

**CITY OF DEMOPOLIS
DEMPOLIS, ALABAMA**

SEPTEMBER 30, 2008

LeCroy, Hunter & Co.
5700 Watermelon Road, Suite 400
Northport, Alabama 35473

CITY OF DEMOPOLIS, ALABAMA
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May 7, 2009

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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 of Demopolis, Alabama as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Demopolis, Alabama's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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, 2008 in the amounts of \$19,771,658 and \$6,747,731, respectively, or the amount of the depreciation expense included in the Statement of Activities for the year then ended in the amount of \$644,474.

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, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the inadequate capital assets records prior to 2003, the financial statements referred to above present fairly, in all material respects, the 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, 2008, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting

principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2009, on our consideration of the City of Demopolis, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the City of Demopolis, Alabama taken as a whole. The accompanying schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

LeCroy, Hunter & Company, P.C.

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

**CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008**

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, 2008. 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

- The total assets of the City of Demopolis exceeded its liabilities at September 30, 2008 by \$12,766,070. Of this amount \$4,759,953 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2008 the City's total net assets increased \$2,184,913.
- Total fund balance of governmental funds at September 30, 2008 was \$8,921,650 compared to a total governmental fund balance at September 30, 2007 of \$9,077,980.
- The City has \$9,550,046 in long term debt, down from \$10,110,429 the previous year. The debt consists of the Series 2003 and Series 2007 General Obligation Warrants, and accrued compensated absences. Demopolis is allowed up to \$15,333,563 in bonded indebtedness (20% of its September 30, 2008 taxable assessed value).
- The City completed several capital projects during the fiscal year 2008. Among those projects were an automated weather system for its airport (completed cost of \$181,264), a drainage improvement excavation (\$1,040,700), and a fully-equipped fire station (\$1,180,960).

Overview of the Financial Statements

This annual report consists of five parts – management discussion and analysis, 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 Assets* presents all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how government's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 - CONTINUED
SEPTEMBER 30, 2008**

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 16 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 Capital Building Fund, both 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 Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. 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 fund* is used to account for resources held for the benefit of parties outside the government. The Fiduciary fund is 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 fund accounts for bond deposits for the City's municipal court.

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 a comparison of the City's budget data for the year.

**CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2008**

FINANCIAL ANALYSIS OF THE CITY OF DEMOPOLIS AS A WHOLE

A comparison of the City of Demopolis's Assets, Liabilities and Net Assets, Fiscal Year 2008 as Compared to 2007 (in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Assets						
Current and Other Assets	\$ 5,972	\$ 5,498	\$ 7	\$	\$ 5,979	\$ 5,498
Restricted Assets	3,625	4,418			3,625	4,418
Capital Assets	13,024	11,325	92		13,116	11,325
Total Assets	22,621	21,242	99		22,720	21,242
Liabilities						
Current and Other Liabilities	\$ 1,007	\$ 1,145	\$ 7	\$	\$ 1,014	\$ 1,145
Long-term Liabilities	8,940	9,516			8,940	9,516
Total Liabilities	9,947	10,661	7		9,954	10,661
Net Assets						
Invested in Capital Assets, Net of Debt	\$ 7,143	\$ 5,790	\$ 92	\$	\$ 7,235	\$ 5,790
Restricted	771	311			771	311
Unrestricted	4,760	4,480			4,760	4,480
Total Net Assets	12,674	10,581	92		12,766	10,581

Net Assets

Net assets measure the difference between what the City owns (assets) versus what the City owes (liabilities). The total assets of the City of Demopolis exceeded its liabilities at September 30, 2008 by \$12,766,070, an increase of \$2,184,913 over the previous year's net asset balance of \$10,581,157. Of this amount \$4,759,953 is unrestricted and available to meet the City's ongoing obligations to citizens and creditors. A portion of the City's net assets 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 increased in value by \$1,790,462, largely resulting from the completion of the airport weather system, drainage improvement, Fire Station #3, and other projects in the city.

Assets restricted to a particular use are 6% of net assets, and include amounts designated for street lighting and maintenance, capital building projects, industrial development, and required bond reserves. The increase from the prior year is due primarily to the City maintaining the proceeds from the sale of an industrial development spec building for future industrial development use.

Unrestricted net assets equal 37% of net assets.

**CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2008**

A comparison of the City of Demopolis's Changes in Net Assets, Fiscal Year 2008 as Compared to 2007 (in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Program Revenues						
Charges and Services	\$ 862	\$ 1,076	\$ 201	\$	\$ 1,063	\$ 1,076
Operating Grants and Contributions	71	75			71	75
Capital Grants and Contributions	1,660	1,041			1,660	1,041
General Revenues						
Property Taxes for						
General Purposes	1,887	1,844			1,887	1,844
Business Licenses	1,253	1,158			1,253	1,158
Local Sales Taxes	4,699	4,640			4,699	4,640
Other Taxes	761	804			761	804
State Shared Revenues	88	96			88	96
Investment Earnings	315	230			315	230
Miscellaneous	32	35			32	35
Total Revenues	11,628	10,999	201		11,829	10,999
Program Expenses						
General Government and Unallocated	\$ 2,373	\$ 2,452	\$	\$	\$ 2,373	\$ 2,452
Beautification	209	212			209	212
Streets	1,261	1,183			1,261	1,183
Fire Protection	1,494	1,214			1,494	1,214
Police Protection	1,520	1,415			1,520	1,415
Municipal Court	308	296			308	296
Airport	161	158			161	158
Library	305	290			305	290
Code Enforcement	77	73			77	73
Parks and Recreation	967	1,215	283		1,250	1,215
Cultural	70	56			70	56
Industrial Development Board	125	133			125	133
Capital Outlay	160	1,107			160	1,107
Interest and Fees	331	175			331	175
Total Expenses	9,361	9,979	283		9,644	9,979
Excess Before Transfers	2,267	1,020	(82)		2,185	1,020
Transfers	(174)		174			
Net Assets, Beginning of Year	10,581	9,561			10,581	9,561
Net Assets, End of Year	\$ 12,674	\$ 10,581	\$ 92	\$	\$ 12,766	\$ 10,581

