

**CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
SEPTEMBER 30, 2015**

**LeCroy, Hunter & Company, P.C.
Certified Public Accountants
NORTHPORT, ALABAMA**

CITY OF DEMOPOLIS, ALABAMA
TABLE OF CONTENTS
SEPTEMBER 30, 2015

DESCRIPTION	PAGE NO.
Independent Auditor's Report.....	1-3
Management's Discussion and Analysis.....	4-11
 <u>BASIC FINANCIAL STATEMENTS</u>	
Statement of Net Position as of September 30, 2015.....	12
Statement of Activities for the year ended September 30, 2015.....	13
Governmental Funds Balance Sheet as of September 30, 2015.....	14
Reconciliation of the Statement of Net Position to the Governmental Funds Balance Sheet as of September 30, 2015.....	15
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for the Year Ended September 30, 2015.....	16
Reconciliation of the Statement of Activities to the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for the Year Ended September 30, 2015.....	17
Statement of Fiduciary Net Assets as of September 30, 2015.....	18
Proprietary Fund Statement of Net Assets as of September 30, 2015.....	19
Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended September 30, 2015.....	20
Proprietary Fund Statement of Cash Flows for the Year Ended September 30, 2015.....	21
Notes to Financial Statements.....	22-42
 <u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Changes in Net Pension Liability.....	43
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget & Actual General Fund for the year ended September 30, 2015.....	44
Notes to Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget & Actual General Fund for the year ended September 30, 2015.....	45
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	46-47

LeCroy, Hunter & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

5710 WATERMELON ROAD, SUITE 400
NORTHPORT, ALABAMA 35473
P.O. BOX 462 NORTHPORT, AL 35476-0462
(205) 349-3840 FAX: (205) 349-3848

RICHARD D. LECROY, C.P.A.
KELLIE HUNTER-SUTE, C.P.A.

MATTHEW W. RICHARDSON, C.P.A.
R. COURTNEY LECROY, C.P.A.
W. RYAN ALEXANDER, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ALABAMA SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Mayor and City Council
City of Demopolis
Demopolis, Alabama 36732

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City Demopolis, Alabama, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

Due to the inadequate accounting records for the years prior to 2003, we were unable to form an opinion regarding the amounts at which capital assets and accumulated depreciation are recorded in the accompanying statement of net assets at September 30, 2015, in the amounts of \$32,406,240 and \$11,598,922, respectively, or the amount of the depreciation expense included in the Statement of Activities for the year then ended in the amount of \$712,549.

The financial statements referred to above include only the primary government of the City of Demopolis,

Alabama, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Demopolis, Alabama, as of September 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with accounting principles generally accepted in the United States of America, the City of Demopolis, Alabama, has issued separate reporting entity financial statements.

Qualified Opinion

In our opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business activities, each major fund and the aggregate remaining fund information for the City of Demopolis, Alabama, as of September 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Demopolis, Alabama, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note A to the financial statements, in 2015, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–11 and 44–45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Demopolis, Alabama's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. 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 schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic

financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

LeCroy, Hunter & Company, P.C.

LeCroy, Hunter & Company, P.C.
Certified Public Accountants

June 16, 2016

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

This section of the City of Demopolis' annual financial report presents management's discussion and analysis (MD&A) of the City's financial activities for the year ended September 30, 2015. Please use this information in conjunction with the information furnished in the City's financial statements.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34; *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and prior year is required to be presented in the MD&A and is included in this report.

Financial Highlights

- Assets and deferred outflows of resources of the City of Demopolis exceeded its liabilities and deferred inflows of resources at September 30, 2015 by \$13,183,224. Of this amount \$2,230,525 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2015 the City's total net position increased \$947,436.
- Total fund balance of governmental funds at September 30, 2015 was \$5,113,191 compared to a total governmental fund balance at September 30, 2014 of \$4,210,545.
- The City has \$13,332,456 in long term debt, down from \$13,570,409 (as adjusted) the previous year. The debt consists of the Series 2007, Series 2012A, Series 2012B and Series 2015 General Obligation Warrants, accrued compensated absences and net pension liability. The City issued the Series 2015 General Obligation Warrants to partially refund the Series 2007 Warrants and provide funding for anticipated road improvements.
- The City completed design and infrastructure improvements at the City's airport and other improvements to the city's infrastructure.

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 are comprised of four components: the government-wide financial statements, fund financial statements, notes to the financial statements, and required supplementary information.

Government- Wide Financial Statements

The *government-wide financial statements* report information about all of the operations of the City in a manner similar to those used by private sector businesses.

The government-wide financial statements are divided into two categories:

The *Statement of Net Position* presents all of the City's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position 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 government's assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This accrual basis of accounting requires that revenues are reported when they are earned and expenses are reported as soon as liabilities are incurred. Items such as uncollected taxes, unpaid vendor invoices for items received in the previous year, and earned but unused vacation leave will be included in the statement of activities as revenues and expenses, even though the cash associated with these items will not yet be received or distributed.

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Demopolis, 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 of Demopolis can be divided into three categories: Governmental funds, proprietary funds and fiduciary funds.

Governmental 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 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 the City'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. The governmental fund balance sheet displays a reconciliation to facilitate this comparison between governmental funds. The reconciliation between the governmental fund statement of revenues, expenditures and changes in fund balances and governmental activities is provided on a separate schedule.

The City of Demopolis maintains 22 individual governmental funds for financial reporting purposes. 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 and the Debt Service Fund, each of which are considered to be major funds. Data from the other funds is provided in the column labeled Other Governmental Funds.

Proprietary Funds: When the City charges customers for the services it provides, these services are generally reported in proprietary funds. *Proprietary funds* are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The City operates a municipal golf course and merchandise shop called *The Ravine Golf Course*, and accounts for its activities in a proprietary fund.

Fiduciary Funds: *The Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. The Fiduciary funds are not reflected in the government-wide financial statements because the resources of the fund are not available to support the City of Demopolis' own programs. The funds account for bond deposits for the City's municipal court and funds confiscated during arrest pending trial and/or disposition.

Notes to the Financial Statements

The notes provide additional information that is necessary to fully understand the data presented in the government-wide and fund financial statements.

Required Supplementary Information

This section has information that further explains and supports the information in the financial statements by including information regarding changes in net pension liability, employer retirement contribution information, and a comparison of the City's budget data for the year.

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

FINANCIAL ANALYSIS OF THE CITY OF DEMOPOLIS AS A WHOLE

A comparison of the City of Demopolis's Assets, Liabilities and Net Position, Fiscal Year 2015 as compared to 2014 (in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2015	2014 (Restated)	2015	2014	2015	2014 (Restated)
Assets						
Current and Other Assets					\$	\$
	\$ 5,512	\$ 5,599	\$ 20	\$ 21	5,532	5,620
Restricted Assets	151	5			151	5
Capital Assets						
	<u>20,807</u>	<u>21,080</u>	<u>5</u>	<u>7</u>	<u>20,812</u>	<u>21,087</u>
Total Assets	<u>26,470</u>	<u>26,684</u>	<u>25</u>	<u>28</u>	<u>26,495</u>	<u>26,712</u>
Total Deferred Outflows of Resources						
	<u>784</u>	<u>361</u>			<u>784</u>	<u>361</u>
Total Assets and Deferred Outflows of Resources	<u><u>27,254</u></u>	<u><u>27,045</u></u>	<u><u>25</u></u>	<u><u>28</u></u>	<u><u>27,279</u></u>	<u><u>27,073</u></u>
Liabilities						
Current and Other Liabilities					\$	\$
	\$ 480	\$ 1,258	\$ 9	\$ 8	489	1,266
Long-term Liabilities	<u>13,332</u>	<u>13,570</u>			<u>13,332</u>	<u>13,570</u>
Total Liabilities	<u>13,812</u>	<u>14,828</u>	<u>9</u>	<u>8</u>	<u>13,821</u>	<u>14,836</u>
Total Deferred Inflows of Resources						
	<u>275</u>				<u>275</u>	
Net Position						
Invested in Capital Assets, Net of Debt	10,417	10,925	5	7	10,422	10,932
Restricted	530	360			530	360
Unrestricted	<u>2,220</u>	<u>932</u>	<u>11</u>	<u>13</u>	<u>2,231</u>	<u>945</u>
Total Net Position	<u>13,167</u>	<u>12,217</u>	<u>16</u>	<u>20</u>	<u>13,183</u>	<u>12,237</u>
Total Liabilities, Deferred Inflow of Resources and Net Position						
	<u><u>\$ 27,254</u></u>	<u><u>\$ 27,045</u></u>	<u><u>\$ 25</u></u>	<u><u>\$ 28</u></u>	<u><u>\$ 27,279</u></u>	<u><u>\$ 27,073</u></u>

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

Net Position

Net position measures the difference between what the City owns (assets) versus what the City owes (liabilities). Due to the implementation of a new accounting pronouncement recognizing pension and related deferred outflows, deferred inflows and liabilities, the City has restated its 2014 statement of net assets, resulting in a reduction of net position by \$2,723,990. Following the restatement, the net position of the City of Demopolis at September 30, 2015 was \$13,166,910, an increase of \$951,080 from the previous year's restated net position of \$12,215,830. Of this amount, \$2,219,452 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.

