CITY OF COLUMBIANA, ALABAMA

BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

CITY OF COLUMBIANA, ALABAMA

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CITY OF COLUMBIANA, ALABAMA

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor Allan Lowe
Members of the City Council
City of Columbiana, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Columbiana, Alabama, as of and for the year ended September 30, 2011, 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 Columbiana, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The City of Columbiana, Alabama has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Columbiana, Alabama, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule for the major funds on page 46 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Columbiana, Alabama's basic financial statements. The combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

DeLoach, Barber & Caspers, P.C.

May 14, 2012

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current Assets				
Cash and certificate of deposits	$ 1,794,557	$ 956,204	$ 2,750,761	$ 2,661,566
Accounts receivable - taxes	436,567		436,567	
Accounts receivable - customers, net of allowance	57,199	99,872	157,071	258,164
Accounts receivable - fines, net of allowance	194,054		194,054	
Accounts receivable - grants	18,082		18,082	
Interest receivable	3,728		3,728	540
Interfund receivables		137,852	137,852	19,653
Inventory	248		248	35,923
Prepaid expenses	34,973	596	35,569	13,634
Restricted Assets				
Cash	974,145		974,145	405,804
Investments	3,297,038		3,297,038	
Non-current Assets				
Land and construction in progress	1,323,884		1,323,884	759,827
Other capital assets, net of accumulated depreciation	4,621,170	2,524,997	7,146,167	6,621,704
Other Assets				
Bond amortization costs, net of amortization	220,409		220,409	13,593
Total Assets	12,976,054	3,719,521	16,695,575	10,790,408
LIABILITIES				
Current Liabilities (payable from current assets)				
Accounts payable	98,966	10,983	109,949	20,135
Payroll taxes payable	665		665	357
Utility tax payable			0	5,445
Accrued wages	28,070	1,647	29,717	49,536
Interest payable	471		471	
Interfund payables	157,505		157,505	
Current Liabilities (payable from restricted assets)				
Meter deposits			0	225,970
Interest payable			0	622
Long-term Liabilities				
Notes payable - portion due in one year	105,627		105,627	11,624
Notes payable - portion due in more than one year	416,120		416,120	
Warrants and bonds payable - portion due in one year	115,000		115,000	226,281
Warrants and bonds payable - portion due in more than one year	3,605,000		3,605,000	3,143,930
Accrued compensated absences	22,129	3,379	25,508	
Total Liabilities	4,549,553	16,009	4,565,562	3,683,900
Net Assets				
Investment in capital assets, net of related debt	1,703,308	2,524,997	4,228,305	4,011,320
Restricted for:				
Public Services	4,192,261		4,192,261	
Debt service	400,542		400,542	
Meter deposits			0	179,212
Unrestricted	2,130,390	1,178,515	3,308,905	2,915,976
Total Net Assets	$ 8,426,501	$ 3,703,512	$ 12,130,013	$ 7,106,508

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

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues: Total
Governmental Activities					
Beautification	$ 5,599	$	$ 230	$	$ (5,369)
Cemetery	13,949	21,500	100		7,651
Court	188,662	139,252			(49,410)
Donations	44,582				(44,582)
Fire and rescue	284,150		3,952		(280,198)
General government	441,502	566,821	300		125,619
Interest on long-term debt	202,940				(202,940)
Library	197,150	11,380	4,487		(181,283)
Liberty day celebration			24,011		24,011
Park and recreation	226,036	8,339	48,473		(169,224)
Police	757,365		27,342		(730,023)
Sanitation	215,022	262,264			47,242
Senior Center	39,799		15,565		(24,234)
Street	554,628				(554,628)
Total Governmental Activities	3,171,384	1,009,556	124,460	0	(2,037,368)
Business -type Activities					
Sewer	470,044	636,852		98,386	265,194
Total Business-type Activities	470,044	636,852	0	98,386	265,194
Total Primary Government	$ 3,641,428	$ 1,646,408	$ 124,460	$ 98,386	$ (1,772,174)
Component Units					
City of Columbiana Water Board	$ 1,500,261	$ 1,968,379	$	$	$ 468,118
Total Component Units	$ 1,500,261	$ 1,968,379	$ 0	$ 0	$ 468,118

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

(Continued)

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
Net Revenues (Expenses)	$ (2,037,368)	$ 265,194	$ (1,772,174)	$ 468,118
General revenues:				
Taxes:				
Sales and use tax	1,348,336		1,348,336	
Property taxes	326,850		326,850	
Gasoline taxes	28,515		28,515	
Beer and alcoholic beverage taxes	28,067		28,067	
Tobacco tax	36,357		36,357	
State capital improvement	23,067		23,067	
Motor vehicle taxes	11,646		11,646	
Rental tax	30,530		30,530	
Payment in lieu of taxes	1,292		1,292	
Shares/Privilege tax	12,145		12,145	
State shared taxes	18,099		18,099	
Other taxes	4,329		4,329	
Miscellaneous	11,821		11,821	
Investment income	170,076	5,434	175,510	31,060
Gain(loss) on sale of capital assets	2,907	1,625	4,532	1,592
Unrealized holding loss on investments	(2,908)		(2,908)	
Total general revenues and transfers	2,051,129	7,059	2,058,188	32,652
Change in net assets	13,761	272,253	286,014	500,770
Net assets at beginning of year	8,412,740	3,431,259	11,843,999	6,605,738
Net assets at end of year	$ 8,426,501	$ 3,703,512	$ 12,130,013	$ 7,106,508