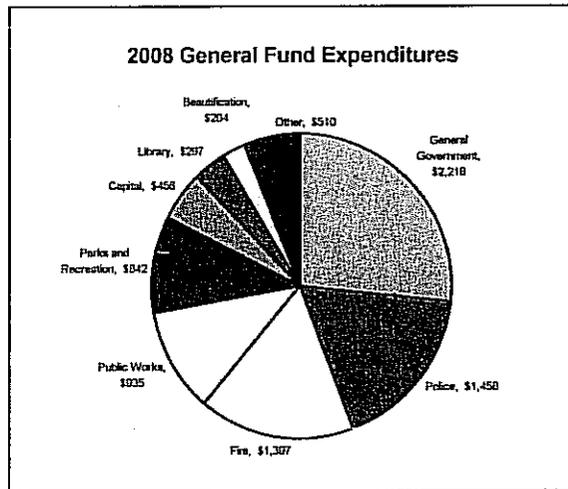
Changes in Net Assets

During the year the City's financial position increased by \$2,184,913, compared to the previous year's increase of \$1,020,218. Revenue increases were favorably affected by several capital grants and contributions.

**CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2008**

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, 2008 was \$4,526,468, a \$178,772 increase over the prior year's fund balance of \$4,347,696. While there was no significant variation in operating revenues from the prior year, the City's operating expenses were impacted primarily by the initial operation of its third fire station. The City was able to reduce expenditures in other areas to accommodate the additional fire department expenditures.

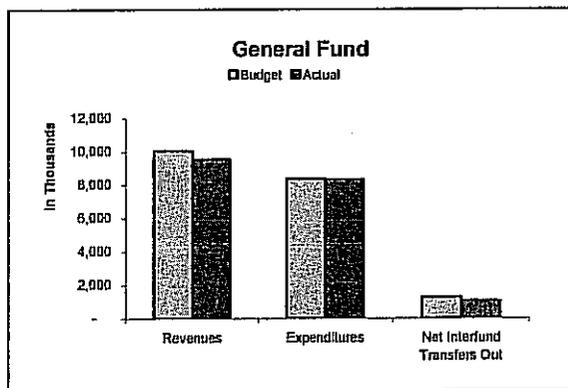


During fiscal year 2008, the City began accounting for the operations of the Ravine Golf Course in a separate proprietary fund. In previous years, the City accounted for its operations as a component of the General Fund. For comparison, Fiscal Year 2007 operations from the Ravine contributed \$181,792 to General Fund revenues while consuming \$262,553 of its expenditures for a net deficit of \$80,761 to the fund. During Fiscal Year 2008, the General Fund transferred \$74,009 to the Ravine Golf Course Fund to subsidize its operating deficit.

Capital Building Fund - The Capital Building Fund accounts for the financial sources and expenditures necessary to complete certain building projects including a fire station, a municipal safety complex and a portion of the cost of an athletic stadium. Funding for these projects is provided primarily by the Series 2007 General Obligation Warrants, which were issued during Fiscal Year 2007. As of September 30, 2008, the unspent balance related to the debt issue was \$3,624,255, which was restricted for the completion of the building projects.

General Fund Budgetary Highlights

There were three amendments made to the appropriated budget during the fiscal year, all of which were to appropriate fund balance to accommodate increased costs associated with employee raises, fire training expenses and grant matches. The general fund revenue fell short of its budgeted revenue by \$529,371 due primarily to projected tax revenue increases not meeting expectations. General Fund expenses were \$42,896 under budget.



**CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2008**

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2008 the City had \$13,116,009 invested in capital assets (net of accumulated depreciation) compared to last year's \$11,325,547, an increase of \$1,790,462. The City investment in capital assets includes buildings, automobiles and equipment, street lights, sidewalks, roads and books. The City booked \$671,088 in depreciation, compared to the previous year's \$580,570.

Capital Assets

	Year ended September 30,	
	2008	2007
Land	\$ 384,640	\$ 384,640
Construction in progress	821,099	1,045,100
Buildings	5,553,813	4,903,864
Improvements	2,763,718	1,845,378
Infrastructure	1,283,215	1,283,215
Equipment and vehicles	2,309,524	1,863,350
Total Capital Assets	\$ 13,116,009	\$ 11,325,547

Long-Term Debt

The City has two general obligations warrants: Series 2003, a long-term debt obligation through 2016; and Series 2007, a long-term debt obligation through 2037. The current amount on the debt is \$9,815,000. The City has an agreement with the Demopolis Water Works and Sewer Board, whereby the Board is obligated to fund a portion of the Series 2003 warrants (the current portion due from the Board is \$455,000). The City also has an obligation to pay a portion of the unused sick and vacation time accrued by employees, currently \$190,046 (up from \$155,429 in the prior year).

Long-Term Debt

	Year ended September 30,	
	2008	2007
2003 General Obligation Warrants	\$ 4,815,000	\$ 5,450,000
2007 General Obligation Warrants	5,000,000	5,000,000
Amounts to be repaid by Demopolis Water Works and Sewer Board	(455,000)	(495,000)
Total Long-Term Debt	\$ 9,360,000	\$ 9,955,000

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 2008-2009 fiscal year.

State Factors

- The State of Alabama has had a stable economy for fiscal year 2008. Although the growth in the economy had been significant in years prior, this fiscal year reflected maintenance of the status quo. Economic projections for the 2009 fiscal year reflect a modest decline due to lower housing starts, automobile sales and other economic indicators.

**CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2008**

Local Factors

- **Economic Conditions:** Although unemployment statistics specific to the City were unavailable, Marengo County (of which Demopolis is the largest population base) experienced a 6.6% unemployment rate as of September 2008. This rate is higher than the state-wide average of 5.3%. According to statistics from the State Department of Industrial Relations, Marengo County had a civilian labor force of 7,917 people. Of this number, 520 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. Rock-Tenn Mill Company continues to be the largest employer of the citizens of Demopolis.
- **Population Trends:** Demopolis City has suffered population decreases 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	7538	+0.03%

- **Fire Station #3:** In June 2008, the City of Demopolis completed construction its third fire station to more effectively serve our citizens in the French Creek and other areas on its east side. Expenditures for fire protection increased significantly over their prior levels as a result of staffing the additional station.
- **Theo Ratliff Activity Center:** During fiscal year 2008, the City began construction of Phase II of the Theo Ratliff Activity Center. The new construction, a 3,500 sq. ft. addition to the existing 10,000 sq. ft. Center, is expected to add classrooms, computers and other learning aides for use by our citizens. The project is financed by a grant from state and federal agencies, a significant donation from the Theo Ratliff Foundation (Mr. Ratliff, a native of Demopolis, is a member of the Philadelphia 76ers of the National Basketball Association), and the City's General Fund. Upon completion (projected spring 2009), operational expenditures for the Center are expected to increase.
- **Fiscal Year 2009 Budget:** In light of current economic conditions and its failure to meet prior year revenue expectations, the City recognizes the need to revise its budget projections for the Fiscal Year 2009.

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 ASSETS
SEPTEMBER 30, 2008

	Governmental Funds	Business-Type Activities - Enterprise Funds	Total
<u>Assets</u>			
Cash	\$ 441,919	\$ 7,467	\$ 449,386
Certificates of deposit	4,211,209		4,211,209
Receivables	1,006,267		1,006,267
Due from Water Department	34,535		34,535
Restricted assets:			
Cash with fiscal agent	145,254		145,254
Certificates of deposit	3,479,515		3,479,515
Capital assets:			
Land	384,640		384,640
Buildings	5,553,813		5,553,813
Improvements	2,763,718		2,763,718
Infrastructure	1,283,215		1,283,215
Equipment	2,217,442	92,082	2,309,524
Construction in progress	821,099		821,099
Unamortized bond issue costs	278,457		278,457
Total Assets	<u>22,621,083</u>	<u>99,549</u>	<u>22,720,632</u>
<u>Liabilities</u>			
Accounts payable	223,329	3,837	227,166
Accrued expenses	173,677	3,630	177,307
Due to cash bond fund	43		43
Long-term liabilities:			
Current portion of long-term debt	610,000		610,000
Accrued compensated absences	190,046		190,046
Noncurrent portion of long-term debt	8,750,000		8,750,000
Total Liabilities	<u>9,947,095</u>	<u>7,467</u>	<u>9,954,562</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	7,143,442	92,082	7,235,524
Restricted for:			
Capital projects	236,063		236,063
Other purposes	534,530		534,530
Unrestricted	4,759,953		4,759,953
Total Net Assets	<u>\$ 12,673,988</u>	<u>\$ 92,082</u>	<u>12,766,070</u>

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

CITY OF MOPOPOLIS
DEMOPOLIS, ALABAMA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2008

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	\$ 2,372,493	\$ 499,973	\$ 921,842	\$ (950,678)	\$	(950,678)	
Beautification	209,312			(209,312)		(209,312)	
Streets	1,261,480	4,205	70,658	(1,131,454)		(1,131,454)	
Fire protection	1,494,193			(1,494,193)		(1,494,193)	
Police protection	1,520,196	202,941		(1,317,255)		(1,317,255)	
Municipal court	307,782	65,311		(242,471)		(242,471)	
Airport	160,672		186,964	26,292		26,292	
Library	305,253			(305,253)		(305,253)	
Code enforcement	77,132			(77,132)		(77,132)	
Parks and recreation	967,134	64,348	200,888	(701,898)		(701,898)	
Cultural	69,740	25,775		(43,965)		(43,965)	
Industrial Development Board	125,000		295,042	170,042		170,042	
Capital outlay	160,396			(160,396)		(160,396)	
Interest and fees	330,570			(330,570)		(330,570)	
Total governmental activities	9,361,353	862,553	70,658	(6,768,243)		(6,768,243)	
Business-type activities:							
Ravine golf course	283,061	200,938			(82,123)	(82,123)	
Total business-type activities	283,061	200,938			(82,123)	(82,123)	
General revenue:							
Taxes							
Property taxes for general purposes				1,887,005		1,887,005	
Business licenses				1,253,148		1,253,148	
Local sales taxes				4,699,196		4,699,196	
Other taxes				761,288		761,288	
State shared revenues				87,682		87,682	
Investment earnings				315,206		315,206	
Miscellaneous				31,754		31,754	
Transfers - Internal activity				(174,205)	174,205		
Total General Revenues				8,861,074	174,205	9,035,279	
Change in Net Assets				2,092,831	92,082	2,184,913	
Net Assets, beginning of year				10,581,157		10,581,157	
Net Assets, end of year				\$ 12,673,988	\$ 92,082	\$ 12,766,070	

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

CITY OF DEMOPOLIS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Business-Type Activities - Enterprise Funds</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 200,938
Cash payments to suppliers for goods and services	(113,129)
Cash payments to employees	(135,851)
Net Cash Provided (Used) by Operating Activities	<u>(48,042)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of property, plant and equipment	(18,500)
Transfers In	74,009
Net Cash Flows (Used) by Capital and Related Financing Activities	<u>55,509</u>
Net Increase (Decrease) in Cash	7,467
Cash, end of year	<u><u>\$ 7,467</u></u>
Reconciliation of Operating Income to Net Cash Provided	
By Operating Activities:	
Operating (Loss)	\$ (82,123)
Adjustments to reconcile operating income to net cash provided by	
Operating activities:	
Depreciation	26,614
Increase (decrease) in accounts payable	3,837
Increase (decrease) in accrued expenses	3,630
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (48,042)</u></u>
Supplemental Disclosure:	
Transfer of property, plant and equipment from governmental funds	100,196

