

**CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
SEPTEMBER 30, 2011**

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

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LeCroy, Hunter & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

5710 WATERMELON ROAD, SUITE 400

NORTHPORT, ALABAMA 35473

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

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

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

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

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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PUBLIC ACCOUNTANTS

July 24, 2012

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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, 2011 in the amounts of \$28,094,310 and \$8,735,518, respectively, or the amount of the depreciation expense included in the Statement of Activities for the year then ended in the amount of \$695,666.

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, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with accounting principles generally accepted in the United States of America, the City of Demopolis, Alabama, has issued separate reporting entity financial statements.

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, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison information on pages 3 through 9 and 34 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. This statement is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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, 2011

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, 2011. 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, 2011 by \$13,238,892. Of this amount \$4,713,866 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2011 the City's total net assets increased \$1,075,895.
- Total fund balance of governmental funds at September 30, 2011 was \$5,269,283 compared to a total governmental fund balance at September 30, 2010 of \$5,832,746.
- The City has \$11,671,240 in long term debt, up from \$8,324,195 the previous year. The debt consists of the Series 2003 and Series 2007 General Obligation Warrants, a temporary funding agreement with Regions Bank, and accrued compensated absences.
- The City completed a significant property purchase of land and an industrial building for the purpose of constructing a multi-modal port facility (purchase price \$4,000,000).

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
SEPTEMBER 30, 2011

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 26 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
SEPTEMBER 30, 2011

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 2011 as Compared to 2010 (in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$ 6,746	\$ 6,445	\$ 18	\$ 23	\$ 6,764	\$ 6,468
Restricted Assets	67	193			67	193
Capital Assets	19,358	14,337	21	44	19,379	14,381
Total Assets	<u>26,171</u>	<u>20,975</u>	<u>39</u>	<u>67</u>	<u>26,210</u>	<u>21,042</u>
Liabilities						
Current and Other Liabilities	\$ 1,294	\$ 1,191	\$ 6	\$ 9	\$ 1,300	\$ 1,200
Long-term Liabilities	11,671	7,679			11,671	7,679
Total Liabilities	<u>12,965</u>	<u>8,870</u>	<u>6</u>	<u>9</u>	<u>12,971</u>	<u>8,879</u>
Net Assets						
Invested in Capital Assets, Net of Debt	\$ 7,873	\$ 6,207	\$ 21	\$ 44	\$ 7,894	\$ 6,251
Restricted	631	551			631	551
Unrestricted	4,702	5,347	12	14	4,714	5,361
Total Net Assets	<u>13,206</u>	<u>12,105</u>	<u>33</u>	<u>58</u>	<u>13,239</u>	<u>12,163</u>

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, 2011 by \$13,238,892, an increase of \$1,075,895 over the previous year's net asset balance of \$12,162,997. Of this amount \$4,713,866 is unrestricted and available to meet the City's on-going 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 \$5,021,045, largely resulting from the purchase of the multi-modal port facility property and other projects in the city.

Assets restricted to a particular use are 5% of net assets, and include amounts designated for street lighting and maintenance, capital building projects, industrial development, and required bond reserves.

Unrestricted net assets equal 36% of net assets.