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

CITY OF COLUMBIANA, ALABAMA

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General	Court	Other Governmental Funds	Totals Governmental Funds
ASSETS				
Assets				
Cash	$ 1,794,557	$	$	$ 1,794,557
Accounts receivable - taxes	434,947		1,620	436,567
Accounts receivable - customers	57,104		95	57,199
Accounts receivable - fines		278,324		278,324
Accounts receivable - grants	18,082			18,082
Interest receivable	3,728			3,728
Interfund receivable	14,715			14,715
Inventory	248			248
Prepaid expenses	34,191	90	692	34,973
Restricted Assets				
Cash	212,396	288,304	473,445	974,145
Investments	3,297,038			3,297,038
Other Assets				
Bond costs, net of amortization	220,409			220,409
Total Assets	$ 6,087,415	$ 566,718	$ 475,852	$ 7,129,985
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 25,436	$ 20,746	$ 52,784	$ 98,966
Payroll taxes payable	665			665
Accrued wages	24,245	865	2,960	28,070
Interest payable	471			471
Interfund payable	158,446	13,670	105	172,221
Deferred revenue	300,221	256,534		556,755
Total Liabilities	509,484	291,815	55,849	857,148
Fund Balances				
Nonspendable:				
Money Market	30,852			30,852
Investments	3,297,038			3,297,038
Restricted for:				
Debt Service	181,544			181,544
Public Service		274,903	420,003	694,906
Unassigned	2,068,497			2,068,497
Total Fund Balances	5,577,931	274,903	420,003	6,272,837
Total Liabilities and Fund Balances	$ 6,087,415	$ 566,718	$ 475,852	$ 7,129,985

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

CITY OF COLUMBIANA, ALABAMA

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total fund balances for governmental funds	$	6,272,837
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.		5,945,054
Certain assets are deferred in the fund financial statement because they are not available to pay current-period expenditures, but they are reported as assets in the statement of net assets.		472,486
Certain liabilities (such as warrants payable, notes payable, and compensated absences) are not reported in this fund financial statement because they are not due and payable, but they are presented as liabilities in the statement of net assets.		(4,263,876)
Net assets of governmental activities	$	8,426,501

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

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Court	Other Governmental Funds	Totals Governmental Funds
Revenues				
Donations	$ 42,307	$	$ 1,516	$ 43,823
Fines and charges	730	144,782	6,410	151,922
Fire department income	3,952			3,952
Grant income	73,614		3,071	76,685
Investment income	164,522	2,714	2,840	170,076
Licenses, permits, & franchise fees	566,091			566,091
Lot sales and openings/closings			21,500	21,500
Miscellaneous	11,824		4,970	16,794
Park and recreation	8,339			8,339
Sanitation services	262,264			262,264
Tax revenue	1,842,377		41,166	1,883,543
Total Revenues	2,976,020	147,496	81,473	3,204,989
Expenditures				
Beautification	5,116			5,116
Capital expenditures	104,218	7,934		112,152
Cemetery			10,788	10,788
Court		185,021		185,021
Debt retirement	211,913			211,913
Donations and liberty day	44,582			44,582
Fire and rescue	210,936			210,936
General government	424,695			424,695
Interest on long-term debt	202,940			202,940
Library			195,309	195,309
Park and recreation	103,618			103,618
Police	711,184			711,184
Sanitation	192,475			192,475
Senior Center	38,234			38,234
Street	351,493		117,268	468,761
Total Expenditures	2,601,404	192,955	323,365	3,117,724
Excess of revenues over (under) expenditures	374,616	(45,459)	(241,892)	87,265
Other Financing Sources (Uses)				
Unrealized/realized loss on investments	(2,908)			(2,908)
Gain on sale of capital assets	2,907			2,907
Operating transfers in	387,333		214,297	601,630
Operating transfers out	(575,912)		(25,718)	(601,630)
Total Other Financing Sources (Uses)	(188,580)	0	188,579	(1)
Net change in fund balances	186,036	(45,459)	(53,313)	87,264
Fund Balance, Beginning of Year	5,391,895	320,362	473,316	6,185,573
Fund Balance, End of Year	$ 5,577,931	$ 274,903	$ 420,003	$ 6,272,837

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

CITY OF COLUMBIANA, ALABAMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds	$	87,264
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The amount by which depreciation of $378,040 exceeds capital outlays of $112,152.		(265,888)
Revenues that are not available to pay current obligations are not reported in this fund financial statement but they are presented as revenues in the statement of activities.		(19,843)
Generally expenditures recognized in this fund's financial statements are limited to only those that use current financial resources but expenses are recognized in statement of activities when they are incurred.		315
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		211,913
Change in net assets of governmental activities	$	13,761

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

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

		Enterprise Funds
		Sewer Department
ASSETS		
Current Assets		
Cash	$	956,204
Accounts receivable - customers, net of allowance		99,872
Interfund receivable		137,852
Prepaid expenses		596
Non-current Assets		
Other capital assets, net of accumulated depreciation		2,524,997
Total Assets	$	3,719,521
LIABILITIES		
Current Liabilities (payable from current assets)		
Accounts payable	$	10,983
Accrued wages		1,647
Long-term Liabilities		
Accrued compensated absences		3,379
Total Liabilities		16,009
Net Assets		
Investment in capital assets, net of related debt		2,524,997
Unrestricted		1,178,515
Total Net Assets	$	3,703,512

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

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

		Enterprise Funds
		Sewer Department
Operating Revenues		
Service charges and other revenue	$	636,852
Total Revenues		636,852
Administrative Expenses		
Computer expense		2,562
Dues and subscriptions		460
Legal and accounting		10,219
Office expense		1,151
Payroll processing fee		1,084
Postage		2,325
Rental - copier		894
Telephone		3,036
Total Administrative Expenses		21,731
Supply and Distribution Expenses		
Bad debt expense		709
Depreciation		164,468
Fees and services		6,250
Gas and oil		7,428
Insurance - employee health		10,814
Insurance - general		6,132
Insurance - workmans comp.		1,673
Miscellaneous		1,128
Payroll taxes		6,667