A portion of the City's net position is invested in capital assets net of related debt. Capital assets include land, building, equipment and machinery, and infrastructure, and are used to provide services to the citizens and are not available for future spending. Although the investment in 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. The city's net fixed assets decreased in value by \$272,792.

Assets restricted to a particular use are 4% of net position, and include amounts designated for street lighting and maintenance, capital building projects, industrial development, and required bond reserves.

Unrestricted net position equal 17% of net position.

CITY OF DEMOPOLIS, ALABAMA

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2015

A comparison of the City of Demopolis's Changes in Net Position, Fiscal Year 2015 as Compared to 2014
(in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014 (Restated)	2015	2014	2015	2014 (Restated)
Program Revenues						
Charges for Services	\$ 1,841	\$ 2,193	\$ 159	\$ 165	\$ 2,000	\$ 2,358
Operating Grants and Contributions	72	70			72	70
Capital Grants and Contributions	326	1,015			326	1,015
General Revenues						
Property Taxes for General Purposes	1,236	1,208			1,236	1,208
Local Sales Taxes	5,392	5,127			5,392	5,127
Other Taxes	851	813			851	813
State Shared Revenues	86	136			86	136
Investment Earnings	7	7			7	7
Miscellaneous	241	76			241	76
Total Revenues	<u>10,052</u>	<u>10,645</u>	<u>159</u>	<u>165</u>	<u>10,211</u>	<u>10,810</u>
Program Expenses						
General Government and Unallocated	\$ 1,404	\$ 1,912	\$	\$	\$ 1,404	\$ 1,912
Beautification	310	229			310	229
Streets	943	927			943	927
Fire Protection	1,805	1,681			1,805	1,681
Police Protection	2,070	2,152			2,070	2,152
Municipal Court	330	346			330	346
Airport	111	92			111	92
Library	314	304			314	304
Code Enforcement	77	76			77	76
Parks and Recreation	948	986	175	190	1,123	1,176
Cultural	60	66			60	66
Economic Development	213	227			213	227
Capital Outlay	64	142			64	142
Interest and Fees	326	400			326	400
Debt Issuance Costs	115				115	
Total Expenses	<u>9,090</u>	<u>9,540</u>	<u>175</u>	<u>190</u>	<u>9,265</u>	<u>9,730</u>
Excess Before						
Transfers	962	1,105	(16)	(25)	946	1,080
Transfers	(12)	(23)	12	23		
Net Position, Beginning of Year	<u>12,217</u>	<u>13,858</u>	<u>20</u>	<u>22</u>	<u>12,237</u>	<u>13,880</u>
Prior Period Adjustment *		<u>(2,723)</u>				<u>(2,723)</u>
Net Position, End of Year	<u>\$ 13,167</u>	<u>\$ 12,217</u>	<u>\$ 16</u>	<u>\$ 20</u>	<u>\$ 13,183</u>	<u>\$ 12,237</u>

* Note: The City is unable to calculate the impact of the accounting principle change on the income and expenses during fiscal year 2014.

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

Changes in Net Position

During the year the City's financial position increased by \$951,080, compared to the previous year's decrease of \$1,079,437. Items that positively impacted the change in financial position include the receipt of a federal grant award for improvements to the airport in the amount of \$212,599.

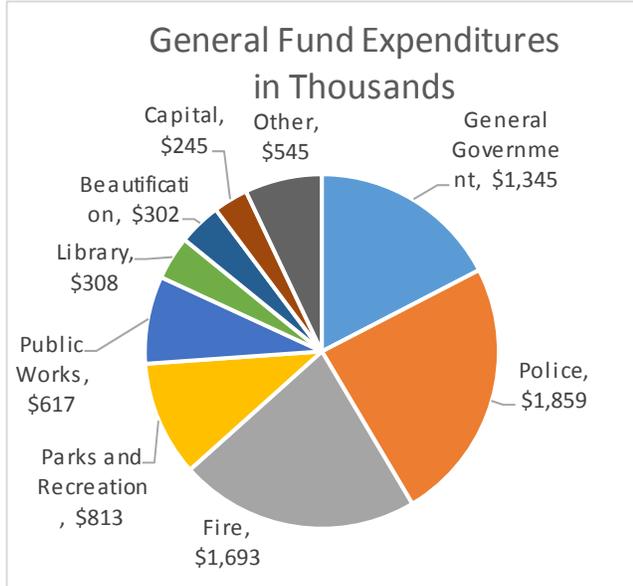
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund - The General Fund is the principal fund used for the City's governmental operations. The fund balance at September 30, 2015 was \$4,583,028, a \$732,690 increase from the prior year's fund balance of \$3,850,338. The fund balance was impacted by greater than expected revenues.

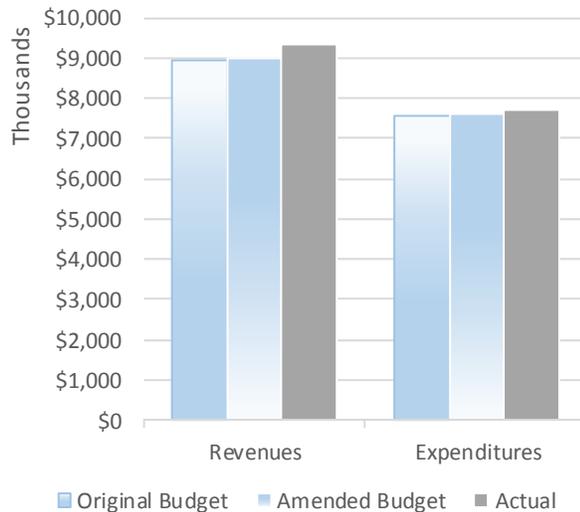
Debt Service Fund – The Debt Service Fund accounts for the financial resources used to pay interest and principle payments on general obligation warrants due. All funds used to pay the warrants and interest due are transferred in from the General Fund.

General Fund Budgetary Highlights

During fiscal year 2015, the City ceded the revenues and expenses associated with its refuse collections to the Demopolis Water Works and Sewer Board. As a result, revenue from services and general government expenses are short of their budgeted amounts.



General Fund Budget Comparison



CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2015 the City had \$20,812,559 invested in capital assets (net of accumulated depreciation) compared to last year's \$21,080,110, a decrease of \$267,551. The City investment in capital assets includes automobiles and equipment, roads and utility improvements. The City booked \$712,549 in depreciation, compared to the previous year's \$717,748.

	Capital Assets	
	Year ended September 30,	
	2015	2014
Land	\$ 2,883,140	\$ 2,883,140
Construction in progress	476,663	2,039,827
Buildings	7,772,591	8,031,206
Improvements	4,490,933	2,757,510
Infrastructure	4,048,290	4,149,974
Equipment and vehicles	1,140,942	1,218,453
 Total Capital Assets	 \$ 20,812,559	 \$ 21,080,110

Long-Term Debt

On March 24, 2015, the City issued \$5,445,000 in General Obligation (GO) Warrants for the purposes of (a) the advance refunding of a portion of the City's General Obligation Warrants, Series 2007, and (b) acquiring and constructing certain capital improvements in the City consisting of road and bridge improvements. The Warrants bear interest rates of 1.55% - 3.48% and will be redeemed over the next 20 years with general revenues of the City. The new issue will reduce the amount of debt service payments for the City by \$381,772, with an economic gain of \$322,404.