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

A comparison of the City of Demopolis's Changes in Net Assets, Fiscal Year 2011 as Compared to 2010
(in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Program Revenues						
Charges and Services	\$ 1,043	\$ 1,001	\$ 167	\$ 152	\$ 1,210	\$ 1,153
Operating Grants and Contributions	259	88			259	88
Capital Grants and Contributions	1,607	324			1,607	324
General Revenues						
Property Taxes for General Purposes	2,016	2,057			2,016	2,057
Business Licenses	1,201	1,245			1,201	1,245
Local Sales Taxes	4,747	4,688			4,747	4,688
Other Taxes	772	723			772	723
State Shared Revenues	69	92			69	92
Investment Earnings	60	87			60	87
Miscellaneous	82	456			82	456
Total Revenues	11,856	10,761	167	152	12,023	10,913
Program Expenses						
General Government and Unallocated	\$ 2,652	\$ 2,384	\$	\$	\$ 2,652	\$ 2,384
Beautification	232	237			232	237
Streets	995	1,164			995	1,164
Fire Protection	1,834	1,756			1,834	1,756
Police Protection	2,313	1,809			2,313	1,809
Municipal Court	374	396			374	396
Airport	91	149			91	149
Library	285	301			285	301
Code Enforcement	76	76			76	76
Parks and Recreation	988	980	256	227	1,244	1,207
Cultural	51	60			51	60
Economic Development	218	185			218	185
Capital Outlay	242	119			242	119
Interest and Fees	340	361			340	361
Total Expenses	10,691	9,977	256	227	10,947	10,204
Excess Before Transfers	1,165	784	(89)	(75)	1,076	709
Transfers	(64)	(52)	64	52		
Net Assets, Beginning of Year	12,105	11,373	58	81	12,163	11,454
Net Assets, End of Year	\$ 13,206	\$ 12,105	\$ 33	\$ 58	\$ 13,239	\$ 12,163

Changes in Net Assets

During the year the City's financial position increased by \$1,075,895, compared to the previous year's increase of \$709,409.

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

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, 2011 was \$4,638,070, a \$640,700 decrease over the prior year's fund balance of \$5,278,770. The fund balance was impacted by several one-time payments and capital projects.

Capital Building Fund - The Capital Building Fund accounts for the financial sources and expenditures necessary to complete certain building projects including the multi-modal port facility property. Funding for these projects is provided primarily by the temporary funding agreement with Regions Bank, which was secured during 2011. As of September 30, 2011, the projects financed through this fund had been completed, and any funds remaining with the fiscal agent were to be reimbursed to the City.

General Fund Budgetary Highlights

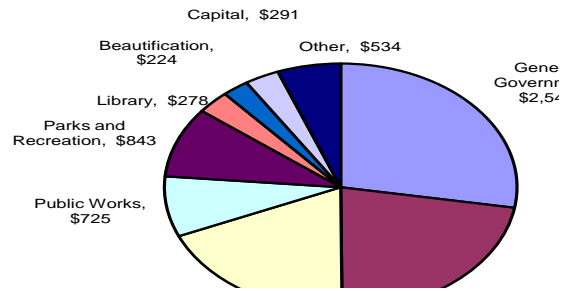
During fiscal year 2011, the City made minor adjustments to the General Fund budget. Some of the difference between budgeted and actual expenditures is the recognition of a one-time payment to the Tombigbee Healthcare Authority and the necessary purchase of a new street sweeper.

Capital Asset and Debt Administration

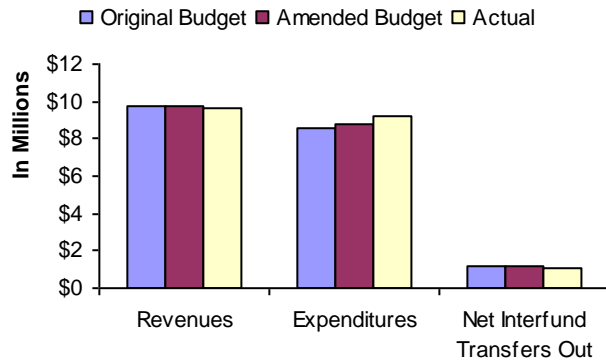
Capital Assets

At the end of fiscal year 2011 the City had \$19,358,792 invested in capital assets (net of accumulated depreciation) compared to last year's \$14,381,347, an increase of \$4,977,445. The City investment in capital assets includes buildings, automobiles and equipment, street lights, railroad spurs and roads. The City booked \$695,666 in depreciation, compared to the previous year's \$734,172.

2011 General Fund Expenditures



General Fund



CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

	Capital Assets	
	Year ended September 30,	
	2011	2010
Land	\$ 2,883,140	\$ 383,140
Construction in progress	1,769,563	296,487
Buildings	8,810,786	7,542,990
Improvements	2,946,888	3,090,253
Infrastructure	1,283,215	1,283,217
Equipment and vehicles	1,665,200	1,785,260
 Total Capital Assets	 \$ 19,358,792	 \$ 14,381,347

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 City also has a temporary funding agreement that is expected to be refinanced through a new general obligation warrant during 2012. The current amount on the debt is \$11,795,000. 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 \$310,000). The City also has an obligation to pay a portion of the unused sick and vacation time accrued by employees, currently \$186,240 (down from \$194,195 in the prior year).