(Continued)

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

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Supply and Distribution Expenses (Continued)		
Pipes, parts, and supplies		9,133
Repairs and maintenance - building		88
Repairs and maintenance - equipment		18,187
Repairs and maintenance - vehicles		3,183
Repairs and maintenance - system		9,131
Salaries and wages		87,978
State retirement		4,565
Uniforms		1,648
Utilities		75,144
Water testing and analysis		33,987
Total Supply and Distribution Expenses		448,313
Total Expenditures		470,044
Operating income		166,808
Nonoperating Revenues (Expenses)		
Capital grants		98,386
Investment earnings		5,434
Gain on sale of assets		1,625
Total Nonoperating Revenues (Expenses)		105,445
Net change in net assets		272,253
Net assets - beginning of year		3,431,259
Net assets - end of year	$	3,703,512

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

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Sewer Department
Cash Flows From Operating Activities	
Receipts from customers and users	$ 632,837
Payments to employees and related expenses	(112,412)
Payments to suppliers	(190,221)
Payments to (from) City	17,778
Net cash provided by operating activities	347,982
Cash Flows From Capital and Related Financing Activities	
Proceeds from capital grants	98,386
Proceeds from sale of capital assets	1,625
Payments for capital acquisitions	(42,994)
Net cash provided by capital and related financing activities	57,017
Cash Flows From Investing Activities	
Interest received	5,434
Net cash provided by investing activities	5,434
Net increase in cash equivalents	410,433
Cash and equivalents, beginning of year (restricted and nonrestricted)	545,771
Cash and equivalents, end of year (restricted and nonrestricted)	$ 956,204

(Continued)

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

CITY OF COLUMBIANA, ALABAMA

STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Sewer Department
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ 166,808
Adjustments to reconcile net income to net cash provided by operating activities:	
Change in allowance for bad debts	709
Depreciation	164,468
Changes in assets and liabilities:	
(Increase) decrease:	
Accounts receivable	(4,724)
Interfund receivable	18,487
Prepaid expenses	(113)
Increase (decrease):	
Accounts payable	4,736
Accrued wages	(3,295)
Accrued compensated absences	906
Total adjustments	181,174
Net cash provided by operating activities	$ 347,982

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Organization

The City of Columbiana, Alabama (the City) was incorporated on August 10, 1853. The City operates under a Mayor-Council form of government and provides the following services: public safety (police and fire), highway and streets, sanitation, park and recreation, public improvements, planning and zoning, general and administrative, water and sewer services.

Financial Reporting Entity

Generally accepted accounting standards (GAAP) require that the financial reporting entity consist of the primary government and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting the following criteria: 1) the primary government appoints a voting majority of the organization's governing body and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government or 2) the potential component unit is fiscally dependent on the primary government. A potential component unit is considered fiscally dependent if it does not have authority to do all three of the following: 1) determine its own budget without another government having the authority to approve and modify the budget, 2) levy taxes or set rates or charges without approval by another government, and 3) issue bonded debt without approval by another government.

Component units are reported in the City's basic financial statements are shown in the following table:

Discretely Presented Component Units	Brief Description of Activities and Relationship to the City
City of Columbiana Water Board	The Water Board is a public board incorporated under the laws of Alabama and now existing under the provisions of the Enabling Law 11-50-230 et. seq. of the Code of Alabama 1975, as amended. The Board was incorporated pursuant to the authority granted by the governing body of the City of Columbiana, Alabama. Under its certificate of incorporation, the Board has corporate power to acquire and operate the water system and to issue bonds payable from the revenues derived there from for any of its corporate purposes.

Separate financial statements for the Columbiana Water Board can be obtained at the Water Board's office at 50 Water Works Street, Columbiana, Alabama.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements

The basic financial statements of the City are composed of the following:

Government-wide financial statements
Fund financial statements
Notes to the financial statements

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units (if applicable). Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented if applicable. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or eliminations of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments, if applicable. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use tax, property taxes, franchise taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

The City does not currently employ an indirect cost allocation system.

Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

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

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

Court Fund - to account for financial resources of the activities associated with collecting revenues from traffic fines in accordance with the laws of the State of Alabama.

Proprietary Funds

The City reports the following major proprietary funds:

Sewer Department - accounts for the activities of the City's sewer utilities services.

Other Fund Types

The City reports the following additional fund types:

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes.

The City at September 30, 2011 had no internal service funds or agency funds.

Cash and Equivalents

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

In its 2000 Regular Session, the Alabama State Legislature enacted the Security for Alabama Funds Enhancement (SAFE) Program (Title 41, Chapter 14A, Code of Alabama 1975, as amended) that changes the way all Alabama public deposits are collateralized. Public deposits include the funds of any covered public entity or covered public official placed in deposit in a qualified depository, including time and demand deposit accounts and certificates of deposit, but excluding bonds, notes, money market mutual funds, repurchase agreements, and similar investment instruments. Covered public entities include the state and its political subdivisions. In the past, the bank pledged collateral directly to each public entity. Under SAFE, which required mandatory participation, each qualified public depository (QPD) is required to hold collateral for all of its public deposits on a pooled basis in a custody account (SAFE Custody Account) established for the State Treasurer as SAFE administrator. In the unlikely even 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.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Equivalents (Continued)

At September 30, 2011 the carrying amount of the City of Columbiana, Alabama's deposits (cash and certificates of deposits) was $3,724,906 and the bank balance was $3,841,446. Of the bank balance $1,102,031 was covered by either federal depository insurance or federal savings and loan insurance. Deposits with Alabama financial institutions that are in excess of FDIC insurance are secured under the Security for Alabama Funds Enhancement Act (SAFE Program). Alabama public funds are protected through a collateral pool administered by the Alabama State Treasury. The City had $2,708,563 of Category 1 deposits covered by the SAFE Program at September 30, 2011 and $30,852 of Category 3 unsecured and uncollateralized cash, which was deposited into money market accounts.