CITY OF DEMOPOLIS, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	General Fund	Capital Building Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash	\$ 68,938	\$	\$ 372,981	\$ 441,919
Cash with fiscal agent		144,740	514	145,254
Certificates of deposit	3,907,170	3,479,515	304,039	7,690,724
Receivables	465,315		540,952	1,006,267
Due from other funds	525,959		108,076	634,035
Total Assets	\$ 4,967,382	\$ 3,624,255	\$ 1,326,562	\$ 9,918,199
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ 215,800	\$	\$ 7,529	\$ 223,329
Accrued expenses	173,677			173,677
Due to other funds	51,437		548,106	599,543
Total Liabilities	440,914		555,635	996,549
Fund Equity:				
Fund Balance:				
Reserved for:				
Capital project fund		3,624,255		3,624,255
Debt service fund			514	514
Unreserved, reported in:				
General fund	4,526,468			4,526,468
Special revenue funds			534,350	534,350
Capital project funds			236,063	236,063
Total Fund Equity	4,526,468	3,624,255	770,927	8,921,650
Total Liabilities and Fund Equity	\$ 4,967,382	\$ 3,624,255	\$ 1,326,562	\$ 9,918,199

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 ASSETS
SEPTEMBER 30, 2008

Total Fund Balance - Governmental Funds	\$ 8,921,650
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.	13,023,927
Unamortized bond issue costs are recorded as expenditures at the time they are incurred and therefore are not reported as an asset in governmental funds.	278,457
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 liabilities	<u>(9,550,046)</u>
Total Net Assets - Governmental Activities	<u>\$ 12,673,988</u>

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Capital Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 7,343,478	\$	\$	\$ 7,343,478
Licenses and permits	1,312,058			1,312,058
Rents and services	499,834			499,834
Fines and costs			263,615	263,615
Intergovernmental revenue	104,221		1,281,803	1,386,024
Other revenues	275,156	133,936	119,246	528,338
Total Revenues	<u>9,534,747</u>	<u>133,936</u>	<u>1,664,664</u>	<u>11,333,347</u>
Expenditures:				
General government and unallocated	2,217,988			2,217,988
Beautification	204,442			204,442
Public works	935,394		189,670	1,125,064
Fire protection	1,396,984			1,396,984
Police protection	1,458,482			1,458,482
Municipal Court	160,781		140,061	300,842
Airport	77,328			77,328
Library	296,795			296,795
Code enforcement	77,132			77,132
Parks and recreation	841,499			841,499
Cultural	69,740			69,740
Industrial Development Board	125,000			125,000
Capital projects		929,070	1,217,992	2,147,062
Capital outlay	456,384			456,384
Debt service:				
Principal			595,000	595,000
Interest and fees			320,968	320,968
Total Expenditures	<u>8,317,949</u>	<u>929,070</u>	<u>2,463,691</u>	<u>11,710,710</u>
Total Revenues Over Expenditures				
Before Other Financing Sources (Uses)	<u>1,216,798</u>	<u>(795,134)</u>	<u>(799,027)</u>	<u>(377,363)</u>
Other Financing Sources (Uses):				
Contribution from related entity			295,042	295,042
Operating transfers in	120,150		1,084,167	1,204,317
Operating transfers (out)	(1,158,176)		(120,150)	(1,278,326)
Total Other Financing Sources (Uses)	<u>(1,038,026)</u>		<u>1,259,059</u>	<u>221,033</u>
Excess (Deficiency) of Revenues and				
Other Financing Sources Over				
Expenditures and Other Fund Uses	178,772	(795,134)	460,032	(156,330)
Fund Balances, Beginning of Year	4,347,696	4,419,389	310,895	9,077,980
Fund Balances, End of Year	<u>\$ 4,526,468</u>	<u>\$ 3,624,255</u>	<u>\$ 770,927</u>	<u>\$ 8,921,650</u>

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, 2008

Total Net Change in Fund Balance - Governmental Funds \$ (156,330)

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	2,443,050
Depreciation expense	(644,474)

Transfers of capital assets from governmental funds to proprietary funds are not reported in the governmental funds as expenditures. In the statement of activities, the net value of the transferred assets are shown as an interfund transfer from governmental funds. (100,196)

An increase in the accrual of long-term compensated absences is not reflected in the governmental funds, but it increases long-term liabilities in the statement of net assets and is an increase of expense in the statement of activities. (34,617)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, have any effect on net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The following amounts are the net effect of these differences in the treatment of long-term debt and related items:

Bond repayment	595,000
Bond issuance costs	<u>(9,602)</u>

Change in Net Assets of Governmental Activities \$ 2,092,831

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
SEPTEMBER 30, 2008

	<u>Agency Funds</u>
<u>Assets</u>	
Cash	\$ 36,779
Due from other funds	43
Total Assets	<u>\$ 36,822</u>
 <u>Liabilities</u>	
Liabilities:	
Current payables	\$ 6,920
Other liabilities	29,902
Total Liabilities	<u>36,822</u>
 <u>Net Assets</u>	
Unrestricted	
Total Net Assets	<u>\$</u>

CITY OF DEMPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
RAVINE GOLF COURSE FUND
SEPTEMBER 30, 2008

	<u>Business-Type Activities - Enterprise Funds</u>
<u>Assets</u>	
Current:	
Cash	\$ 7,467
Noncurrent:	
Capital assets, net of accumulated depreciation	92,082
Total Assets	<u>99,549</u>
 <u>Liabilities</u>	
Current:	
Accounts payable	3,837
Accrued expenses	3,630
Total Liabilities	<u>7,467</u>
 <u>Net Assets</u>	
Investment in capital assets, net of related debt	92,082
Unrestricted	
Total Net Assets	<u>\$ 92,082</u>

CITY OF DEMOPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
RAVINE GOLF COURSE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Business-Type Activities - Enterprise Funds</u>
Operating Revenues:	
Memberships and green fees	\$ 169,158
Merchandise sales	21,294
Concession sales	10,486
Total Operating Revenues	<u>200,938</u>
Operating Expenses:	
Salaries	83,621
Employee benefits	29,511
Depreciation	26,614
Golf course repairs and maintenance	23,045
Utilities	20,873
Telephone	20,744
Equipment lease	19,062
Cost of merchandise	17,830
Equipment repair and maintenance	14,324
Golf course supplies and materials	9,828
Payroll taxes	7,849
Office supplies and expense	6,926
Contract Labor	1,480
Advertising	1,354
Total Operating Expenses	<u>283,061</u>
Net Earnings (Loss) Before Operating Transfers	(82,123)
Operating Transfers In (Out):	
Operating transfers in (out)	<u>174,205</u>
Net Earnings (Loss)	92,082
Net Assets, beginning of year	<u> </u>
Net Assets, end of year	<u><u>\$ 92,082</u></u>