The City has four general obligations warrants: an unrefunded portion of Series 2007, with a final debt obligation payment in 2018; Series 2012A, a long-term debt obligation through 2031; Series 2012B, a long-term debt obligation through 2016; and Series 2015, a long-term debt obligation through 2037. The current amount on the debt is \$10,460,000. The City has a net pension liability of \$2,726,004. The City also has an obligation to pay a portion of the unused sick and vacation time accrued by employees, currently \$206,632 (up from \$206,388 in the prior year).

	Long-Term Debt	
	Year ended September 30,	
	2015	2014
2007 General Obligation Warrants	\$ 310,000	\$ 5,000,000
2012A General Obligation Warrants	4,110,000	4,110,000
2012B General Obligation Warrants	595,000	1,180,000
2015 General Obligation Warrants	5,445,000	
 Total Long-Term Debt	 \$ 10,460,000	 \$ 10,290,000

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following are currently known state and local economic factors that are considered by the City of Demopolis as we move into the 2015-2016 fiscal year.

State Factors

- Economic conditions remain stagnant in the State of Alabama during fiscal year 2015. The continued uncertainty in the economy is not expected to have a significant impact on the budget for the fiscal year ending September 30, 2016.

Local Factors

- **Economic Conditions:** Although current economic information for the City of Demopolis is unavailable, unemployment statistics for Marengo County, Alabama are available through the State Department of Labor. In September 2015, Marengo County, Alabama had an unemployment rate of 7.3%, which was somewhat higher than the respective state unemployment rate of 6.0%. According to the State Department of Labor, in September 2015, Marengo County had a civilian labor force of 7,382 people. Of this number, 539 were unemployed. This affects the amount of money available to be spent in Demopolis City and thereby directly affects growth and funding for any expansion projects. WestRock Company continues to be the largest employer of the citizens of Demopolis. Other major employers include the Tombigbee Healthcare Authority, Foster Farms and Wal-Mart.
- **Population Trends:** Demopolis City has maintained its population in recent census counts. The following table sets forth certain historical population statistics from the U.S. Census Bureau relating to Marengo County:

<u>Year</u>	<u>Population</u>	<u>Percent Change</u>
1970	7800	N/A
1980	7678	-1.56%
1990	7512	-2.16%
2000	7535	+0.35%
2010	7540	+0.03%

- **Facilities:** The City maintains properties throughout the area to facilitate future cultural, educational, business and industrial expansion.
- **Tombigbee Healthcare Authority:** On June 3, 2016, the City provided permanent, long-term financing to the Tombigbee Healthcare Authority for the purpose of constructing a 10-bed adult psychiatric care division. The loan, in the amount of \$926,000, is to be repaid to the City over 12 years, with an interest rate of 3.5% per annum.

Requests for Information

This report is designed to provide a general overview of the City of Demopolis's finances for our citizens and customers. If you have questions about this report or need additional financial information contact the Finance Office: 211 North Walnut Avenue, Demopolis, Alabama 36732, (334) 289-0577.

Additional information about the services provided by the City of Demopolis may be found online at www.DemopolisAL.gov.

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Governmental Activities	Business Type Activities - Enterprise Fund	Total
<u>Assets</u>			
Cash	\$ 1,634,748	\$ 8,097	\$ 1,642,845
Certificates of deposit	3,289,472		3,289,472
Receivables	550,873		550,873
Due from Water Department			
Restricted assets:			
Cash with fiscal agent	151,078		151,078
Inventory		11,703	11,703
Capital assets:			
Land	2,883,140		2,883,140
Buildings	7,772,591		7,772,591
Improvements	4,490,933		4,490,933
Infrastructure	4,048,290		4,048,290
Equipment	1,135,701	5,241	1,140,942
Construction in progress	476,663		476,663
Prepaid expenses	37,051		37,051
Total Assets	<u>26,470,540</u>	<u>25,041</u>	<u>26,495,581</u>
<u>Deferred Outflows of Resources</u>			
Deferred amount on bond refunding	436,575		436,575
Employer retirement contributions	347,495		347,495
Total Deferred Outflows of Resources	<u>784,070</u>	<u>-</u>	<u>784,070</u>
Total Assets and Deferred Outflows of Resources	<u>27,254,610</u>	<u>25,041</u>	<u>27,279,651</u>
<u>Liabilities</u>			
Accounts payable	254,681	3,558	258,239
Accrued expenses	224,201	5,169	229,370
Deferred revenues	1,028		1,028
Due to cash bond fund	121		121
Long-term liabilities:			
Current portion of long-term debt	650,000		650,000
Noncurrent portion of long-term debt	9,749,820		9,749,820
Accrued compensated absences	206,632		206,632
Net pension liability	2,726,004		2,726,004
Total Liabilities	<u>13,812,487</u>	<u>8,727</u>	<u>13,821,214</u>
<u>Deferred Inflows of Resources</u>			
Net difference between projected and actual earnings on plan investments	275,213		275,213
Total Deferred Inflows of Resources	<u>275,213</u>	<u>-</u>	<u>275,213</u>
<u>Net Position</u>			
Investment in capital assets, net of related debt	10,417,318	5,241	10,422,559
Restricted for:			
Capital projects	331,362		331,362
Municipal court	127,477		127,477

The Accompanying Notes are an integral part of the Financial Statements.

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General governmental and unallocated	\$ 1,404,190	\$ 1,433,820	\$	\$ 17,400	\$ 47,030		\$ 47,030
Beautification	309,628				(309,628)		(309,628)
Streets	943,032		70,896	55,398	(816,738)		(816,738)
Fire protection	1,804,490	298	1,072		(1,803,120)		(1,803,120)
Police protection	2,070,356	289,814	142	8,939	(1,771,461)		(1,771,461)
Municipal court	329,436	24,349			(305,087)		(305,087)
Airport	110,716			212,599	101,883		101,883
Library	314,364				(314,364)		(314,364)
Code enforcement	76,633				(76,633)		(76,633)
Parks and recreation	947,405	63,811		31,992	(851,602)		(851,602)
Cultural	60,278	28,450	40		(31,788)		(31,788)
Economic Development	213,183				(213,183)		(213,183)
Capital outlay	63,818				(63,818)		(63,818)
Interest on general long-term debt	326,210				(326,210)		(326,210)
Debt issuance costs	115,283				(115,283)		(115,283)
Total governmental activities	<u>9,089,022</u>	<u>1,840,542</u>	<u>72,150</u>	<u>326,328</u>	<u>(6,850,002)</u>		<u>(6,850,002)</u>
Business-type activities:							
Ravine golf course	<u>174,669</u>	<u>159,171</u>				<u>(15,498)</u>	<u>(15,498)</u>
Total business-type activities	<u>174,669</u>	<u>159,171</u>				<u>(15,498)</u>	<u>(15,498)</u>
General revenue:							
Taxes							
Property taxes for general purposes					1,235,720		1,235,720
Local sales taxes					5,391,897		5,391,897
Other taxes					850,982		850,982
State shared revenues					86,511		86,511
Investment earnings					7,111		7,111
Miscellaneous					240,715		240,715
Transfers					(11,854)	11,854	
Total General Revenues and Transfers					<u>7,801,082</u>	<u>11,854</u>	<u>7,812,936</u>
Change in Net Position					951,080	(3,644)	947,436
Net Position, beginning, as previously reported					14,939,820	19,958	14,959,778
Prior period adjustment					<u>(2,723,990)</u>		<u>(2,723,990)</u>
Net Position, end of year					<u>\$ 13,166,910</u>	<u>\$ 16,314</u>	<u>\$ 13,183,224</u>

The Accompanying Notes are an integral part of the Financial Statements.

CITY OF DEMOPOLIS, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash	\$ 1,186,507	\$	\$ 448,241	\$ 1,634,748
Cash with fiscal agent		23	151,055	151,078
Certificates of deposit	3,219,472	70,000		3,289,472
Receivables	550,873			550,873
Due from other funds	103,947		21,663	125,610
Prepaid expenses	37,051			37,051
Total Assets	<u>\$ 5,097,850</u>	<u>\$ 70,023</u>	<u>\$ 620,959</u>	<u>\$ 5,751,781</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Net cash deficit	\$	\$	\$	\$
Accounts payable	236,511		18,170	254,681
Accrued expenses	222,695		1,506	224,201
Deferred revenues	1,028			1,028
Held for bonds payable		70,000		70,000
Due to other funds	54,588		71,143	125,731
Total Liabilities	<u>514,822</u>	<u>70,000</u>	<u>90,819</u>	<u>675,641</u>
Fund Balances:				
Restricted		23	346,049	346,072
Committed			55,378	55,378
Assigned			128,713	128,713
Unassigned	4,583,028			4,583,028
Total Fund Equity	<u>4,583,028</u>	<u>23</u>	<u>530,140</u>	<u>5,113,191</u>
Total Liabilities and Fund Equity	<u>\$ 5,097,850</u>	<u>\$ 70,023</u>	<u>\$ 620,959</u>	<u>\$ 5,788,832</u>

The Accompanying Notes are an integral part of the Financial Statements.