Investments

The City's investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The City is allowed to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Alabama or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Alabama or the United States; (4) certificates of deposits issued by state and national banks domiciled in Alabama that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or secured by obligations mentioned above. The City's investments consist of certificates of deposits, Federal National Mortgage Association Certificates, Governmental National Mortgage Association Debentures, and Federal Home Loan Mortgage Corporation debentures. These securities are held by Sterne, Agee, and Leach, Inc. as agent for the City.

Inventory

Inventory consists of primarily supplies valued at the lower of cost (first-in, first-out) or market value. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenditures on acquisition and significant inventories on hand at year-end are reflected as assets.

Prepaid Items

Payments made to vendors for goods or services that will benefit beyond September 30, 2011 are reported as prepaid items. These prepayments are recognized as expenses ratably over the related underlying period.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Certain assets of the City have been restricted due to state regulations, debt service obligations, and warrant agreements. These assets consist of cash, investments, and accounts receivable as follows:

General fund - Cash - debt service	$ 181,544
General fund - Money market - sale of gas department	30,852
General fund - Investments - sale of gas department	3,297,038
Special revenue - Cash - various	761,749
Total Restricted Assets	$ 4,271,183

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.

Capital Assets, Depreciation, and Amortization

Capital assets, which include property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $500 and have an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Capital assets are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the statement of net assets. The range of estimated useful lives used for depreciation purposes for each capital asset class are as follows:

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets, Depreciation, and Amortization (Continued)

Automotive and automotive equipment	5-7 years
Building and building improvements	29-50 years
Infrastructure	40-60 years
Land improvements	15-20 years
Machinery and equipment	7-10 years
Office furniture and equipment	5-7 years
Park and recreation equipment	5-10 years

Compensated Absences

For vacation and other compensated absences with similar characteristics, Governmental Accounting Standards Board Statement No. 16 requires the accrual of a liability as the benefits are earned by the employees if both of the following conditions are met:

a. The employees' right to receive compensation is attributable to services already rendered.
b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

Full-time employees are provided vacation (annual) leave as follows:

After one year employment	40 hours
After three years employment	80 hours
After seven years employment	120 hours

Annual leave must be taken by the anniversary date of employment or forfeited. It cannot be accumulated and an employee cannot be paid for annual leave in lieu of time off. Unused leave is paid upon termination of employment. At September 30, 2011 the City has recorded a liability of $25,508 for accrued vacation leave.

Sick leave is earned by full time employees beginning on the first day of the month after their employment date at a rate of 8 hours per month. Sick leave can be accumulated up to 720 hours. Upon termination, sick leave is canceled and no compensation is paid. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on these financial statements.

Compensatory time may be earned by eligible employees at the applicable rate and accumulated up to 40 hours.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

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

Net Assets

In accordance with GASB Statement No. 34, the City classified net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. The classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets 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 improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted net assets - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes any long-term amount of interfund loans.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by laws through constitutional provisions or enabling legislation.

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party, such as citizens, public interest groups, or the judiciary, to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes the amounts that can be used only for the specific purposes imposed by formal action (ordinances or resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classifications may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classifications are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or not committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amount had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used. (Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

During the normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements reflect these transactions as transfers.

Interfund Balances

During the course of operation, transactions occur which result in amounts owed to a particular fund by another fund, other than for goods provided or services rendered. These receivables and payables are due within a year and are classified as "Interfund receivable/Interfund payable".

Budgets and Budgetary Accounting

An operating budget is adopted each year for the general fund.

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

a. The Finance Committee submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

b. The budget is legally enacted through passage of an ordinance.

c. Formal budgetary integration is employed as a management control device during the year for the General Fund.

d. Budgets are adopted on the cash basis of accounting.

e. Excess appropriations at the end of the fiscal year lapse.

Budgeted amounts reported in the financial statements are as originally adopted, or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were approved. Budgets are not prepared or adopted in conformance with generally accepted accounting principles. Budgeted expenditures/expenses include encumbrances.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Use of Estimates

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

Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent January 1, of the year. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectable taxes is provided.

In accordance with current professional standards as promulgated by *Governmental Accounting Standards Board* (GASB-33), the City reports property taxes when an enforceable claim has arisen or when resources are received, whichever is first. Consequently, property taxes in the amount of $300,221 received after September 30, 2011 has been recorded as deferred revenue in the fund financial statements.

Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

"Total fund balances" of the City's governmental funds of $6,272,837 differs from "net assets" of governmental activities of $8,426,501 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The following illustrates the differences:

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets (Continued)

Capital Related Items - When capital assets (property, plant, equipment, etc.) that are used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets as assets of the City as a whole.

Governmental capital assets	$ 10,849,861
Less: Depreciation expense to date	(4,904,807)
	$ 5,945,054

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

Notes payable	$ 521,747
Warrants payable	3,720,000
Accrued compensated absences	22,129
Total	$ 4,263,876

Other long-term receivables - Certain receivables are not available to pay current period expenditures and, therefore, are not reported in the governmental funds.