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

	<u>Business-Type Activities - Enterprise Funds</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 200,938
Cash payments to suppliers for goods and services	(113,129)
Cash payments to employees	(135,851)
Net Cash Provided (Used) by Operating Activities	<u>(48,042)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of property, plant and equipment	(18,500)
Transfers In	74,009
Net Cash Flows (Used) by Capital and Related Financing Activities	<u>55,509</u>
Net Increase (Decrease) in Cash	7,467
Cash, end of year	<u><u>\$ 7,467</u></u>
Reconciliation of Operating Income to Net Cash Provided	
By Operating Activities:	
Operating (Loss)	\$ (82,123)
Adjustments to reconcile operating income to net cash provided by	
Operating activities:	
Depreciation	26,614
Increase (decrease) in accounts payable	3,837
Increase (decrease) in accrued expenses	3,630
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (48,042)</u></u>
Supplemental Disclosure:	
Transfer of property, plant and equipment from governmental funds	100,196

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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.

(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 – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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

Basis of Presentation

Government-wide Financial Statements: The statement of net assets 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.

Capital Building Fund – This fund accounts for the financial resources to be used to complete Fire Station #3 and the Municipal Safety Complex buildings.

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, Debt Service Fund and the Bond Proceeds Fund.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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 Sports and Recreation Fund, the Arch Street/Riverwalk Fund, the Industrial Development Special Project Fund, the Whitfield Canal Project Fund, the Capital Building Fund, the Airport Improvement Fund, the Airport Special Project Fund and the Theo Ratliff Building 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.

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: Cash Bonds Fund. The Cash Bonds Fund accounts for cash bonds posted on behalf of individuals involved in judicial matters before City court.

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.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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.

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

(3) Assets, Liabilities and Net Assets

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.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net assets. 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.

Long-term Obligations

In the government-wide financial statements, the unmatured principal of long-term debt and capital leases, and compensated absences are reported in the statement of net assets. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities.

In the fund financial statements, the face amount of debt issued during the year is reported as an other financing sources. Debt issuance costs are not deducted from the amount reported as an other financing source but are reported as debt service expenditures. Any discount resulting from a disparity between the market rate and the stated rate of interest is reported as an other financing use. Expenditures for debt principal, interest and related costs are reported in the fiscal year payment is made. At the inception of a capital lease, an amount equal to the present value of the net minimum lease payments is reported as an other financing source and as an expenditure. The balance sheet does not reflect a liability for long-term debt.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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.

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 Assets/Fund Equity

Net assets are reported on the government-wide financial statements and are 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 net assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- Unrestricted – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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.

B. 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, 2008, the carrying amount of the City's bank deposits was \$4,697,383 and the bank balance was \$4,952,172. Of the total bank balance, \$200,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$4,752,172 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, 2008 are held in a certified qualified public depository.

C. Stewardship, Compliance and Accountability

Budgets

The City adopts a legal 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 following special revenue funds' expenditures exceeded the appropriations for the fund: 7 Cent Special Gas Tax Fund - \$119,012. These shortages were funded by transfers from the General Fund.

The following capital projects funds' expenditures exceeded the appropriations for the fund: Arch Street/Riverwalk Project Fund - \$70,525. These shortages were funded by transfers from the General Fund and surplus of fund balances accumulated in prior years.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

The following proprietary funds' expenditures exceeded the revenues for the fund: Ravine Golf Course Fund - \$74,009. These shortages were funded by transfers from the General Fund.

D. Certificates of deposit

Certificates of deposit at September 30, 2008 consisted of the following:

Certificates of deposit with BankTrust, Demopolis, Demopolis, Alabama, due within one year, with interest of 5.50% to 3.00%.	\$ 3,840,943
Certificates of deposit with Robertson Banking Company, Demopolis, Alabama, due within one year, with interest of 4.30% to 2.65%.	<u>372,455</u>
	<u>\$ 4,213,398</u>

E. Receivables

Receivables at September 30, 2008 for the individual major and nonmajor funds are as follows:

	General Fund	Capital Building Fund	Other Governmental Funds	Total
Taxes	\$ 424,752	\$	\$	\$ 424,752
Intergovernmental revenues	10,643		404,080	414,723
Other receivables	29,920		136,872	155,692
	<u>\$ 465,315</u>	<u>\$</u>	<u>\$ 540,952</u>	<u>\$ 1,006,267</u>

F. Interfund Receivables and Payables

Interfund receivables and payables at September 30, 2008 are as follows:

	Interfund	
	Receivables	Payables
Due from/Due to:		
General Fund	\$ 525,959	\$ 51,437
Debt Service Fund	1,585	
7 Cent Special Gas Tax Fund	109	
Special Paving Assessment	17,222	
Corrections Fund	56,682	
Court Fund	32,478	84,337
Theo Ratliff Building Fund		124,771
Arch Street/Riverwalk Fund		338,998
Cash Bond Fund	43	
Demopolis Water and Sewer Board		34,535
	<u>\$ 634,078</u>	<u>\$ 634,078</u>

G. Capital Assets

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Capital asset activity for the year ended September 30, 2008 is as follows:

	Balance October 1, 2007	Additions/ Adjustments	Deletions	Balance September 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 384,640	\$	\$	\$ 384,640
Construction in progress	1,045,100	637,992	861,993	821,099
	<u>1,429,740</u>	<u>637,992</u>	<u>861,993</u>	<u>1,205,739</u>
Other capital assets:				
Buildings	8,661,758	796,074		9,457,832
Improvements	2,411,881	1,040,799		3,452,680
Infrastructure	1,283,215			1,283,215
Equipment and vehicles	3,791,814	830,178	249,800	4,372,192
	<u>16,148,668</u>	<u>2,667,051</u>	<u>249,800</u>	<u>18,565,919</u>
Less accumulated depreciation:				
Buildings	3,757,894	146,125		3,904,019
Improvements	566,503	122,459		688,962
Equipment and vehicles	1,928,464	375,890	149,604	2,154,750
	<u>6,252,861</u>	<u>644,474</u>	<u>149,604</u>	<u>6,747,731</u>
Total other capital assets, net	<u>9,895,807</u>	<u>2,022,577</u>	<u>100,196</u>	<u>11,818,188</u>
Total governmental activities, net	<u>\$ 11,325,547</u>	<u>\$ 2,660,569</u>	<u>\$ 962,189</u>	<u>\$ 13,023,927</u>
	Balance October 1, 2007	Additions/ Adjustments	Deletions	Balance September 30, 2008
Proprietary activities:				
Equipment	\$	\$ 118,696	\$	\$ 118,696
Less accumulated depreciation		26,614		26,614
Total proprietary activities, net	<u>\$</u>	<u>\$ 92,082</u>	<u>\$</u>	<u>\$ 92,082</u>

Depreciation expense was charged to governmental functions as follows:

General government and unallocated	\$ 119,888
Beautification	4,870
Streets	136,416
Fire protection	97,209
Police protection	61,714
Municipal court	6,940
Airport	83,344
Library	8,458
Parks and recreation	125,635
	<u>\$ 644,474</u>

Depreciation expense was charged to the following proprietary activity:

Ravine Golf Course Fund	\$ 26,614
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The City has entered into contracts for the construction or renovation of various facilities as

See Independent Auditors' Report

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

follows:

<u>Location/Project</u>	<u>Project Authorization Amount</u>	<u>Expended To Date</u>	<u>Additional Commitment</u>	<u>Required Further Financing</u>
Public safety building	\$ 1,746,100	\$ 139,137	\$ 1,606,963	\$
Arch Street/Riverwalk Project	575,000	555,206	19,794	
Theo Ratliff Center Phase II	450,000	126,756	323,244	
DHS Athletic Stadium	<u>2,000,000</u>		<u>2,000,000</u>	
Total Construction in Progress	<u>\$ 4,771,100</u>	<u>\$ 821,099</u>	<u>\$ 3,950,001</u>	<u>\$</u>

H. 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.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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.

At September 30, 2008, the Water Works and Sewer Board is continuing to pay the annual payment agreed upon to retire its share of the \$900,000 1991 bond issue. The schedule of general obligation bonds payable reflects the advance of general obligation warrants which will be repaid by the Board as a reduction in the general obligation bonds payable total included in the financial statements.

I. Long-Term Liabilities

The following is a summary of long-term liabilities transactions of the City for the year ended September 30, 2008:

	Balance September 30, 2007	Additions	Retirements	Balance September 30, 2008	Current Portion
Bonds payable:					
Series 2003 GOW	\$ 5,450,000	\$	\$ 635,000	\$ 4,815,000	\$ 655,000
Series 2007 GOW	5,000,000			5,000,000	
Advance to Demopolis Water Works and Sewer Board	(495,000)		(40,000)	(455,000)	(45,000)
Total bonds payable	9,955,000		595,000	9,360,000	610,000
Accrued compensated absences	155,429	133,190	98,573	190,046	
	<u>\$ 10,110,429</u>	<u>\$ 133,190</u>	<u>\$ 693,573</u>	<u>\$ 9,550,046</u>	<u>\$ 610,000</u>

Bonds payable are comprised of the following individual issues:

2003 General Obligation Warrants, due serially with interest at 1.25% to 3.90% per annum	\$ 4,815,000
2007 General Obligation Warrants, due serially with interest at 4.20% to 4.60% per annum	5,000,000
	<u>9,815,000</u>
Less: Amounts to be repaid by Demopolis Water Works and Sewer Board	(455,000)
	<u>\$ 9,360,000</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

The annual requirements to amortize the City's portion of all debt outstanding as of September 30, 2008 are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2009	\$ 610,000	\$ 365,650	\$ 975,650
2010	620,000	349,017	969,017
2011	645,000	330,538	975,538
2012	465,000	309,532	774,532
2013	480,000	293,700	773,700
2014	495,000	276,870	771,870
2015	515,000	259,208	774,208
2016	530,000	240,580	770,580
2017	150,000	220,855	370,855
2018	160,000	214,555	374,555
2019	165,000	207,835	372,835
2020	170,000	200,740	370,740
2021	180,000	193,430	373,430
2022	185,000	185,870	370,870
2023	195,000	178,100	373,100
2024	205,000	169,812	374,812
2025	210,000	161,100	371,100
2026	220,000	152,070	372,070
2027	230,000	142,610	372,610
2028	240,000	132,605	372,605
2029	250,000	122,165	372,165
2030	260,000	111,165	371,165
2031	270,000	99,725	369,725
2032	285,000	87,575	372,575
2033	295,000	74,750	369,750
2034	310,000	61,180	371,180
2035	325,000	46,920	371,920
2036	340,000	31,970	371,970
2037	355,000	16,330	371,330
	<u>\$ 9,360,000</u>	<u>\$ 5,236,457</u>	<u>\$ 14,596,457</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

J. Defined Benefit Pension Plan

Plan Description

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

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

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for purposes of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, town and quasi-public organizations. The responsibility for general administration and operation of the Employees Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement System of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees Retirement System of Alabama. That report may be obtained by writing to Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36104 or calling 1-334-832-4140.

Funding Policy

Members of the Employees' Retirement System are required to contribute 5% of their covered salary. Effective January 1, 2001, the member contribution rate for certified full-time firefighters and law enforcement officers increased to 6% of employee's compensation. Regular member contributions remain at 5% of employee compensation. The City is required to contribute at an actuarially determined rate. The current rate is 11.37% of annual covered payroll. The contribution requirements of plan members and the City are established by law and are adjusted by the Employees' Retirement System based on actuarial calculations.

