028	162,543
Licenses and permits	2,106,100	2,119,100	2,579,042	459,942
State and Federal assistance	607,100	611,100	169,087	(442,013)
Charges	1,305,737	1,305,737	1,371,376	65,639
Fines and forfeitures	387,034	387,034	351,779	(35,255)
Utility tax equivalents	4,405,170	4,405,170	4,198,948	(206,222)
Interest and rents	655,617	655,617	1,111,678	456,061
Sewer assessments	5,160	5,160	5,161	1
Contributions and donations	331,146	331,146	2,010	(329,136)
Other	62,400	62,400	254,965	192,565
Total revenues	17,922,600	17,939,600	18,945,894	1,006,294
Expenditures				
Current:				
General government	3,695,874	3,654,328	3,603,568	50,760
Public safety	5,284,013	5,977,374	5,610,689	366,685
Highways and streets	1,220,734	1,255,333	1,023,046	232,287
Sanitation	1,570,053	1,595,950	1,492,756	103,194
Culture and recreation	2,292,710	2,447,955	2,224,201	223,754
Conservation	1,058,143	1,574,143	--	1,574,143
Capital expenditures	1,270,579	2,091,888	1,048,108	1,043,780
Debt service:				
Principal	252,183	252,183	161,054	91,129
Interest	12,609	12,609	6,448	6,161
Total expenditures	16,656,898	18,861,763	15,169,870	3,691,893
Excess (deficiency) of revenues over expenditures	1,265,702	(922,163)	3,776,024	4,698,187
Other financing sources (uses)				
Transfers in	--	667,927	--	(667,927)
Transfers out	(473,941)	(15,329,385)	(5,340,949)	9,988,436
Capital leases	2,020,463	2,020,463	21,768	(1,998,695)
Proceeds from sale of assets	225,000	225,000	74,111	(150,889)
Total other financing sources (uses)	1,771,522	(12,415,995)	(5,245,070)	7,170,925
Net change in fund balances	3,037,224	(13,338,158)	(1,469,046)	11,869,112
Fund balances, beginning of year	13,311,966	13,311,966	13,311,966	--
Fund balances, end of year	\$ 16,349,190	\$ (26,192)	\$ 11,842,920	\$ 11,869,112

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

City of Foley, Alabama
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2006

NOTE A - BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During the months of July and August, Administration meets with each of the department heads to discuss a proposed budget for that department for the fiscal year commencing the following October 1.
2. Administration then drafts budgets for the General Fund, which include proposed expenditures and the means of financing them.
3. On or before September 1, a proposed budget is submitted to the Mayor and City Council. Prior to October 1, the budgets are legally enacted through passage of a resolution.
4. The City Council may amend the budget through resolution as needed.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP) and in accordance with Alabama law.
6. With the exception of construction work in progress, appropriations lapse at the end of each fiscal year.

SUPPLEMENTARY INFORMATION

City of Foley, Alabama
NON-MAJOR GOVERNMENTAL FUNDS (BY FUND TYPE)
COMBINING BALANCE SHEET
September 30, 2006

ASSETS	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Non-Major Governmental Funds
Cash - general operating	\$ 684,063	\$ 252,262	\$ --	\$ 936,325
Certificates of deposit	51,273	--	--	51,273
Receivables				
Gasoline excise tax	5,090	--	--	5,090
Grants	--	--	89,669	89,669
Due from other funds	--	--	19,230	19,230
Total assets	<u>\$ 740,426</u>	<u>\$ 252,262</u>	<u>\$ 108,899</u>	<u>\$ 1,101,587</u>
 LIABILITIES				
Accounts payable	\$ --	\$ --	\$ 108,899	\$ 108,899
Due to other funds	25,237	--	--	25,237
Deferred revenue	1,759	--	--	1,759
Total liabilities	<u>26,996</u>	<u>--</u>	<u>108,899</u>	<u>135,895</u>
 FUND BALANCES				
Reserved for:				
Debt service	--	252,262	--	252,262
Current and future projects	713,430	--	--	713,430
Total fund balances	<u>713,430</u>	<u>252,262</u>	<u>--</u>	<u>965,692</u>
Total liabilities and fund balances	<u>\$ 740,426</u>	<u>\$ 252,262</u>	<u>\$ 108,899</u>	<u>\$ 1,101,587</u>