Property tax receivable	$ 300,221
Court fines	256,535
Allowance for doubtful accounts - court fines	(84,270)
Total	$ 472,486

Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances the Government-wide Statement of Activities

The "net change in fund balances" for governmental funds of $87,264 differs from the "change in net assets" for governmental activities of $13,761 reported in the statement of activities. The differences primarily arise from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The following illustrates the difference:

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances the Government-wide Statement of Activities (Continued)

Capital Related Items - When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	$ 112,152
Depreciation expense	(378,040)
	$ (265,888)

Long-term Debt Transactions - Repayment of long-term debt, including notes payable and warrants payable, consumes the current financial resources of governmental funds. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Principal payments on notes payable	$ 101,913
Principal payments on warrants payable	110,000
Total	$ 211,913

Other Items - Certain income that is not available to pay current period expenditures and, therefore is not reported as revenue in the governmental funds.

Property tax not meeting available criteria	$ (14,313)
Court fines not meeting available criteria	(5,530)
Total	$ (19,843)

Other Items (Continued) - Compensated absences are not payable with current period resources and, therefore not reported as expenses in the governmental funds.

Change in accrued compensated absences	$ 315

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2: CASH AND INVESTMENTS

As of September 30, 2011 the City had the following cash and investments:

Cash and cash equivalents

Cash and cash equivalents	$ 3,174,906
Certificates of deposit	550,000
Total Cash and Cash Equivalents	$ 3,724,906

Investments		Standard & Poor's Bond Rating	Fair Market Value
U.S. Government Agencies:			
Federal National Mortgage Association	Matures 12/01/2025	AA+	$ 102,915
Federal Home Loan Mortgage Corporation	Matures 03/06/2037	AA+	774,738
Government National Mortgage Association	Matures 06/20/2041	AA+	150,000
Government National Mortgage Association	Matures 09/20/2039	AA+	100,985
Government National Mortgage Association	Matures 10/20/2039	AA+	153,753
Government National Mortgage Association	Matures 09/20/2040	AA+	147,209
Government National Mortgage Association	Matures 08/20/2039	AA+	125,239
Government National Mortgage Association	Matures 12/20/2032	AA+	155,799
Government National Mortgage Association	Matures 10/20/2032	AA+	575,539
Federal Home Loan Mortgage Company	Mautes 11/15/2033	AA+	225,791
Federal National Mortgage Association	Matures 03/25/2033	AA+	703,819
Long-Term Certificate of Deposits:			
Sallie Mae Bank	Matures 05/21/2012	FDIC	81,251
Total Investments			$ 3,297,038

(Continued)

NOTE 2: CASH AND INVESTMENTS (Continued)

Credit Risk

The City's investment policy allows investment in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Alabama or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Alabama or the United States; (4) certificates of deposits issued by state and national banks domiciled in Alabama that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or secured by obligations mentioned above. The City's investments consist of certificates of deposits and Federal National Mortgage Association Certificates and Federal Home Loan Mortgage Corporation debentures. Investments in U.S. government securities must be rated by Standard and Poor's or Moody's Investment Services as one of their four highest rated categories.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration Credit Risk

The City does not have a formal investment policy that limits the amount invested into certain types of investments as a means of managing its exposure to losses arising from over concentration in certain types of investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In regards to investments, the City does not have a deposit policy for custodial credit risk. As of September 30, 2011, the City had $30,852 in cash and cash equivalents, which was held in money market accounts and $3,297,038 held in investments exposed to custodial credit risk as Category 3 unsecured and uncollateralized deposits.

NOTE 3: ACCOUNTS RECEIVABLE

The following details the descriptions and amounts of various accounts receivable for the City on the statement of net assets:

Governmental Activities:

	Amount	Less Allowance for Doubtful Accounts	Total
Accounts receivable - taxes	$ 436,567	$	$ 436,567
Accounts receivable - sanitation services	67,086	(9,982)	57,104
Accounts receivable - court fines	278,324	(84,270)	194,054
Accounts receivable - library fines	95		95
Accounts receivable - grants	18,082		18,082
Total Accounts Receivable	$ 800,154	$ (94,252)	$ 705,902

Business-Type Activities:

	Sewer
Accounts receivable - customer	$ 113,239
Allowance for doubtful accounts	(13,367)
Accounts receivable - customers net of allowance	$ 99,872

NOTE 4: CAPITAL ASSETS

A summary of changes in capital assets follows:

Governmental Activities	Balance 10/01/10	Additions	Deletions	Balance 9/30/11
Capital assets, not being depreciated:				
Land	$ 1,148,374	$	$	$ 1,148,374
Construction in progress	171,520	3,990		175,510
Total capital assets, not being depreciated	1,319,894	3,990	0	1,323,884
Capital assets, being depreciated				
Autos and trucks	1,498,231	69,084		1,567,315
Automotive equipment	141,147			141,147
Buildings and building improvements	1,490,370			1,490,370
Computer equipment	154,347	11,730		166,077
Infrastructure	3,197,102			3,197,102
Land improvements	7,440			7,440
Machinery and equipment	1,021,950	2,138		1,024,088
Office furniture and equipment	151,508			151,508
Park improvements	1,624,289	25,210		1,649,499
Park and recreation equipment	131,432			131,432
Total capital assets being depreciated	9,417,816	108,162	0	9,525,978
Less accumulated depreciation for:				
Autos and trucks	1,262,932	64,120		1,327,052
Automotive equipment	80,485	15,915		96,400
Buildings and building improvements	741,026	36,838		777,864
Computer equipment	112,976	12,541		125,517
Infrastructure	425,314	79,928		505,242
Land improvements	5,704	496		6,200
Machinery and equipment	840,895	52,826		893,721
Office furniture and equipment	142,342	4,069		146,411
Park improvements	826,442	102,157		928,599
Park and recreation equipment	88,652	9,150		97,802
Total accumulated depreciation	4,526,768	378,040	0	4,904,808

(Continued)

NOTE 4: CAPITAL ASSETS (Continued)