Annual Pension Cost

In 2008, the City's annual pension cost of \$350,256 for the Employees' Retirement System was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation performed as of September 30, 2007. The actuarial assumptions used in the valuation include (a) rate of return on the investment of present and future assets of 8.00% a year compounded annually, (b) assumed annual rates of future salary increases ranging from 4.61% at age 20 to 7.75% at age 65, and (c) no post-retirement benefit increases. The actuarial value of the Employees' Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability of the

See Independent Auditors' Report

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Employees' Retirement System is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2007, was 16 years.

Three-Year Trend Information for the Employees' Retirement System

Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 235,729	100%	\$
2006	275,081	100%	
2007	333,665	100%	

Schedule of Funding Progress for the Employees' Retirement System

Actuarial Valuation Date	Actuarial Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
09-30-02	\$ 4,701,335	\$ 6,017,254	\$ 1,315,919	78.1%	\$ 2,413,162	54.5%
09-30-03	5,036,221	6,656,236	1,620,015	75.7	2,376,636	68.2
09-30-04	5,352,707	7,184,531	1,831,824	74.5	2,345,723	78.1
09-30-05	5,727,382	8,024,806	2,297,424	71.4	2,464,139	93.2
09-30-06	6,128,857	8,889,423	2,760,565	68.9	2,771,551	99.6
09-30-07	6,713,413	9,526,192	2,812,779	70.5	3,107,098	90.5

K. Contribution from Related Entity

During fiscal year 2008, the City received a cash contribution from the Demopolis Industrial Development Board in the amount of \$295,042. This amount represents the net proceeds from the sale of an industrial spec building owned by the IDB, and its use is restricted to future industrial development projects within the City.

L. 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.

M. 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
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts Budget Basis	Budget To GAAP Adjustments	Actual Amounts GAAP Basis
	Original	Final			
Revenues:					
Taxes	\$ 7,773,364	\$ 7,773,364	\$ 7,343,478	\$	\$ 7,343,478
Licenses and permits	1,433,550	1,433,550	1,312,058		1,312,058
Rents and services	485,014	485,014	499,834		499,834
Intergovernmental revenue	73,000	108,690	104,221		104,221
Other revenues	263,500	263,500	275,156		275,156
Total Revenues	10,028,428	10,064,118	9,534,747		9,534,747
Expenditures:					
General government and unallocated	2,205,504	2,209,275	2,217,988		2,217,988
Beautification	206,299	208,468	204,442		204,442
Public works	959,804	985,879	935,394		935,394
Fire protection	1,287,998	1,347,715	1,396,984		1,396,984
Police protection	1,493,815	1,510,924	1,458,482		1,458,482
Municipal Court	160,546	162,193	160,781		160,781
Airport	79,500	79,500	77,328		77,328
Library	287,853	292,694	296,795		296,795
Code enforcement	76,234	77,184	77,132		77,132
Parks and recreation	840,221	851,292	841,499		841,499
Cultural	53,250	53,250	69,740		69,740
Industrial Development Board	122,330	134,181	125,000		125,000
Capital projects					
Capital outlay	402,600	448,290	456,384		456,384
Total Expenditures	8,175,954	8,360,845	8,317,949		8,317,949
Total Revenue over Expenditures before					
Other Financing Sources (Uses)	1,852,474	1,703,273	1,216,798		1,216,798
Other Financing Sources (Uses):					
Operating transfers in	90,000	90,000	120,150		120,150
Operating transfers (out)	(1,351,385)	(1,351,385)	(1,158,176)		(1,158,176)
Total Other Financing Sources (Uses)	(1,261,385)	(1,261,385)	(1,038,026)		(1,038,026)
Excess (Deficiency) of Revenues and Other					
Financing Sources over Expenditures					
and other Financing Uses	591,089	441,888	178,772		178,772
Fund Balances, Beginning of Year	4,347,696	4,347,696	4,347,696		4,347,696
Fund Balances, End of Year	\$ 4,938,785	\$ 4,789,584	\$ 4,526,468	\$	\$ 4,526,468

CITY OF DEMOPOLIS, ALABAMA
NOTES TO SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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	\$ 9,534,747
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Differences - budget to GAAP

Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 9,534,747</u>
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Uses/Outflows of Resources

Actual amounts (budgetary basis) available for expenditures shown as total expenditures on budgetary comparison schedule	\$ 8,317,949
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Differences - budget to GAAP

Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 8,317,949</u>
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CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Description	Federal CFDA Number	Revenue Recognized	Expenditures
<u>U.S. Department of Transportation</u>			
Passed through Alabama Department of Transportation:			
Airport Improvement Program	20.106	167,261	167,261
Highway Planning and Construction	20.205	\$ 369,589	\$ 369,589
Passed through Alabama Department of Economic And Community Affairs:			
State and Highway Safety Program	20.600	3,945	3,945
Alcohol Traffic Safety and Drunk Driving Prevention Grant	20.601	1,813	1,813
Safety Belt Performance Grant	20.609	2,092	2,092
		<u>544,700</u>	<u>544,700</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Alabama Department of Economic And Community Affairs:			
Community Development Block Grants/State's Program	14.228	<u>187,962</u>	<u>187,962</u>
<u>U.S. Department of Interior</u>			
Passed through Alabama Historical Commission:			
Historic Preservation Fund Grants-In-Aid	15.904	<u>5,384</u>	<u>5,384</u>
<u>U.S. Department of Health and Human Services</u>			
Hurricane Katrina Relief	93.776	<u>35,690</u>	<u>35,690</u>
<u>U.S. Department of Homeland Security</u>			
Assistance to Firefighters Grant	97.044	14,250	14,250
Hazard Mitigation Grant	97.039	386,677	386,677
		<u>400,927</u>	<u>400,927</u>
<u>U.S. Department of Justice</u>			
Bulletproof Vest Partnership Program	16.607	<u>1,110</u>	<u>1,110</u>
Total Federal Awards		<u>\$ 1,175,773</u>	<u>\$ 1,175,773</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Demopolis, Alabama and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The basis of accounting is the same as used in the preparation of the financial statements.