CITY OF DEMOPOLIS, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total Fund Balance - Governmental Funds	\$ 5,113,191
---	--------------

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 as assets in governmental funds.	20,807,318
--	------------

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Employer retirement contributions	347,495
Deferred amount on bond refunding	436,575

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Interest on long-term debt is not accrued in the governmental funds but is recognized as an expenditure when due.	
Long-term debt	(10,399,820)
Accrued compensated absences	(206,632)
Net pension liability	(2,726,004)
Deferred inflows of resources	(275,213)
Add amount held for bond payable in governmental funds	70,000

Total Net Assets - Governmental Activities	\$ 13,166,910
--	---------------

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 7,474,380	\$	\$	\$ 7,474,380
Licenses and permits	1,226,381		298	1,226,679
Rents and services	266,088			266,088
Fines and costs			312,057	312,057
Intergovernmental revenue	84,537		338,893	423,430
Other revenues	278,740	26	70,556	349,322
Total Revenues	9,330,126	26	721,804	10,051,956
Expenditures:				
General government and unallocated	1,344,700			1,344,700
Beautification	302,015			302,015
Public works	616,509		180,758	797,267
Fire protection	1,692,723		6,298	1,699,021
Police protection	1,858,531		47,472	1,906,003
Municipal Court	123,566		205,454	329,020
Airport	71,846			71,846
Library	308,093			308,093
Code enforcement	76,633			76,633
Parks and recreation	813,476			813,476
Cultural	60,278			60,278
Economic Development	213,183			213,183
Capital projects			230,250	230,250
Capital outlay	245,218		47,758	292,976
Debt service:				
Principal		520,000		520,000
Interest and fees		318,515		318,515
Debt issuance costs		115,283		115,283
Total Expenditures	7,726,771	953,798	717,990	9,398,559
Total Revenues Over Expenditures				
Before Other Financing Sources (Uses)	1,603,355	(953,772)	3,814	653,397
Other Financing Sources (Uses):				
Proceeds of refunding bonds		5,445,000		5,445,000
Debt discount		(51,806)		(51,806)
Payment to refunded bond escrow agent		(5,132,091)		(5,132,091)
Operating transfers in	114,706	838,504	327,572	1,280,782
Operating transfers (out)	(985,371)	(145,820)	(161,445)	(1,292,636)
Total Other Financing Sources (Uses)	(870,665)	953,787	166,127	249,249
Excess (Deficiency) of Revenues and				
Other Financing Sources Over				
Expenditures and Other Fund Uses				
	732,690	15	169,941	902,646
Fund Balances, Beginning of Year	3,850,338	8	360,199	4,210,545
Fund Balances, End of Year	\$ 4,583,028	\$ 23	\$ 530,140	\$ 5,113,191

The Accompanying Notes are an integral part of the Financial Statements.

CITY OF DEMOPOLIS, ALABAMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Total Net Change in Fund Balance - Governmental Funds \$ 902,646

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Capital outlay exceeds depreciation expense in the current period as follows:

Capital outlays - net	437,907
Depreciation expense	(710,699)

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Proceeds of refunding bonds	(5,445,000)
Payment to refunded bond escrow agent	5,132,091
Discount on refunding bonds	51,806
Repayment of bond principal	520,000
Bond discount adjustment	(11,107)
Amortization of bond premium	8,928
Amortization of deferred outflows on refunded bonds	(5,516)

Some expenditures reported in governmental funds are to be paid on a long term basis and therefore are not reported as expenses in the statement of activities.

Change in deferred outflows - employer retirement contributions	(13,089)
---	----------

Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.

Increase in compensated absences liability	(244)
Change in net pension liability and deferred inflows of resources	83,357

Change in Net Assets of Governmental Activities	\$ 951,080
---	------------

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
SEPTEMBER 30, 2015

	<u>Cash Bond Fund</u>	<u>Police Confiscated Fund</u>	<u>Total Fiduciary Funds</u>
<u>Assets</u>			
Cash	\$ 16,369	\$ 8,841	\$ 25,210
Due from other funds	43	78	121
Total Assets	<u>\$ 16,412</u>	<u>\$ 8,919</u>	<u>\$ 25,331</u>
<u>Liabilities</u>			
Liabilities:			
Current payables	\$	\$	\$
Other liabilities	16,412	8,919	25,331
Total Liabilities	<u>16,412</u>	<u>8,919</u>	<u>25,331</u>
<u>Net Assets</u>			
Unrestricted			
Total Net Assets	<u>\$</u>	<u>\$</u>	<u>\$</u>

The Accompanying Notes are an integral part of the Financial Statements.

CITY OF DEMPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
RAVINE GOLF COURSE FUND
SEPTEMBER 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>
<u>Assets</u>	
Current:	
Cash	\$ 8,097
Inventory	11,703
Noncurrent:	
Capital assets, net of accumulated depreciation	5,241
Total Assets	<u>25,041</u>
 <u>Liabilities</u>	
Current:	
Accounts payable	3,558
Accrued expenses	5,169
Total Liabilities	<u>8,727</u>
 <u>Net Assets</u>	
Investment in capital assets, net of related debt	5,241
Unrestricted	11,073
Total Net Assets	<u>\$ 16,314</u>

CITY OF DEMOPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
RAVINE GOLF COURSE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>
Operating Revenues:	
Memberships and green fees	\$ 126,108
Merchandise sales	27,162
Concession sales	5,901
Total Operating Revenues	<u>159,171</u>
Operating Expenses:	
Salaries	57,721
Golf course repairs and maintenance	25,099
Cost of merchandise	23,128
Equipment lease	18,836
Employee benefits	12,610
Utilities	12,272
Equipment repair and maintenance	8,699
Office supplies and expense	5,003
Payroll taxes	4,112
Golf course supplies and materials	3,833
Depreciation	1,850
Telephone	1,381
Advertising	125
Total Operating Expenses	<u>174,669</u>
Net Earnings (Loss) Before Operating Transfers	(15,498)
Operating Transfers In (Out):	
Operating transfers in (out)	<u>11,854</u>
Net Earnings (Loss)	(3,644)
Net Assets, beginning of year	<u>19,958</u>
Net Assets, end of year	<u><u>\$ 16,314</u></u>

The Accompanying Notes are an integral part of the Financial Statements.

CITY OF DEMOPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
RAVINE GOLF COURSE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 159,171
Cash payments to suppliers for goods and services	(99,629)
Cash payments to employees	(71,565)
Net Cash Provided (Used) by Operating Activities	<u>(12,023)</u>
Cash Flows from Capital and Related Financing Activities:	
Transfers In	<u>11,854</u>
Net Cash Flows (Used) by Capital and Related Financing Activities	<u>11,854</u>
Net Increase (Decrease) in Cash	(169)
Cash, beginning of year	<u>8,266</u>
Cash, end of year	<u>\$ 8,097</u>
Reconciliation of Operating Income to Net Cash Provided	
By Operating Activities:	
Operating (Loss)	\$ (15,498)
Adjustments to reconcile operating income to net cash provided by	
Operating activities:	
Depreciation	1,850
Decrease (increase) in inventory	1,164
Increase (decrease) in accounts payable	(2,417)
Increase (decrease) in accrued expenses	<u>2,878</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (12,023)</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Significant Accounting Policies

The City of Demopolis, Alabama, was incorporated on December 15, 1821, under the laws of the State of Alabama. The City operates under a Mayor - Council form of government and provides the following services: streets, sanitation, fire and police protection, airport, library, parks and recreation, cultural, health and welfare and assistance with industrial development.

The financial statements of the City of Demopolis, Alabama have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

The Governmental Accounting Standards Board established a reporting model for state and local governments that includes management's discussion and analysis, government-wide financial statements, required supplementary information as well as fund financial statements and notes.