Governmental Activities (Continued)	Balance 10/01/10	Additions	Deletions	Balance 9/30/11
Total capital assets, being depreciated net	4,891,048	(269,878)	0	4,621,170
Governmental activities capital assets, net	$ 6,210,942	$ (265,888)	$ 0	$ 5,945,054

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Beautification	$ 483
Cemetery	3,161
Court	3,071
Fire and rescue	73,214
General government	15,458
Library	3,332
Park and recreation	122,418
Police department	47,751
Sanitation	23,416
Senior center	1,565
Street	84,171
	$ 378,040

(Continued)

NOTE 4: CAPITAL ASSETS (Continued)

Business-Type Activities	Balance 10/01/10	Additions	Deletions	Balance 9/30/11
Sewer Department				
Capital assets, being depreciated				
Autos and trucks	27,690	23,094		50,784
Machinery and equipment	165,776			165,776
Office furniture and equipment	11,561			11,561
Sewer system and lines	4,922,278	19,900		4,942,178
Total capital assets being depreciated	5,127,305	42,994	0	5,170,299
Less accumulated depreciation for:				
Autos and trucks	23,851	3,175		27,026
Machinery and equipment	135,385	5,474		140,859
Office furniture and equipment	11,130	259		11,389
Sewer system and lines	2,310,468	155,560		2,466,028
Total accumulated depreciation	2,480,834	164,468	0	2,645,302
Total capital assets, being depreciated net	2,646,471	(121,474)	0	2,524,997
Business-Type activities capital assets, net	$ 2,646,471	$ (121,474)	$ 0	$ 2,524,997

NOTE 5: BOND ISSUANCE COSTS

During the year ended September 30, 2002, bond issuance costs in the amount of $185,825 were incurred by the City. The bond issuance cost is amortized using the straight line method over a 30 year period. Amortization expense for the year ended September 30, 2011 was $6,195.

During the year ended September 30, 2007, bond issuance costs in the amount of $99,183 were incurred by the City. The bond issuance cost is amortized using the straight line method over a 30 year period. Amortization expense for the year ended September 30, 2011 was $3,967.

NOTE 6: LONG-TERM NOTES PAYABLE

	Balance 10/01/10	Additions	Reductions	Balance 9/30/11	Due Within One Year
Note payable to M & F Bank principal sum of $697,274 with a 3.25% interest rate. The note is payable in 77 installments of $10,045.00, with the final installment due May 2016. The note is secured by full faith and credit of the City.	$ 623,660	$	$ (101,913)	$ 521,747	$ 105,627
Less: current maturities				(105,627)	
				$ 416,120	

Maturities of notes payable are as follows:

Year Ended September 30,	Principal	Interest	Totals
2012	$ 105,627	$ 15,393	$ 121,020
2013	109,112	11,908	121,020
2014	112,711	8,309	121,020
2015	116,430	4,590	121,020
2016	77,867	934	78,801
	$ 521,747	$ 41,134	$ 562,881

NOTE 7: GENERAL OBLIGATION WARRANTS

	Balance 10/01/10	Additions	Reductions	Balance 9/30/11	Due Within One Year
General Obligation Warrants, Series 2007, payable annually on February 1, with interest payments on February 1, and August 1, maturing on February 1, 2032. The bond is secured by the full faith and credit of the City.	$ 3,190,000	$	$ (15,000)	$ 3,175,000	$ 15,000
General Obligation Warrants, Series 2002, payable annually on February 1, with interest payments on February 1, and August 1, maturing on February 1, 2016. The bond is secured by the full faith and credit of the City.	640,000		(95,000)	545,000	100,000
	$ 3,830,000	$ 0	$ (110,000)	3,720,000	$ 115,000
		Less: current maturities		(115,000)	
				$ 3,605,000	

(Continued)

NOTE 7: GENERAL OBLIGATION WARRANTS (Continued)

Maturities of general obligation warrants payable are as follows:

Year Ended September 30,	Principal	Interest	Totals
2012	115,000	149,481	264,481
2013	120,000	144,464	264,464
2014	125,000	139,126	264,126
2015	130,000	133,473	263,473
2016	140,000	127,395	267,395
2017-2021	770,000	545,935	1,315,935
2022-2026	930,000	377,125	1,307,125
2027-2031	1,135,000	170,872	1,305,872
2032	255,000	5,259	260,259
	$ 3,720,000	$ 1,793,130	$ 5,513,130

2007 General Obligation Bonds

On March 1, 2007, the City issued $4,185,000 in General Obligation Bonds with interest rates ranging from 3.700% to 4.125% to advance refund $2,980,000 of outstanding 2002 Series bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $149,156. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2012 using the straight-line method. Amortization of $29,831 was recognized in 2011 and is reported in interest expense for the period. As a result of the current refunding, the Board decreased its total debt service requirements in relation to the Series 2002 Bonds in the amount of $666,068 which results in an economic gain of $356,120 (difference between the present value of the debt service payments on the old and new debt).

NOTE 8: PENSION PLAN

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

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

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, City's, and quasi-public organizations. The responsibility for general administrative and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-of-Living-Adjustments (COLAs) granted to retirees.