City of Foley, Alabama
NON-MAJOR GOVERNMENTAL FUNDS (BY FUND TYPE)
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended September 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Non-Major Governmental Funds
Revenues				
Property taxes	\$ 125,215	\$ --	\$ --	\$ 125,215
Taxes - other	58,618	--	--	58,618
State and Federal assistance	164,631	--	157,975	322,606
Charges	78,618	--	--	78,618
Fines and forfeitures	83,689	--	--	83,689
Interest and rents	8,532	7,573	--	16,105
Contributions and donations	16,248	--	--	16,248
Other	4,013	--	--	4,013
Total revenues	<u>539,564</u>	<u>7,573</u>	<u>157,975</u>	<u>705,112</u>
Expenditures				
Current:				
Public safety	28,832	--	--	28,832
Culture and recreation	122,802	--	--	122,802
Capital expenditures	353,322	--	202,677	555,999
Debt service:				
Principal	--	270,000	--	270,000
Interest	--	139,449	--	139,449
Total expenditures	<u>504,956</u>	<u>409,449</u>	<u>202,677</u>	<u>1,117,082</u>
Excess (deficiency) of revenues over expenditures	34,608	(401,876)	(44,702)	(411,970)
Other financing sources (uses)				
Transfers in	--	457,327	44,702	502,029
Total other financing sources (uses)	<u>--</u>	<u>457,327</u>	<u>44,702</u>	<u>502,029</u>
Net change in fund balances	34,608	55,451	--	90,059
Fund balances, beginning of year	678,822	196,811	--	875,633
Fund balances, end of year	<u>\$ 713,430</u>	<u>\$ 252,262</u>	<u>\$ --</u>	<u>\$ 965,692</u>

City of Foley, Alabama
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
September 30, 2006

ASSETS	County Fire Ad Valorem Tax and State Grant	State Gasoline Tax	Public Library	Corrections Fund	Youth Sports	Totals
Cash - general operating	\$ 189,042	\$ 157,734	\$ 16,720	\$ 303,434	\$ 17,133	\$ 684,063
Certificates of deposit	--	--	51,273	--	--	51,273
Receivables						
Gasoline excise tax	--	5,090	--	--	--	5,090
Grants	--	--	--	--	--	--
Total assets	<u>\$ 189,042</u>	<u>\$ 162,824</u>	<u>\$ 67,993</u>	<u>\$ 303,434</u>	<u>\$ 17,133</u>	<u>\$ 740,426</u>
 LIABILITIES						
Due to other funds	\$ 24,901	\$ --	\$ --	\$ --	\$ 336	\$ 25,237
Deferred revenue	1,759	--	--	--	--	1,759
Total liabilities	<u>26,660</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>336</u>	<u>26,996</u>
 FUND BALANCES						
Reserved for:						
Current and future projects	162,382	162,824	67,993	303,434	16,797	713,430
Total fund balances	<u>162,382</u>	<u>162,824</u>	<u>67,993</u>	<u>303,434</u>	<u>16,797</u>	<u>713,430</u>
Total liabilities and fund balances	<u>\$ 189,042</u>	<u>\$ 162,824</u>	<u>\$ 67,993</u>	<u>\$ 303,434</u>	<u>\$ 17,133</u>	<u>\$ 740,426</u>

City of Foley, Alabama
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2006

	County Fire Ad Valorem Tax and State Grant	State Gasoline Tax	Public Library	Corrections Fund	Youth Sports	Totals
Revenues						
Property taxes	\$ 125,215	\$ --	\$ --	\$ --	\$ --	\$ 125,215
Taxes - other	--	58,618	--	--	--	58,618
State and Federal assistance	155,328	--	9,303	--	--	164,631
Charges	--	--	--	--	78,618	78,618
Fines and forfeitures	--	--	13,002	70,687	--	83,689
Interest and rents	1,558	5,398	894	610	72	8,532
Contributions and donations	1,326	--	14,922	--	--	16,248
Other	--	--	4,013	--	--	4,013
Total revenues	<u>283,427</u>	<u>64,016</u>	<u>42,134</u>	<u>71,297</u>	<u>78,690</u>	<u>539,564</u>
Expenditures						
Current:						
Public safety	14,002	14,830	--	--	--	28,832
Culture and recreation	--	--	34,054	--	88,748	122,802
Capital expenditures	241,150	100,000	--	12,172	--	353,322
Total expenditures	<u>255,152</u>	<u>114,830</u>	<u>34,054</u>	<u>12,172</u>	<u>88,748</u>	<u>504,956</u>
Excess (deficiency) of revenues over expenditures	28,275	(50,814)	8,080	59,125	(10,058)	34,608
Fund balances, beginning of year	134,107	213,638	59,913	244,309	26,855	678,822
Fund balances, end of year	<u>\$ 162,382</u>	<u>\$ 162,824</u>	<u>\$ 67,993</u>	<u>\$ 303,434</u>	<u>\$ 16,797</u>	<u>\$ 713,430</u>

City of Foley, Alabama
NON-MAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
September 30, 2006

ASSETS	General Obligation Warrants Series 1999	General Obligation Warrants Series 2004	Totals
Cash - general operating	\$ 172,797	\$ 79,465	\$ 252,262
Total assets	<u>\$ 172,797</u>	<u>\$ 79,465</u>	<u>\$ 252,262</u>
FUND BALANCES			
Reserved for:			
Debt service	\$ 172,797	\$ 79,465	\$ 252,262
Total fund balances	<u>172,797</u>	<u>79,465</u>	<u>252,262</u>
Total liabilities and fund balances	<u>\$ 172,797</u>	<u>\$ 79,465</u>	<u>\$ 252,262</u>