	Long-Term Debt	
	Year ended September 30,	
	2011	2010
2003 General Obligation Warrants	\$ 2,795,000	\$ 3,490,000
2007 General Obligation Warrants	5,000,000	5,000,000
Temporary Funding Agreement	4,000,000	
Amounts to be repaid by Demopolis Water Works and Sewer Board	(310,000)	(360,000)
 Total Long-Term Debt	 \$ 11,485,000	 \$ 8,130,000

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 2011-2012 fiscal year.

State Factors

- Although the rate of decline has slowed considerably, the State of Alabama continued to experience declining economic conditions in fiscal year 2011. Economic projections for the 2012 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
SEPTEMBER 30, 2011

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 12.6% unemployment rate as of September 2010. This rate is higher than the state-wide average of 9.6%. According to statistics from the State Department of Industrial Relations, Marengo County had a civilian labor force of 7,905 people. Of this number, 997 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. Other major employers include Bryan Whitfield Memorial Hospital, Foster Farms and Wal-Mart.
- **Population Trends:** Demopolis City has maintained its population in recent census counts. The following table sets forth certain historical population statistics from the U.S. Census Bureau relating to Marengo County:

<u>Year</u>	<u>Population</u>	<u>Percent Change</u>
1970	7800	N/A
1980	7678	-1.56%
1990	7512	-2.16%
2000	7540	+0.35%
2010	7483	-0.76%

- **Multi-modal Port Facility:** On July 15, 2011, the City purchased property including land and an industrial building that it intends to develop into a multi-modal port facility. The property is located on the Tombigbee River below the confluence of the Tombigbee and Black Warrior Rivers. The port will utilize river-barge shipments, as well as shipments via existing railroad, four-lane highway and airport transportation modes, each of which are located on or contiguous to the property. While the property is ideally located and the building is operational, additional funds may be required to construct a fully-operational port facility on the property.
- **Tombigbee Healthcare Authority:** During 2011, it became known that the Tombigbee Healthcare Authority, operators of the Bryan Whitfield Memorial Hospital in Demopolis, faced a budgetary crisis and threatened to close the Labor and Delivery wing of the hospital. Because City leaders deemed the wing to be a vital healthcare provider for its citizens, the City appropriated \$100,000 to the Authority under the agreement that the wing would remain open for at least one additional year.
- **Higher Education:** The City continues to support the Demopolis Higher Education Center, located at the Demopolis Sportsplex. The Center is being utilized by the University of West Alabama, whose campus is located in Livingston, Alabama, 30 miles from Demopolis. The City anticipates UWA will continue to offer satellite higher education classes utilizing the Center. The City is also working with UWA and other potential post-secondary education partners to develop a technical training campus in Demopolis.

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
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activies -</u> <u>Enterprise Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash	\$ 795,009	\$ 6,252	\$ 801,261
Certificates of deposit	4,046,536		4,046,536
Receivables	1,616,419		1,616,419
Due from Water Department	38,370		38,370
Restricted assets:			
Cash with fiscal agent	66,936		66,936
Inventory		11,867	11,867
Capital assets:			
Land	2,883,140		2,883,140
Buildings	8,810,786		8,810,786
Improvements	2,946,888		2,946,888
Infrastructure	1,283,215		1,283,215
Equipment	1,665,200	20,472	1,685,672
Construction in progress	1,769,563		1,769,563
Unamortized bond issue costs	249,651		249,651
Total Assets	<u>26,171,713</u>	<u>38,591</u>	<u>26,210,304</u>
<u>Liabilities</u>			
Accounts payable	1,129,259	3,205	1,132,464
Accrued expenses	164,685	2,980	167,665
Due to cash bond fund	43		43
Long-term liabilities:			
Current portion of long-term debt	465,000		465,000
Accrued compensated absences	186,240		186,240
Noncurrent portion of long-term debt	11,020,000		11,020,000
Total Liabilities	<u>12,965,227</u>	<u>6,185</u>	<u>12,971,412</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	7,873,792	20,472	7,894,264
Restricted for:			
Capital projects	157,136		157,136
Other purposes	473,626		473,626
Unrestricted	4,701,932	11,934	4,713,866
Total Net Assets	<u>\$ 13,206,486</u>	<u>\$ 32,406</u>	<u>\$ 13,238,892</u>