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

Information concerning covered salaries, actuarially determined contribution requirements and amounts contributed are as follows:

Salaries	
Covered salaries - 5% Employees	$ 627,552
Covered salaries - 6% Employees	339,220
Total Covered Salaries	$ 966,772
Total Salaries	$ 1,296,047

(Continued)

NOTE 8: PENSION PLAN (Continued)

Contributions

City - 5% Employees	$ 31,817
City - 6% Employees	17,198
Total City Contributions	$ 49,015
Employees - 5% Employees	$ 31,378
Employees - 6% Employees	20,353
Total Employee Contributions	$ 51,731

Actuarially Determined Contribution Rates

City - 5% Employees	5.07 %
City - 6% Employees	5.07 %
Employees - 5% Employees	5.00 %
Employees - 6% Employees	6.00 %

Contribution as a Percentage of Covered Salaries

City - 5% Employees	5.07 %
City - 6% Employees	5.07 %
Employees - 5% Employees	5.00 %
Employees - 6% Employees	6.00 %

(Continued)

NOTE 8: PENSION PLAN (Continued)

The pension benefit obligation is the actuarial present value of credited projected benefits, a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases, estimated to be payable in the future as a result of employee service to date. At September 30, 2010, the pension benefit obligation and net assets available for benefit are as follows:

Pension benefit obligation	$ 2,833,770
Net assets available for benefits	2,341,529
Net Pension Benefit Obligation	$ 492,241

Market Value of Assets as of September 30, 2010 was $1,953,323.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/10	$ 2,341,529	$ 2,833,770	$ (492,241)	$ 922,911	53.3%
9/30/09	$ 2,372,660	$ 2,677,533	$ (304,873)	$ 964,104	31.6%
9/30/08	$ 2,357,682	$ 2,512,846	$ (155,164)	$ 1,077,270	14.4%

Actuarial Information

Valuation date	9/30/2010
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.61 - 7.75%
Includes inflation at	4.50%
Cost-of-living adjustments	None

(Continued)

NOTE 8: PENSION PLAN (Continued)

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/10	$ 47,451	100%	$ 0
9/30/09	$ 67,217	100%	$ 0
9/30/08	$ 82,908	100%	$ 0

NOTE 9: CONTINGENT LIABILITIES

Risk Financing

The City of Columbiana, Alabama is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks have been covered by commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage in the prior fiscal year.

Federal Grants

In the normal course of operations, the City receives funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 10: SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash and Equivalents

Current Assets - cash - Sewer Department	$ 956,204
Total Cash and Equivalents Per Combined Statement of Cash Flows	$ 956,204

Interest Paid

Total interest paid on debt	$ 0
Total interest expensed	$ 0
Total interest capitalized	$ 0

NOTE 11: LIBRARY STATE AID

During the fiscal year ended September 30, 2011, the City received grants from the State Public Library System which are reported as follows:

Receipts:	
Reported in grant program revenues	$ 3,071
Expenditures:	
Reported in Library expenditures books, magazines, audio tapes	3,071
Net activity	$ 0

NOTE 12: SCHEDULE OF INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of receivables/payables between the various individual funds during the year ended September 30, 2011:

Due to Fund	Due from Fund	Purpose	Amount
General Fund	Debt Service Fund	The General Fund paid expenses on behalf of Debt Service fund.	$ 940
Sewer Department	General Fund	The amount due from General Fund to the Sewer Department is for the 1% sales tax collections.	137,852
Water Board - Component Unit	General Fund	The utility account was previously used for all collections. The balance due to Water Board is from previous years under allocation.	19,653
General Fund	Cemetery	The Cemetery Fund owes General Fund for expenses paid on its behalf.	105
General Fund	Court	The General Fund paid expenses on behalf of the Court Fund.	13,671
Total Interfund Receivables/Payables			$ 172,221

NOTE 13: SCHEDULE OF TRANSFERS

The following is a schedule of transfers between the various individual funds during the year ended September 30, 2011:

Transfer From Fund	Transfer to Fund	Purpose of Transfers	Amount
General Fund	Debt Service - General Fund	The General Fund makes monthly transfers to the Debt Service Fund to make the monthly required debt payments.	$ 387,333
Motor Fuel	4 Cents Gas Tax	The Motor Fuel Fund made a one time transfer to the 4 Cents Gas Tax to help pay for road repairs.	25,718
General Fund	Library Board	The General Fund makes transfers as needed to the Library Board to cover operational costs.	188,579
Total Transfers			$ 601,630

NOTE 14: SIGNIFICANT COMMITMENTS

Main Street Sidewalk and Lighting Project

The City contracted with Triple J. Construction, LLC for construction of the main street sidewalk and lighting project. The contract amount was for $193,932. As of September 30, 2011 the City had incurred costs of $-0-, leaving a remaining commitment of $193,932.

The City contracted with Gresham Smith and Partners to provide engineering services in relation to the main street sidewalk and lighting project. The contract amount was for $52,924. As of September 30, 2011 the City had incurred costs of $261, leaving a remaining commitment of $52,663.

NOTE 15: SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 14, 2012, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in financial statements for the year ended September 30, 2011. No items requiring recording or disclosure were noted.

NOTE 16: THREATENED OR PENDING LITIGATION

The City of Columbiana has been sued by R. P. Bradley Construction, Inc. in connection with the Nelson Walker Road sewer extension project. The pending legal action against the City was filed on August 3, 2009 (Civil Action No. CV-2009-900555.00/Circuit Court of Shelby County, Alabama). The City has filed its answer and a counter claim against R. P. Bradley Construction, Inc. as well as a third party action against Gresham Smith and Partners, Birmingham, Alabama, the project engineer. All claims pending in this action involve alleged damages sustained by various parties because of alleged breach of contract. The City's position is being vigorously contested. There is no insurance coverage involved. An effort will be made to seek an out-of-court settlement between all parties. The City does not see the likelihood of an unfavorable outcome.

NOTE 17: SENIOR CENTER OPERATIONS:

The City entered into a cooperative working relationship with the Alabama Middle Area Agency on Aging (M4A) to enhance the provision of nutrition and other services to eligible seniors in the City of Columbiana. Services are provided at no cost to the participants; however, donations are accepted. The following schedule summarizes the sources of funds and expenses of the Senior Center operations for the year ended September 30, 2011.