The GASB determined that fund accounting has been and will continue to be essential in helping governments achieve fiscal accountability and should, therefore, be retained as the basis of reporting financial results. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

(1) Reporting Entity

Statement No. 14 of the Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

The following are legally separate units of government in which the City of Demopolis, as primary government, appoints the Board members and there is a potential for these separate units of government to provide specific financial benefits or to impose specific financial burdens on the City:

Demopolis City Board of Education
Demopolis Water Works and Sewer Board
Demopolis Industrial Development Board
Demopolis Cemetery Board
Demopolis Public Library Board

The financial information for each of these legally separate units of government has not been included in the primary government financial statements of the City of Demopolis, Alabama, which is required for reporting in conformity with generally accepted accounting principles. Each unit of government issues its own separate financial statements, which can be obtained from them directly.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

(2) Basis of Presentation, Basis of Accounting and Measurement Focus

Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the City. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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 business-type activity 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. The City does not allocate indirect expenses to the various functions. Program revenues include (a) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (b) charges to recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all local taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The City reports the following major governmental funds:

General Fund - This fund is the City's primary operating fund. It accounts for all financial resources, except those that are required to be accounted for in other funds.

Debt Service Fund – This fund accounts for the accumulation of resources for and payment of principal, interest, and related costs of the Town's general long-term debt.

The City reports the following governmental fund types in the "Other Governmental Funds" column:

Special Revenue Funds - Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from expendable trust, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of the following: 7 Cent Special Gas Tax Fund, the 4 Cent Special Gas Tax Fund, the Special Paving Assessment Fund, the Corrections Fund, the Court Fund, the Judicial Administration Fund, the Presiding Judge/Clerk Administrative Fund, and the Federal Seizure Fund.

Capital Projects Funds - Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities. Capital project funds consist of the Animal Control Fund, Sports and Recreation Fund, the Fire Department Special Fund, the Police Department Special Fund, the Airport Improvement Fund, the Airport Layout Improvement Fund, the Capital Building Fund, the Technology Center Fund and the Historic Preservation Commission Fund.

Proprietary funds are used to account for and report the activities of the City that are designed to be self-supporting from fees charged to consumers of the funds' goods and services or where the governing body has determined that the periodic determination of revenues, expenses and net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes. The accounting and reporting practices are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Fund types included in the proprietary fund category are: enterprise and internal service funds.

Enterprise funds may be used to account for any activity in which a fee is charged to an external user for goods or services. However, it must be used to account for activities (a) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (b) when laws or regulations require that the activity's costs of providing services be recovered with fees and charges (not taxes), or (c) the pricing policies of the activity establish fees and charges designed to recover its costs. Enterprise funds consist of the Ravine Golf Course Fund. The Ravine Golf Course Fund accounts for the operations of the Ravine Golf Course and Pro Shop, and is financed primarily by user memberships, green fees, golf cart rentals and merchandise sales.

Internal service funds account for the financing of goods or services provided by one governmental department or agency to another on a cost-reimbursement basis. The City does not have an internal service fund.

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the City's programs. The City reports the following fiduciary funds:

Agency funds generally account for assets held by the City in a purely custodial capacity. Agency funds consist of the following: the Cash Bonds Fund and the Police Confiscated Fund. The Cash Bonds Fund accounts for cash bonds posted on behalf of individuals involved in judicial matters before City court. The Police Confiscated Fund accounts for funds confiscated during arrests pending trial and/or disposition.

Basis of Accounting, Measurement Focus

The *government-wide* financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Real estate taxes are recognized as revenues in the year for which they are levied. Derived tax revenues such as wage, business privilege, and income taxes are recognized when the underlying exchange transaction has taken place. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *program revenue* in the government-wide financial statements include: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program specific revenues. Accordingly, general revenues include all taxes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental Fund Financial Statements. Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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 City considers revenues reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within thirty (30) days after year-end. Revenues from state and federal funds are considered available if transactions eligible for reimbursement have taken place. Expenditures generally are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

(3) Assets, Liabilities and Net Position

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the City.

Receivables

Receivables are reported as *Receivables* and *Due from other governments* in the government-wide financial statements and as *Receivables*, *Due from other funds*, and *Due from other governments* in the fund financial statements. Receivables due from other governments include amounts due from grantors for grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because the amounts are considered immaterial.

Property Taxes

The Marengo County Commission levies property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net position. Donated assets are recorded at their estimated fair value at the date of donation. The cost of maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements.

Depreciation of capital assets is recorded in the statement of activities on a straight-line basis over the estimated useful life of the asset. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and the estimated useful lives of capital assets reported in the government-wide statements are as follows:

<u>Asset Class</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Infrastructure and Land Improvements	\$ 50,000	20 - 35 years
Buildings	5,000	40 years
Building Improvements	50,000	7 - 30 years
Equipment	5,000	5 - 40 years
Vehicles	5,000	5 - 10 years

(The capitalization threshold for land is \$1 or more. However, these capital assets are not depreciated.)

Because of inadequate recordkeeping, capital assets acquired during the years prior to 2003 are recorded at their estimated historical costs. As a result, the depreciation expenses associated with these assets are estimates, as well.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until that time. The City reported deferred retirement plan contributions, which represent employer pension plan contributions subsequent to the measurement date and should be consumed in the subsequent year. The City also reported a deferred amount on its bond refunding, which represents financial resources placed in escrow to retire bonds considered defeased by the 2015 General Obligation Warrants, that will become due in subsequent years.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports the net difference between projected and actual earnings on retirement plan investments as deferred inflows of resources on the statement of net position.

Long-term Obligations

In the government-wide financial statements and in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

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

Pensions

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Compensated Absences

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of a liability as the benefits are earned by the employees, if both of these 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.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

All permanent employees of the City accumulate annual leave as follows: for employees with one to five years of service - five days per year, for employees with five to ten years of service - ten days per year, for employees with ten to fifteen years of service – thirteen days per year and for employees with fifteen to twenty years of service fifteen days per year. An employee can carry over to the next year only one year's total accumulation of annual leave. All permanent employees of the City accumulate sick leave at the rate of one day per month and can accrue up to 80 days in total. At termination, all unused annual leave and two-thirds (2/3) of unused sick leave is paid to qualifying employees.

All sick and annual leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee terminations and retirements.

Net Position/Fund Balances

Net Position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net asset categories:

- Invested in Capital Assets, Net of Related Debt – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. (Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.)
- Restricted – Constraints imposed on the net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- Unrestricted – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Council.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact. The City does not have any nonspendable fund balance.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

The spendable portion of fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- Restricted Fund Balance – Reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributions, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed Fund Balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council – the government’s highest level of decision-making authority. Those committed resources cannot be used for any purpose unless the city council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- Assigned Fund Balance – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The city council and mayor have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
- Unassigned Fund Balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned and unassigned – in order as needed.

Reconciliation of the Financial Statements

The financial statements include summary reconciliations of the fund financial statements to the government-wide financial statements after each of the fund statements. GASB requires the following additional disclosures if aggregated information in the summary reconciliations obscures the nature of the individual elements of a particular reconciling item:

- Balance Sheet and the Statement of Net Position – The governmental fund balance sheet is followed by a reconciliation between total fund balance – governmental funds and total net position – governmental activities as reported in the government-wide statement of net position.
- Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities – The governmental funds statement of revenues, expenditures and changes in fund balances is followed by a reconciliation between net changes in fund balances – total governmental funds and change in net position of governmental activities as reported in the government-wide statement of activities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates 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 those estimates.

Comparative Data and Reclassifications

Comparative data for the prior year have been presented in the Management’s Discussion and Analysis section of the accompanying financial statements in order to provide an understanding of changes in the City’s financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

B. Change in Accounting Principle and Restatement of Net Position

In fiscal year 2015, the Board adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 will improve financial reporting for pensions. GASB Statement No. 68 establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. An actuarial valuation under GASB Statement No. 68 was not obtained for the year ended September 30, 2013, therefore, it was not practical to restate prior periods for the implementation of GASB Statement No. 68. The components of the restatement are as follows:

	2014 Previously Presented	GASB Statement No. 68 Restatement	2014 Restated
Deferred outflows of resources - employer retirement contributions	\$	\$ 360,584	\$ 360,584
Net pension liability		3,084,574	3,084,574
Net position	14,959,778	(2,723,990)	12,235,788

C. Deposits and Certificates of Deposit

The City maintains a cash and investment system in which substantially all cash is invested in either interest bearing checking accounts or certificates of deposit.