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

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General governmental and unallocated	\$ 2,652,146	\$ 523,805	\$ 26,221	\$ 75,680	\$ (2,026,440)		\$ (2,026,440)
Beautification	232,334				(232,334)		(232,334)
Streets	995,240	238	71,578	55,255	(868,169)		(868,169)
Fire protection	1,833,566				(1,833,566)		(1,833,566)
Police protection	2,313,355	399,174	160,581	13,461	(1,740,139)		(1,740,139)
Municipal court	373,697	34,088			(339,609)		(339,609)
Airport	91,316			99,163	7,847		7,847
Library	284,883	732			(284,151)		(284,151)
Code enforcement	75,679				(75,679)		(75,679)
Parks and recreation	988,184	59,876		13,359	(914,949)		(914,949)
Cultural	50,771	24,625	240		(25,906)		(25,906)
Economic Development	217,738			1,350,441	1,132,703		1,132,703
Capital outlay	241,946				(241,946)		(241,946)
Interest and fees	340,140				(340,140)		(340,140)
Total governmental activities	10,690,995	1,042,538	258,620	1,607,359	(7,782,478)		(7,782,478)
Business-type activities:							
Ravine golf course	255,850	167,101				(88,749)	(88,749)
Total business-type activities	255,850	167,101				(88,749)	(88,749)
General revenue:							
Taxes							
Property taxes for general purposes					2,016,413		2,016,413
Business licenses					1,201,002		1,201,002
Local sales taxes					4,746,725		4,746,725
Other taxes					772,105		772,105
State shared revenues					68,820		68,820
Investment earnings					59,696		59,696
Miscellaneous					82,361		82,361
Transfers - Internal activity					(63,709)	63,709	
Total General Revenues					8,883,413	63,709	8,947,122
Change in Net Assets					1,100,935	(25,040)	1,075,895
Net Assets, beginning of year					12,105,551	57,446	12,162,997
Net Assets, end of year					\$ 13,206,486	\$ 32,406	\$ 13,238,892

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

CITY OF DEMOPOLIS, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Capital Building Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash	\$ 567,103	\$ (70,817)	\$ 298,723	\$ 795,009
Cash with fiscal agent		66,485	451	66,936
Certificates of deposit	3,853,245		193,291	4,046,536
Receivables	538,258		1,078,161	1,616,419
Due from other funds	188,133	4,332	189,592	382,057
Total Assets	\$ 5,146,739	\$	\$ 1,760,218	\$ 6,906,957
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ 295,109	\$	\$ 834,150	\$ 1,129,259
Accrued expenses	159,320		5,365	164,685
Due to other funds	54,240		289,490	343,730
Total Liabilities	508,669	\$	1,129,005	1,637,674
Fund Equity:				
Fund Balance:				
Restricted			267,846	267,846
Committed			248,575	248,575
Assigned			114,792	114,792
Unassigned	4,638,070			4,638,070
Total Fund Equity	4,638,070	\$	631,213	5,269,283
Total Liabilities and Fund Equity	\$ 5,146,739	\$	\$ 1,760,218	\$ 6,906,957

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

Total Fund Balance - Governmental Funds \$ 5,269,283

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. 19,358,792

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. 249,651

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 (11,671,240)