Sources of Funds		
Salary reimbursements from M4A	$	9,397
Donations from participants		4,728
Total funds available	$	14,125
Expenditures		
Wages and salaries	$	18,348
Payroll taxes and employee benefits		2,415
Operational grant expenditures		1,490
Janitorial, supplies, and repairs		2,405
Office expenses		293
Utilities		5,564
Miscellaneous		3,297
Insurance		130
Donations transmitted to M4A		4,292
Total expenditures	$	38,234

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COLUMBIANA, ALABAMA

BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS:
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Donations	$ 35,497	$ 39,297	$ 42,307	$ 3,010
Fines and charges			730	730
Fire department income	1,920	1,920	3,952	2,032
Grant income		46,394	56,315	9,921
Investment income	135,500	133,250	166,648	33,398
Licenses and permits	535,500	535,500	566,091	30,591
Miscellaneous	10,400	10,400	11,824	1,424
Park and recreation fees	16,000	16,000	8,339	(7,661)
Sanitation services	255,100	255,100	261,159	6,059
Tax revenue	1,738,500	1,741,104	1,841,367	100,263
Total Revenues	2,728,417	2,778,965	2,958,732	179,767
Expenditures				
Beautification	5,000	5,000	5,116	(116)
Capital expenditures	80,156	76,156	104,218	(28,062)
Debt retirement	213,636	213,636	211,913	1,723
Donations and liberty day	40,000	45,082	44,582	500
Fire and rescue	219,049	219,049	212,494	6,555
General government	484,865	484,865	437,475	47,390
Interest on long-term debt	177,384	165,000	202,940	(37,940)
Park and recreation and senior center	161,217	150,462	144,677	5,785
Police	705,926	698,789	729,812	(31,023)
Sanitation	219,751	221,917	194,521	27,396
Street	361,500	361,500	358,508	2,992
Total Expenditures	2,668,484	2,641,456	2,646,256	(4,800)
Excess of Revenues Over (Under) Expenditures	59,933	137,509	312,476	174,967
Other Financing Sources (Uses)				
Gain on sale of assets			2,907	2,907
Operating transfers in			387,333	387,333
Operating transfers out			(575,912)	(575,912)
Total Other Financing Sources (Uses)	0	0	(185,672)	(185,672)
Excess of Revenue and Other Sources over (under) Expenditures and Other Uses	$ 59,933	$ 137,509	126,804	$ (10,705)
Fund balance, beginning (Non-GAAP budgetary basis)			5,391,895	
Fund balance, ending (Non-GAAP budgetary basis)			5,518,699	
Adjustments to Generally Accepted Accounting Principles				
Unrealized gain on investments			(2,908)	
Revenue and transfer accruals			17,288	
Expenditure and transfer accruals			44,852	
Fund balance, ending (GAAP basis)			$ 5,577,931	

NOTE: The City is not legally required to adopt a budget for the Court or Sewer Funds.

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

SUPPLEMENTARY INFORMATION

CITY OF COLUMBIANA, ALABAMA

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	Four Cent Gas Tax	Motor Fuel Tax	7 Cents Gas Tax
ASSETS			
Assets			
Accounts receivable - taxes	$ 706	$ 135	$ 779
Accounts receivable - customers			
Prepaid expense			
Restricted Assets			
Cash	4,326	20,294	49,079
Total Assets	$ 5,032	$ 20,429	$ 49,858
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 5,000	$ 20,400	$ 16,109
Accrued wages			
Interfund payable			
Total Liabilities	5,000	20,400	16,109
Fund Balances			
Restricted for public services	32	29	33,749
Total Liabilities and Fund Equity	$ 5,032	$ 20,429	$ 49,858

See independent auditor's report.

CITY OF COLUMBIANA, ALABAMA

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	State Capital Improvements	Library	Cemetery	Total Nonmajor Governmental Funds
	$	$	$	$ 1,620
		95		95
		692		692
	139,792	50,973	208,981	473,445
	$ 139,792	$ 51,760	$ 208,981	$ 475,852
	$	$ 886	$ 10,389	$ 52,784
		2,960		2,960
			105	105
	0	3,846	10,494	55,849
	139,792	47,914	198,487	420,003
	$ 139,792	$ 51,760	$ 208,981	$ 475,852

See independent auditor's report.

CITY OF COLUMBIANA, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Four Cent Gas Tax	Motor Fuel Tax	7 Cents Gas Tax
Revenues			
Donations	$	$	$
Fines and charges			
Grant income			
Investment income			
Lot sales and openings/closings			
Miscellaneous			
Shared taxes	7,935	1,449	8,715
Total Revenue	7,935	1,449	8,715
Expenditures			
Cemetery			
Library			
Street	80,759	20,400	16,109
Total Expenditures	80,759	20,400	16,109
Other Financing Sources (Uses)			
Operating transfers in	25,718		
Operating transfers out		(25,718)	
Total Other Financing Sources (Uses)	25,718	(25,718)	0
Net change in fund balances	(47,106)	(44,669)	(7,394)
Fund Balance, Beginning of Year	47,138	44,698	41,143
Fund Balance, End of Year	$ 32	$ 29	$ 33,749

See independent auditor's report.

CITY OF COLUMBIANA, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2011

State Capital Improvements	Library	Cemetery	Total Nonmajor Governmental Funds
$	$ 1,416	$ 100	$ 1,516
	6,410		6,410
	3,071		3,071
1,056	86	1,698	2,840
		21,500	21,500
	4,970		4,970
23,067			41,166
24,123	15,953	23,298	81,473
		10,788	10,788
	195,309		195,309
			117,268
0	195,309	10,788	323,365
	188,579		214,297
			(25,718)
0	188,579	0	188,579
24,123	9,223	12,510	(53,313)
115,669	38,691	185,977	473,316
$ 139,792	$ 47,914	$ 198,487	$ 420,003

See independent auditor's report.