As of September 30, 2015, the carrying amount of the City's bank deposits was \$4,961,852 and the bank balance was \$5,046,993. Of the total bank balance, \$750,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$4,296,993 of the City's deposits is covered by the Security for Alabama Funds Enhancement Program (SAFE Program). Under the SAFE program all public deposits are protected through a collateral pool administered by the Alabama State Treasurer's office. Public deposits include the funds of any covered public entity or covered public official placed on 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, including municipalities. In the past, the bank pledged collateral directly to each public entity. Under SAFE, which is mandatory, 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 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. The SAFE program is classified as a category 1 credit risk. Certificates of deposit are considered public deposits in determining insurance and collateralization. All deposits of the City as of September 30, 2015 are held in a certified qualified public depository.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

D. Stewardship, Compliance and Accountability

Budgets

The City adopts a budget for the general fund. A review of the budgetary comparison presented herein will disclose how accurately the City was able to forecast its revenues and expenditures.

Excess of Expenditures Over Appropriations

The General Fund's expenditures exceeded appropriations during 2015 in the amount of \$109,582. The shortage was funded from excess revenues received during the year.

E. Certificates of Deposit

Certificates of deposit at September 30, 2015 consisted of the following:

Certificates of deposit with Trustmark Bank, Demopolis, Alabama, due within one year, with interest of 0.10% to 0.30%.	\$ 2,159,658
Certificates of deposit with Robertson Banking Company, Demopolis, Alabama, due within one year, with interest of 0.25% to 0.70%.	868,268
Certificates of deposit with Sweet Water State Bank, Demopolis, Alabama, due within one year, with interest of 0.25%.	<u>261,546</u>
	<u><u>\$ 3,289,472</u></u>

F. Receivables

Receivables at September 30, 2015 for the individual major and nonmajor funds are as follows:

	General Fund	Airport Layout Improvement Fund	Other Governmental Funds	Total
Taxes	\$ 476,413	\$	\$	\$ 476,413
Intergovernmental revenues	63,944			63,944
Other receivables	10,516			10,516
	<u>\$ 550,873</u>	<u>\$</u>	<u>\$</u>	<u>\$ 550,873</u>

CITY OF DEMOPOLIS, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

G. Interfund Receivables and Payables

Interfund receivables and payables at September 30, 2015 are as follows:

	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Due from/Due to:		
General Fund	\$ 103,947	\$ 54,588
Capital Building Fund	4,332	
7 Cent Special Gas Tax Fund	109	
4 Cent Special Gas Tax Fund		53,834
Special Paving Assessment	17,222	
Court Fund		17,309
Cash Bond Fund	43	
Police Confiscated Fund	78	
	<u>\$ 125,731</u>	<u>\$ 125,731</u>

H. Capital Assets

Capital asset activity for the year ended September 30, 2015 is as follows:

	<u>Balance October 1, 2014</u>	<u>Additions/ Adjustments</u>	<u>Deletions</u>	<u>Balance September 30, 2015</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,883,140	\$	\$	\$ 2,883,140
Construction in progress	2,039,827	250,552	1,813,716	476,663
	<u>4,922,967</u>	<u>250,552</u>	<u>1,813,716</u>	<u>3,359,803</u>
Other capital assets:				
Buildings	13,161,602			13,161,602
Improvements	4,062,081	1,851,477		5,913,558
Infrastructure	4,514,807			4,514,807
Equipment and vehicles	5,311,254	171,096	25,880	5,456,470
	<u>27,049,744</u>	<u>2,022,573</u>	<u>25,880</u>	<u>29,046,437</u>
Less accumulated depreciation:				
Buildings	5,130,396	258,615		5,389,011
Improvements	1,669,404	219,738		1,889,142
Equipment and vehicles	4,092,801	232,346	4,378	4,320,769
	<u>10,892,601</u>	<u>710,699</u>	<u>4,378</u>	<u>11,598,922</u>
Total other capital assets, net	<u>16,157,143</u>	<u>1,311,874</u>	<u>21,502</u>	<u>17,447,515</u>
Total governmental activities, net	<u>\$ 21,080,110</u>	<u>\$ 1,562,426</u>	<u>\$ 1,835,218</u>	<u>\$ 20,807,318</u>

CITY OF DEMOPOLIS, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Balance October 1, 2014	Additions/ Adjustments	Deletions	Balance September 30, 2015
Proprietary activities:				
Equipment	\$ 118,696	\$	\$	\$ 118,696
Less accumulated depreciation	111,605	1,850		113,455
Total proprietary activities, net	<u>\$ 7,091</u>	<u>\$ (1,850)</u>	<u>\$</u>	<u>\$ 5,241</u>

Depreciation expense was charged to governmental functions as follows:

General government and unallocated	\$ 129,514
Beautification	7,613
Streets	145,765
Fire protection	105,469
Police protection	142,852
Municipal court	416
Airport	38,870
Library	6,271
Parks and recreation	133,929
	<u>\$ 710,699</u>

Depreciation expense was charged to the following proprietary activity:

Ravine Golf Course Fund	<u>\$ 1,850</u>
-------------------------	-----------------

The City has entered into contracts for the construction or renovation of various facilities as follows:

Location/Project	Project Authorization Amount	Expended To Date	Additional Commitment	Required Further Financing
Airport Taxiway Upgrades	\$ 146,000	\$ 143,141	\$ 2,859	\$
Airport Industrial Park Water Improvements	405,000	333,522	71,478	
Total Construction in Progress	<u>\$ 551,000</u>	<u>\$ 476,663</u>	<u>\$ 74,337</u>	<u>\$</u>

I. Deferred Outflows of Resources

Deferred outflows of resources activity for the year ended September 30, 2015 was as follows:

	Balance September 30, 2014 (as restated)	Increase	Decrease	Balance September 30, 2015
Deferred amount on bond refunding	\$	\$ 442,091	\$ 5,516	\$ 436,575
Employer retirement contributions	360,584	347,495	360,584	347,495
	<u>\$ 360,584</u>	<u>\$ 789,586</u>	<u>\$ 366,100</u>	<u>\$ 784,070</u>

See Notes and Independent Auditor's Report

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

J. Advance to Water Works and Sewer Board and Advance Refunding

On October 29, 1985, the City issued General Obligation Warrants dated September 1, 1985, in the amount of \$3,190,000. The City used \$1,996,250 of the proceeds of this 1985 bond issue to set up escrow trust funds to advance refund the 1961, 1968 and 1980 Water Revenue Bond issues of the Water Works and Sewer Board of the City of Demopolis (the Board). In return for providing the resources to assist in the advance refunding of these bond issues, the Board agreed to pay to the City \$165,000 per year to retire the share of the 1985 bond issue used to establish the trust funds described above. This annual payment is to be made each September 1, beginning in 1986 and continuing for twenty years.

The City issued the 1986 General Obligation Refunding Warrants in the amount of \$3,625,000 on November 1, 1986 to advance refund \$3,190,000 of outstanding 1985 Series bonds.

During the year ended September 30, 1992, the City advanced the Water Works and Sewer Board \$900,000 to be used to expand the Board's wastewater treatment plant and to construct an elevated water tank. In return, the Board has agreed to repay \$900,000 of the 1991 General Obligation Warrants issued by the City.

On December 8, 1993, the City issued General Obligation Warrants, Series 1993, dated December 1, 1993, totaling \$9,540,000. The purposes for which the Warrants were issued were: (a) to refund the City's outstanding General Obligation Refunding Warrants, Series 1986, dated November 1, 1986, which mature on September 1, 1999, and thereafter, such series 1986 Warrants to be refunded have an aggregate principal balance of \$1,870,000, (b) to refund those of the City's outstanding General Obligation Warrants, Series 1991, dated June 1, 1991, which mature on June 1, 2002, and thereafter, such series 1991 Warrants to be refunded have an aggregate principal balance of \$6,335,000, (c) to pay the expenses of issuing the Warrants, and (d) to secure economic savings in interest costs over the life of the new bonds totaling \$349,383.

On March 12, 2003, the City issued General Obligation Warrants, Series 2003, dated March 1, 2003, totaling \$8,545,000. The purposes for which the Warrants were issued were: (a) to refund the City's outstanding General Obligation Refunding Warrants, Series 1993, dated December 1, 1993, which mature on June 1, 2003, and thereafter, such series 1993 Warrants to be refunded have an aggregate principal balance of \$7,965,000; and (b) to pay the expenses of issuing the Warrants.