Total Net Assets - Governmental Activities \$ 13,206,486

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

	General Fund	Capital Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 7,532,142	\$	\$	\$ 7,532,142
Licenses and permits	1,248,917			1,248,917
Rents and services	516,698			516,698
Fines and costs			430,112	430,112
Intergovernmental revenue	128,552		1,776,700	1,905,252
Other revenues	188,415	139	33,964	222,518
Total Revenues	9,614,724	139	2,240,776	11,855,639
Expenditures:				
General government and unallocated	2,544,237			2,544,237
Beautification	224,091			224,091
Public works	724,776		153,765	878,541
Fire protection	1,715,546		6,266	1,721,812
Police protection	2,044,417		111,091	2,155,508
Municipal Court	132,827		235,689	368,516
Airport	57,484			57,484
Library	277,845			277,845
Code enforcement	75,679			75,679
Parks and recreation	842,890			842,890
Cultural	50,771			50,771
Industrial Development Board	217,738			217,738
Capital projects		4,004,471	1,572,240	5,576,711
Capital outlay	291,292		96,740	388,032
Debt service:				
Principal			645,000	645,000
Interest and fees			330,538	330,538
Total Expenditures	9,199,593	4,004,471	3,151,329	16,355,393
Total Revenues Over Expenditures				
 Before Other Financing Sources (Uses)	415,131	(4,004,332)	(910,553)	(4,499,754)
Other Financing Sources (Uses):				
Loan Proceeds		4,000,000		4,000,000
Operating transfers in	175,529	4,332	1,207,067	1,386,928
Operating transfers (out)	(1,231,360)		(219,277)	(1,450,637)
Total Other Financing Sources (Uses)	(1,055,831)	4,004,332	987,790	3,936,291
Excess (Deficiency) of Revenues and				
 Other Financing Sources Over				
 Expenditures and Other Fund Uses	(640,700)		77,237	(563,463)
Fund Balances, Beginning of Year	5,278,770	-	553,976	5,832,746
Fund Balances, End of Year	\$ 4,638,070	\$ -	\$ 631,213	\$ 5,269,283

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, 2011

Total Net Change in Fund Balance - Governmental Funds **\$ (563,463)**

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	5,716,711
Depreciation expense	(695,666)

A decrease in the accrual of long-term compensated absences is not reflected in the governmental funds, but it decreases long-term liabilities in the statement of net assets and is a decrease of expense in the statement of activities.

7,955

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:

Debt proceeds	(4,000,000)
Bond repayment	645,000
Bond issuance costs	(9,602)
	(9,602)

Change in Net Assets of Governmental Activities **\$ 1,100,935**

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
SEPTEMBER 30, 2011

	Agency Funds
<u>Assets</u>	
Cash	\$ 14,315
Due from other funds	43
Total Assets	\$ 14,358
 <u>Liabilities</u>	
Liabilities:	
Current payables	\$ -
Other liabilities	14,358
Total Liabilities	14,358
 <u>Net Assets</u>	
Unrestricted	\$ -
Total Net Assets	\$ -

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

CITY OF DEMPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
RAVINE GOLF COURSE FUND
SEPTEMBER 30, 2011

	<u>Business- Type Activities - Enterprise</u>
<u>Assets</u>	
Current:	
Cash	\$ 6,252
Inventory	11,867
Noncurrent:	
Capital assets, net of accumulated depreciation	20,472
Total Assets	<u>38,591</u>
 <u>Liabilities</u>	
Current:	
Accounts payable	3,205
Accrued expenses	2,980
Total Liabilities	<u>6,185</u>
 <u>Net Assets</u>	
Investment in capital assets, net of related debt	20,472
Unrestricted	11,934
Total Net Assets	<u>\$ 32,406</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, 2011

	Business-Type Activities - Enterprise Funds
Operating Revenues:	
Memberships and green fees	\$ 142,736
Merchandise sales	15,569
Concession sales	8,796
Total Operating Revenues	167,101
Operating Expenses:	
Salaries	92,141
Employee benefits	30,983
Golf course repairs and maintenance	30,639
Depreciation	23,128
Equipment lease	18,092
Utilities	15,833
Cost of merchandise	14,104
Equipment repair and maintenance	12,429
Payroll taxes	7,518
Office supplies and expense	5,472
Golf course supplies and materials	3,548
Telephone	1,316
Advertising	647
Total Operating Expenses	255,850
Net Earnings (Loss) Before Operating Transfers	(88,749)
Operating Transfers In (Out):	
Operating transfers in (out)	63,709
Net Earnings (Loss)	(25,040)
Net Assets, beginning of year	57,446
Net Assets, end of year	\$ 32,406