City of Foley, Alabama
NON-MAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2006

	General Obligation Warrants Series 1999	General Obligation Warrants Series 2004	Totals
Revenues			
Interest and rents	\$ 5,354	\$ 2,219	\$ 7,573
Total revenues	<u>5,354</u>	<u>2,219</u>	<u>7,573</u>
Expenditures			
Debt service:			
Principal	170,000	100,000	270,000
Interest	115,123	24,326	139,449
Total expenditures	<u>285,123</u>	<u>124,326</u>	<u>409,449</u>
Excess (deficiency) of revenues over expenditures	(279,769)	(122,107)	(401,876)
Other financing sources (uses)			
Transfers in	323,093	134,234	457,327
Total other financing sources (uses)	<u>323,093</u>	<u>134,234</u>	<u>457,327</u>
Net change in fund balances	43,324	12,127	55,451
Fund balances, beginning of year	129,473	67,338	196,811
Fund balances, end of year	<u>\$ 172,797</u>	<u>\$ 79,465</u>	<u>\$ 252,262</u>

City of Foley, Alabama
NON-MAJOR CAPITAL PROJECTS FUND
COMBINING BALANCE SHEET
September 30, 2006

	Community Development Block Grant Program
ASSETS	
Receivables	
Grants	\$ 89,669
Due from other funds	19,230
Total assets	\$ 108,899
LIABILITIES	
Accounts payable	\$ 108,899
Total liabilities	108,899
FUND BALANCES	
Reserved for:	
Current and future projects	--
Total fund balances	--
Total liabilities and fund balances	\$ 108,899

City of Foley, Alabama
NON-MAJOR CAPITAL PROJECTS FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended September 30, 2006

	Community Development Block Grant Program
Revenues	
State and Federal assistance	\$ 157,975
Total revenues	157,975
 Expenditures	
Capital expenditures	202,677
Total expenditures	202,677
Excess (deficiency) of revenues over expenditures	(44,702)
 Other financing sources (uses)	
Transfers in	44,702
Total other financing sources (uses)	44,702
 Net change in fund balances	--
 Fund balances, beginning of year	--
Fund balances, end of year	\$ --

COMPLIANCE AND INTERNAL CONTROL

City of Foley, Alabama
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2006

Federal Agency Pass-Through Entity Federal Program	Federal CFDA Number	Contract/Grant Number	Expenditures
U.S. Department of Housing and Urban Development			
Pass-through from:			
Alabama Department of Economic and Community Affairs			
Community Development Block Grant - States Program	14.228	DR-05-026	\$ 157,975
Total U.S. Department of Housing and Urban Development			<u>157,975</u>
U.S. Department of Transportation			
Federal Aviation Administration			
Pass-through from:			
Alabama Department of Transportation			
Airport Improvement Program	20.106	FAA 3-01-0031-006-2004	68,247
Federal Highway Administration			
Pass-through from:			
Alabama Department of Transportation			
Highway Planning and Construction	20.205	STPE-2000(24)	19,265
Total U.S. Department of Transportation			<u>87,512</u>
U.S. Department of Homeland Security			
Direct Programs:			
Assistance to Firefighters	97.044	EMW-2005-FG-00259	146,300
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2005-FF-00308	162,000
Total U.S. Department of Homeland Security			<u>308,300</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 553,787</u></u>

BASIS OF PRESENTATION

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Foley, Alabama, as of and for the year ended September 30, 2006, which collectively comprise the City of Foley, Alabama's basic financial statements and have issued our report thereon dated February 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Foley, Alabama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Foley, Alabama in a separate letter dated February 8, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Foley, Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management, others within the organization, city council, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

O'Sullivan Creel, LLP

February 8, 2007

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

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

Compliance

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

In our opinion, the City of Foley, 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 Foley, 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 City of Foley, Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 non-compliance 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, 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.

O'Sullivan Greel, LLP

February 8, 2007

**CITY OF FOLEY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2006**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

We have issued a report with an unqualified opinion on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified? NONE

Reportable condition(s) identified that are not considered to be material weakness(es)? NONE REPORTED

The audit disclosed no instances of non-compliance which are material to the financial statements.

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? NONE

Reportable condition(s) identified that are not considered to be material weakness(es)? NONE REPORTED

We have issued a report with an unqualified opinion on compliance with requirements applicable to each major program.

The audit disclosed no findings which are required to be reported in accordance with OMB Circular A-133 Section 510(a).

The City of Foley, Alabama's major programs are as follows:

U.S. Department of Housing and Urban Development – Community Development Block Grant – States Program	CFDA #14.228
U.S. Department of Homeland Security – Assistance to Firefighters	CFDA #97.044

The dollar threshold used to distinguish Type A and Type B programs is \$300,000.

The City of Foley, Alabama did not qualify for consideration as a low risk auditee.

**CITY OF FOLEY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2006**

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings Related to the Financial Statements in accordance with GAGAS:

There are no such findings in the current year.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and Questioned Costs for Federal Awards:

There are no such findings or questioned costs in the current year.