On September 14, 2007, the City issued General Obligation Warrants, Series 2007, dated September 1, 2007, totaling \$5,000,000. The purposes for which the Warrants were issued were: (a) to fund the construction of a new fire station and fire truck; (b) to fund the construction of a new municipal safety complex; (c) to fund a portion of the costs of a new athletic stadium for Demopolis High School; and (d) to pay the expenses of issuing the Warrants.

On June 13, 2011, the City entered into a temporary funding agreement with Regions Bank for an amount up to \$4,500,000. The purpose for the funding was to be used toward the purchase of real property to be used as a multi-modal port facility. The land and building was purchased for \$4,000,000, all of which was funded from the temporary funding agreement.

On April 30, 2012, the City issued General Obligation Warrants, Series 2012A, dated April 18, 2012, totaling \$4,110,000. The purposes for which the Warrants were issued were to retire the principal of the temporary funding agreement with Regions Bank with an aggregate principal balance of \$4,000,000 and to pay the costs of issuance of the 2012A Warrants.

Also on April 30, 2012, the City issued General Obligation Warrants, Series 2012B, dated April 18, 2012, totaling \$2,305,000. The principal from the issuance of these Warrants will be applied to (a) the redemption of the General Obligation Warrants, Series 2003 maturing on June 1, 2013, and thereafter, such series 2003 Warrants to be refunded have an aggregate principal balance of \$2,275,000; and (b) to pay the expenses of issuing the Warrants.

During 2013, the Water Works and Sewer Board repaid the City \$255,000, plus applicable interest, to retire its portion of the remaining share of the \$900,000 1991 bond issue. The City has retained the funds in the Debt Service Fund to retire the bonds when due. As of September 30, 2015, \$70,000 was held in the Debt Service Fund to retire the Board's remaining share.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

On March 24, 2015, the City issued \$5,445,000 in General Obligation (GO) Warrants for the purposes of (a) the advance refunding of a portion of the City's General Obligation Warrants, Series 2007, and (b) acquiring and constructing certain capital improvements in the City consisting of road and bridge improvements. The Warrants bear interest rates of 1.00% - 3.75% and will be redeemed over the next 20 years with general revenues of the City. The new issue will reduce the amount of debt service payments for the City by \$381,772, with an economic gain of \$322,404.

K. Long-Term Liabilities

The following is a summary of long-term liabilities transactions of the City for the year ended September 30, 2015:

	Balance September 30, 2014	Additions	Retirements	Balance September 30, 2015	Current Portion
Bonds and notes payable:					
Series 2007 GOW	\$ 5,000,000	\$	\$ 4,690,000	\$ 310,000	\$
Series 2012A GOW	4,110,000			4,110,000	
Series 2012B GOW	1,180,000		585,000	595,000	595,000
Series 2015 GOW		5,445,000		5,445,000	55,000
Total bonds and notes payable	10,290,000	5,445,000	5,275,000	10,460,000	650,000
Unamortized bond premium	(10,553)	(51,806)	2,179	(60,180)	19,636
Accrued compensated absences	206,388	165,488	165,244	206,632	5,860
	<u>\$ 11,042,982</u>	<u>\$ 5,558,682</u>	<u>\$ 5,442,423</u>	<u>\$ 10,606,452</u>	<u>\$ 675,496</u>

Bonds payable are comprised of the following individual issues:

2007 General Obligation Warrants, due serially with interest at 4.20% per annum	\$ 310,000
2012A General Obligation Warrants, due serially with interest at 2.25% to 4.25% per annum	4,110,000
2012B General Obligation Warrants, due serially with interest at 2.00% per annum	595,000
2015 General Obligation Warrants, due serially with interest at 1.00% to 3.75% per annum	<u>5,445,000</u>
	<u>\$ 10,460,000</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

The annual requirements to amortize the City's portion of the bonds payable outstanding as of September 30, 2015 are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2016	\$ 650,000	\$ 323,061	\$ 973,061
2017	425,000	308,411	733,411
2018	440,000	297,111	737,111
2019	450,000	285,004	735,004
2020	460,000	274,961	734,961
2021	470,000	263,806	733,806
2022	485,000	251,544	736,544
2023	495,000	238,084	733,084
2024	515,000	223,451	738,451
2025	525,000	207,719	732,719
2026	540,000	191,091	731,091
2027	565,000	173,046	738,046
2028	580,000	153,536	733,536
2029	605,000	132,715	737,715
2030	625,000	109,896	734,896
2031	650,000	85,274	735,274
2032	305,000	67,920	372,920
2033	310,000	58,389	368,389
2034	325,000	48,469	373,469
2035	335,000	37,744	372,744
2036	345,000	26,438	371,438
2037	360,000	13,500	373,500
	<u>\$ 10,460,000</u>	<u>\$ 3,771,170</u>	<u>\$ 14,231,170</u>

L. Defined Benefit Pension Plan

The City participates in 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.

Plan Description

The Employees' Retirement System of Alabama, an agency multiple-employer plan, was established as of October 1, 1945, under the provisions of Act 515 of the Legislature of 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 the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement System of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

The ERS Board of Control consists of 13 trustees as follows:

1. The Governor, ex officio
2. The State Treasurer, ex officio
3. The State Personnel Director, ex officio
4. The State Director of Finance, ex officio
5. Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
6. Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - (a) Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county or a public agency each of whom is an active beneficiary of ERS.
 - (b) Two vested active state employees.
 - (c) Two vested active employees of an employer participating in ERS pursuant to Section 36-27-6.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

GASB No. 68 Required Disclosures

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2014, membership consisted of:

Retirees and beneficiaries currently receiving benefits	21,691
Terminated employees entitled to but not yet receiving benefits	1,252
Terminated employees not entitled to a benefit	5,048
Active members	<u>55,883</u>
Total	<u><u>83,874</u></u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers and firefighters of the ERS were required to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. These contribution rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2015, the City's active employee contribution rate was 6% of covered employee payroll and the City's average contribution rate to fund the normal and accrued liability costs was 11.8% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2015 was 11.37% of pensionable pay for Tier 1 employees and 9.07% of annual pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$352,706 for the year ended September 30, 2015.

Net Pension Liability

The City's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013 rolled forward to September 30, 2014 using standard roll-forward techniques as shown in the following table:

Total pension liability as of September 30, 2013 (a)	<u>\$ 11,766,819</u>
Entry age normal cost for October 1, 2013-September 30, 2014 (b)	<u>\$ 300,929</u>
Actual benefit payments and refunds for October 1, 2013-September 30, 2014 (c)	<u>\$ (698,241)</u>
Total pension liability as of September 30, 2014 [(a) x (1.08)] + (b) - [(c) x (1.04)]	<u>\$ 12,282,923</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Actuarial Assumptions

The total pension liability in September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return, net of pension plan investment expense	8.00%

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed income	25.00%	5.00%
U.S. large stocks	34.00%	9.00%
U.S. mid stocks	8.00%	12.00%
U.S. small stocks	3.00%	15.00%
International developed market stocks	15.00%	11.00%
International emerging market stocks	3.00%	16.00%
Real estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	

* Includes assumed rate of inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF DEMOPOLIS, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Changes in Net Pension Liability

	Increases (Decrease)		
	Total	Less	Net Pension
	Pension Liability (a)	Fiduciary Net Position (b)	Liability (a)-(b)
Balances at September 30, 2013	<u>\$11,766,819</u>	<u>\$ 8,682,245</u>	<u>\$ 3,084,574</u>
Changes for the year:			
Service cost	300,929		300,929
Interest	913,416		913,416
Differences between expected and actual experience			
Contributions-employer		360,584	(360,584)
Contributions-employee		188,957	(188,957)
Net investment income		1,032,291	(1,032,291)
Benefit payments, including refunds of employee contributions	(698,241)	(698,241)	
Administrative expense			
Transfers among employers		(8,918)	8,918
Net changes	<u>516,104</u>	<u>874,674</u>	<u>(358,570)</u>
Balances at September 30, 2014	<u>\$12,282,923</u>	<u>\$ 9,556,919</u>	<u>\$ 2,726,004</u>

Sensitivity of the Board's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's net pension liability calculated using the discount rate of 8%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
Board's proportionate share of collective net pension liability	<u>\$ 4,265,116</u>	<u>\$ 2,726,004</u>	<u>\$ 1,440,822</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor's report dated June 3, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov/.