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

- A. The auditor's report expresses an qualified opinion on the financial statements of City of Demopolis, Alabama.
- B. An examination of the internal control over financial reporting of the City of Demopolis, Alabama did identify reportable conditions that are considered to be material weaknesses.
- C. An examination of the internal control over financial reporting of the City of Demopolis, Alabama, did identify reportable conditions that are considered to be significant deficiencies.
- D. No instances of noncompliance material to the financial statements of the City of Demopolis, Alabama, were disclosed during the audit.
- E. An examination of the internal control over major federal programs of the City of Demopolis, Alabama did not identify significant deficiencies.
- F. An examination of the internal control over major federal programs of the City of Demopolis, Alabama, did not identify material internal control weaknesses.
- G. The Major Programs' Compliance Opinion was unqualified.
- H. There were not any findings to be reported in accordance with Section 510(a) of Circular A-133.
- I. The programs tested as major programs include the following:

<u>DESCRIPTION</u>	<u>CATALOG NO.</u>
Department of Homeland Security Hazard Mitigation Grant	97.039
Department of Transportation Airport Improvement Program	20.106
Highway Planning & Construction	20.205

- J. The threshold for distinguishing Types A and B programs was \$300,000.
- K. The City of Demopolis, Alabama, was considered a low-risk auditee.

SECTION II – FINANCIAL STATEMENT FINDINGS

See Internal control Letter on Page 42

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported for the City of Demopolis, Alabama.

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May 7, 2009

MEMBERS
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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 the financial statements of the City of Demopolis, Alabama, as of and for the year ended September 30, 2008, and have issued our report thereon, dated May 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses listed as 2008.1 thru 2008.11 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in

the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2008.11 to be a material weakness.

Compliance and Other Matters

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

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Demopolis, Alabama in a separate letter dated May 7, 2009.

This report is intended for the information of the audit committee, management, other state agencies, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

THE CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2008

The items detailed below are part of our written communications to the Council concerning internal control deficiencies in the present accounting system. These items do not reflect questioned costs.

SIGNIFICANT DEFICIENCIES

- 2008.1** **Bank Reconciliations-Operation Deficiency:** Bank accounts need to be investigated for outstanding checks that remain outstanding for more than six-months. In addition, deposits in transit not clearing the subsequent month bank statement within a two to three day period should be investigated immediately. This review should be done monthly. Also, reconciliations should be performed by an individual that is not involved with cash disbursements and check preparation.
- 2008.2** **Deposits-Design Deficiency:** We would recommend that deposits made by the City have a second review by an individual not involved in the collection of the funds or deposit preparation. This can be done on a random basis for internal audit purposes.
- 2008.3** **Payroll Preparation-Operation Deficiency:** Upon completion of payroll checks, a Q second review should be conducted to ensure checks are prepared accurately and agree to the actual supporting time sheets and time summary. This review can be conducted by the City Clerk or other administrative staff or department supervisors.
- 2008.4** **Computer Access-Design Deficiency:** Computer passwords should be changed every sixty-days by each employee. This should be a standard practice for limiting computer access and possible misappropriation. Passwords should be assigned by one employee who maintains a master of the password codes.
- 2008.5** **Internal Control Document-Design Deficiency:** We would recommend the Board prepare and approve a written internal control document that addresses all phases of the accounting system and the personnel so involved. This document would provide details of the accounting system, the related internal controls and the "checks and balances" to the system.
- 2008.6** **Terminated Employees-Design Deficiency:** A system needs to be established to ensure terminated employees are not being paid as "ghost employees". With direct deposit of payroll checks, this system failure becomes more difficult to monitor.
- 2008.7** **Municipal Court Funds-Design Deficiency:** We would recommend that all deposits made by the Municipal Court for bonds or court receipts be accompanied by adequate documentation to ensure the accuracy of the deposits. We noted on two occasions deposit errors that could have been detected if the supporting documentation had been attached. At the present time, deposit copies are given to the City Clerk without sufficient documentation.

THE CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2008

SIGNIFICANT DEFICIENCIES

- 2008.7 Municipal Court Funds-Design Deficiency (cont'd)**
Voided receipts made by the Municipal Court personnel should be initialed and approved by a second reviewer. A brief explanation should be attached to the voided receipt.
- The State of Alabama requires the municipal court bank account to 'zero out' at the end of each month. The State requires that once all required payments are made to the applicable State offices and agencies, the remaining funds are transferred to the general fund. At the present time, this account is not being operated as required by the State of Alabama.
- 2008.8 Sale of Materials and Supplies-Design Deficiency:** It was noted during our inquiries of management, the Public Works department on some occasions are selling materials and supplies to individuals. This practice is strictly prohibited because the individual purchasing the item is avoiding the payment of applicable sales tax. This provides an advantage to certain individuals or companies.
- 2008.9 Monitoring-Design Deficiency:** We would recommend the City review its oversight of various departments that have the ability to receive funds, make deposits or make disbursements to help ensure the integrity of the accounting in each department.
- 2008.10 Travel Reimbursements-Design Deficiency:** It was noted in our audit procedures and review, certain reimbursements to management that lacked adequate documentation or sufficient evidence of purpose of the reimbursement. Therefore, we would recommend the City establish a detailed policy related to employee reimbursements and the need for adequate documentation and verification of the purpose of the travel or expenditure.

MATERIAL WEAKNESS

- 2008.11 Lack of Segregation of Duties-Design Deficiency:** The City is not large enough to have total segregation of duties for accounting functions. However, the entity is responsible for designing and preparing a written internal control document to address these issues and establish certain 'checks and balances' to the accounting system to provide adequate controls.

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May 7, 2009

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

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

Compliance

We have audited the compliance of the City of Demopolis, Alabama with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The City of Demopolis, Alabama's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Demopolis, Alabama's management. Our responsibility is to express an opinion on the City of Demopolis, Alabama's compliance based on our audit.

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

In our opinion, the City of Demopolis, Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control over Compliance

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

of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

LeCroy, Hunter & Company, P.C.

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