Pension Liabilities, Pension Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

CITY OF DEMOPOLIS, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

For the year ended September 30, 2015, the City recognized pension expense of \$352,706. At September 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$
Changes of assumptions		
Net differences between projected and actual earnings on pension plan investments		275,213
Changes in proportion and difference between employer contributions and proportional share of contributions		
Employer contributions subsequent to measurement date	<u>347,495</u>	<u> </u>
Total	<u>\$ 347,495</u>	<u>\$ 275,213</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2016	\$ 68,803
2017	68,803
2018	68,803
2019	68,803
2020	
Thereafter	

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

M. Fund Balances

Amounts for specific purposes by fund and fund balance classification for the year ended September 30, 2015 are as follows:

Fund	Purpose	Amount
Restricted classification:		
Debt Service Fund	Debt Payments	\$ 23
Corrections Fund	Public Safety	86,386
Presiding Judge/Clerk Administration	Public Safety	36,431
Judicial Administration Fund	Public Safety	4,660
Capital Projects Fund	Capital Expenditures	155,387
4 Cent Special Gas Tax Fund	Infrastructure Improvement	55,398
Federal Seizure Fund	Public Safety	7,787
Committed classification:		
Paving Assessment Fund	Infrastructure Maintenance	55,378
Assigned classification:		
Beautification Fund	Beautification Improvement	1,500
Fire Department Special Fund	Public Safety	635
Animal Control Fund	Public Safety	20
Police Department Special Fund	Public Safety	12,528
Historic Preservation Commission Fund	Cultural	1,240
Sports and Recreation Fund	Recreation	25,448
Airport Improvement Fund	Airport	87,342
Unassigned classification:		
General Fund		<u>4,583,028</u>
		<u>\$ 5,113,191</u>

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. In order to protect itself from exposure to losses under the risks described above, the City carries traditional commercial insurance coverage, including workers' compensation and employee health insurance, rather than finance risks through self-insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

O. Contingent Liabilities

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City. In addition, most if not all of the various lawsuits are covered by the City's insurance coverage.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

P. Subsequent Event

The Tombigbee Healthcare Authority (the Authority) owns and operates a healthcare facility that provides hospital care, emergency care and surgical services, along with support services such as laboratory, imaging, and dietary services. The quasi-public Authority is governed by a Board of Directors, comprised of residents of Demopolis and Marengo County. The City Council appoints certain members to the Authority's Board, and, from time to time, provides financial support to the Authority. For the year ended September 30, 2015, the City contributed \$100,000 to the general operations of the Authority.

On November 6, 2015, the City entered into an agreement to provide financing to the Authority to enable the Authority to convert and dedicate a portion of its existing building for the purpose of hosting a 10-bed adult psychiatric care division (the Project). The City's advance of \$926,000 was to be repaid to the City upon the Authority receiving long-term loan approval and funding from the United States Department of Agriculture's Rural Development division (USDA), along with interest at the rate of 3.62% per annum.

On February 8, 2016, the Authority refunded the full amount of the loan to the City. At that time, the Authority had yet to begin construction of the Project.

On June 3, 2016, the City entered into a new agreement to provide the Authority with permanent, long-term financing to the Authority for the Project. The City's advance of \$926,000 is to be repaid in 144 equal monthly installments beginning on February 1, 2017, with interest at the rate of 3.5% per annum. The Authority agreed to pay interest on the full amount monthly beginning July 1, 2016, to January 1, 2017. The Authority is no longer seeking long-term funding from USDA for the Project.

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	2014*
Total Pension Liability	
Service cost	\$ 300,929
Interest	913,416
Change of benefit terms	
Difference between expected and actual experience	
Changes of assumptions	
Benefit payments, including refunds of employee contributions	(698,241)
Net change in total pension liability	516,104
Total pension liability - beginning of year	11,766,819
Total pension liability - end of year (a)	\$ 12,282,923
 Plan Fiduciary Net Position	
Contributions - employer	\$ 360,584
Contributions - employees	188,957
Net investment income	1,032,291
Benefit payments, including refunds of employee contributions	(698,241)
Transfers among employers	(8,917)
Net change in plan fiduciary net position	874,674
Plan net position - beginning of year	8,682,245
Plan net position - end of year (b)	\$ 9,556,919
Net pension liability (asset) - end of year (a) - (b)	2,726,004
Plan fiduciary net position as a percentage of the total pension liability	77.81%
Covered employee payroll	\$ 3,149,293
Net pension liability (asset) as a percentage of covered employee payroll	86.56%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual	Budget To	Actual
	Original	Final	Amounts Budget Basis	GAAP Adjustments	Amounts GAAP Basis
Revenues:					
Taxes	\$ 7,005,500	\$ 7,005,500	\$ 7,474,380	\$	\$ 7,474,380
Licenses and permits	1,223,900	1,223,900	1,226,381		1,226,381
Rents and services	545,700	545,700	266,088		266,088
Intergovernmental revenue	67,000	67,000	84,537		84,537
Other revenues	134,500	166,451	278,740		278,740
Total Revenues	8,976,600	9,008,551	9,330,126		9,330,126
Expenditures:					
General government and unallocated	1,823,362	1,823,362	1,344,700		1,344,700
Beautification	215,243	215,243	302,015		302,015
Public works	565,655	565,655	616,509		616,509
Fire protection	1,319,894	1,319,894	1,692,723		1,692,723
Police protection	1,822,366	1,849,817	1,858,531		1,858,531
Municipal Court	117,637	117,637	123,566		123,566
Airport	75,072	75,072	71,846		71,846
Library	281,054	281,054	308,093		308,093
Code enforcement	113,869	113,869	76,633		76,633
Parks and recreation	814,486	814,486	813,476		813,476
Cultural	53,200	53,200	60,278		60,278
Economic Development	190,000	190,000	213,183		213,183
Capital outlay	193,400	197,900	245,218		245,218
Total Expenditures	7,585,238	7,617,189	7,726,771		7,726,771
Total Revenue over Expenditures before Other Financing Sources (Uses)	1,391,362	1,391,362	1,603,355		1,603,355
Other Financing Sources (Uses):					
Grant refund					
Operating transfers in	125,000	125,000	114,706		114,706
Operating transfers (out)	(1,023,101)	(1,023,101)	(985,371)		(985,371)
Total Other Financing Sources (Uses)	(898,101)	(898,101)	(870,665)		(870,665)
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and other Financing Uses	493,261	493,261	732,690		732,690
Fund Balances, Beginning of Year	3,850,338	3,850,338	3,850,338		3,850,338
Fund Balances, End of Year	\$ 4,343,599	\$ 4,343,599	\$ 4,583,028	\$	\$ 4,583,028

CITY OF DEMOPOLIS, ALABAMA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET VS. ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

Sources/Inflows of Resources

Actual amounts (budgetary basis) available for appropriation shown as total revenues on budgetary comparison schedule	\$ 9,330,126
---	--------------

Differences - budget to GAAP

Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 9,330,126</u>
---	---------------------

Uses/Outflows of Resources

Actual amounts (budgetary basis) available for expenditures shown as total expenditures on budgetary comparison schedule	\$ 7,726,771
--	--------------

Differences - budget to GAAP

Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 7,726,771</u>
---	---------------------

LeCroy, Hunter & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

5710 WATERMELON ROAD, SUITE 400

NORTHPORT, ALABAMA 35473

P.O. BOX 462 NORTHPORT, AL 35476-0462

(205) 349-3840 FAX: (205) 349-3848

RICHARD D. LECROY, C.P.A.
KELLIE HUNTER-SUTE, C.P.A.

MATTHEW W. RICHARDSON, C.P.A.
R. COURTNEY LECROY, C.P.A.
W. RYAN ALEXANDER, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ALABAMA SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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

To the Mayor and City Council
City of Demopolis
Demopolis, Alabama 36732

We have audited, in accordance with the 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, the 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 Demopolis, Alabama, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Demopolis, Alabama's basic financial statements, and have issued our report thereon dated June 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Demopolis, Alabama's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Demopolis, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Demopolis, Alabama's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LeCroy, Hunter & Company, P.C.

LeCroy, Hunter & Company, P.C.
Certified Public Accountants

June 16, 2016