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

CITY OF DEMOPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
RAVINE GOLF COURSE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business- Type Activities - Enterprise
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 167,101
Cash payments to suppliers for goods and services	(100,149)
Cash payments to employees	(133,507)
Net Cash Provided (Used) by Operating Activities	<u>(66,555)</u>
Cash Flows from Capital and Related Financing Activities:	
Transfers In	63,709
Net Cash Flows (Used) by Capital and Related Financing Activities	<u>63,709</u>
Net Increase (Decrease) in Cash	(2,846)
Cash, beginning of year	<u>9,098</u>
Cash, end of year	<u>\$ 6,252</u>
 Reconciliation of Operating Income to Net Cash Provided	
By Operating Activities:	
Operating (Loss)	\$ (88,749)
Adjustments to reconcile operating income to net cash provided by	
Operating activities:	
Depreciation	23,128
Decrease (increase) in inventory	1,978
Increase (decrease) in accounts payable	(47)
Increase (decrease) in accrued expenses	(2,865)
Net Cash Provided (Used) by Operating Activities	<u>\$ (66,555)</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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.

(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.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

(2) Basis of Presentation, Basis of Accounting and Measurement Focus (cont'd)

Basis of Presentation (cont'd)

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, the Judicial Administration Fund, the Debt Service Fund and the Bond Proceeds Fund.

Capital Projects Funds - Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities. Capital project funds consist of the Sports and Recreation Fund, the Animal Shelter Special Fund, the Fire Department Special Fund, the Police Department Special Fund, the Industrial Development Special Project Fund, the Airport Improvement Fund, the Railroad Spur Project Fund, the Industrial Road Improvement Project Fund, the Police Grant Project Fund 1, the Police Grant Project Fund 2, JAG Grant Fund, COPS Grant Fund, Police Technology Grant Fund and the Historic Preservation Commission Fund.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

(2) Basis of Presentation, Basis of Accounting and Measurement Focus (cont'd)

Basis of Presentation (cont'd)

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.

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.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

(2) Basis of Presentation, Basis of Accounting and Measurement Focus (cont'd)

Basis of Accounting, Measurement Focus (cont'd)

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
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

(3) Assets, Liabilities and Net Assets (cont'd)

Inventories

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

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net 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 source. 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 payments are 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
FOR THE YEAR ENDED SEPTEMBER 30, 2011

B. Summary of Significant Accounting Policies

(3) Assets, Liabilities and Net Assets (cont'd)

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.

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

(3) Assets, Liabilities and Net Assets (cont'd)

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

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

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

New Accounting Principle

For the year ending September 30, 2011 the City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement.

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.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

As of September 30, 2011, the carrying amount of the City's bank deposits was \$4,861,531 and the bank balance was \$4,953,751. Of the total bank balance, \$500,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$4,453,751 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, 2011 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 General Fund's expenditures exceeded appropriations during 2011 in the amount of \$640,700. The shortage was funded from the surplus of fund balances accumulated in prior years

The following special revenue funds' expenditures exceeded the appropriations for the funds: Judicial Administrative Fund - \$2,257. The shortages were funded by transfers from the General Fund and surplus of fund balances accumulated in prior years.

D. Certificates of deposit

Certificates of deposit at September 30, 2011 consisted of the following:

Certificates of deposit with BankTrust, Demopolis, Demopolis, Alabama, due within one year, with interest of 0.35% to 0.85%.	\$ 3,207,110
Certificates of deposit with Robertson Banking Company, Demopolis, Alabama, due within one year, with interest of 0.65% to 2.85%.	<u>839,426</u>
	<u>\$ 4,046,536</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

E. Receivables

Receivables at September 30, 2011 for the individual major and nonmajor funds are as follows:

	General Fund	Capital Building Fund	Other Governmental Funds	Total
Taxes	\$ 384,471	\$	\$	\$ 384,471
Intergovernmental revenues	36,036		1,067,436	1,103,472
Other receivables	117,751		10,725	128,476
	<u>\$ 538,258</u>	<u>\$</u>	<u>\$ 1,078,161</u>	<u>\$ 1,616,419</u>

F. Interfund Receivables and Payables

Interfund receivables and payables at September 30, 2011 are as follows:

Due from/Due to:	Interfund	
	Receivables	Payables
General Fund	\$ 188,133	\$ 54,240
Capital Building Fund	4,332	
7 Cent Special Gas Tax Fund	109	
Special Paving Assessment	17,222	
Industrial Road Improvement Project Fund	63,245	
Corrections Fund	74,937	67,035
Judicial Administration Fund	1,547	
Court Fund	32,478	159,210
Airport Layout Improvement Fund	54	63,245
Cash Bond Fund	43	
Demopolis Water and Sewer Board		38,370
	<u>\$ 382,100</u>	<u>\$ 382,100</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

G. Capital Assets

Capital asset activity for the year ended September 30, 2011 is as follows:

	Balance October 1, 2010	Additions/ Adjustments	Deletions	Balance September 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 383,140	\$ 2,500,000	\$	\$ 2,883,140
Construction in progress	296,487	1,473,076		1,769,563
	<u>679,627</u>	<u>3,973,076</u>		<u>4,652,703</u>
Other capital assets:				
Buildings	11,691,602	1,500,000		13,191,602
Improvements	4,062,081			4,062,081
Infrastructure	1,283,215			1,283,215
Equipment and vehicles	4,676,435	249,721	21,447	4,904,709
	<u>21,713,333</u>	<u>1,749,721</u>	<u>21,447</u>	<u>23,441,607</u>
Less accumulated depreciation:				
Buildings	4,148,611	232,204		4,380,815
Improvements	971,828	143,367		1,115,195
Equipment and vehicles	2,934,774	320,095	15,361	3,239,508
	<u>8,055,213</u>	<u>695,666</u>	<u>15,361</u>	<u>8,735,518</u>
Total other capital assets, net	<u>13,658,120</u>	<u>1,054,055</u>	<u>6,086</u>	<u>14,706,089</u>
Total governmental activities, net	<u>\$ 14,337,747</u>	<u>\$ 5,027,131</u>	<u>\$ 6,086</u>	<u>\$ 19,358,792</u>
	Balance October 1, 2010	Additions/ Adjustments	Deletions	Balance September 30, 2011
Proprietary activities:				
Equipment	\$ 118,696	\$	\$	\$ 118,696
Less accumulated depreciation	75,096	23,128		98,224
Total proprietary activities, net	<u>\$ 43,600</u>	<u>\$ 23,128</u>	<u>\$</u>	<u>\$ 20,472</u>

Depreciation expense was charged to governmental functions as follows:

General government and unallocated	\$ 109,778
Beautification	8,243
Streets	116,699
Fire protection	111,754
Police protection	157,847
Municipal court	5,181
Airport	33,832
Library	7,038
Parks and recreation	145,294
	<u>\$ 695,666</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Depreciation expense was charged to the following proprietary activity:
Ravine Golf Course Fund \$ 23,128

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

Location/Project	Project Authorization Amount	Expended To Date	Additional Commitment	Required Further Financing
Airport Industrial Road	\$ 2,576,451	\$ 1,065,673	\$ 1,510,778	\$
Airport Industrial Water Line	306,407	251,017	55,390	
Jackson Water Improvement	500,000	37,221	462,779	
Railroad Spur Refurbishment	460,000	415,652	44,348	
Total Construction in Progress	<u>\$ 3,842,858</u>	<u>\$ 1,769,563</u>	<u>\$ 2,073,295</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
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

On July 15, 2011, the City entered into a temporary funding agreement with Regions Bank for an amount up to \$4,500,000. The purpose for the funding was to be used toward the purchase of real property to be used as a multi-modal port facility. The land and building was purchased for \$4,000,000, all of which was funded from the temporary funding agreement. During fiscal year 2012, the City refinanced the \$4,000,000 debt through the issuance of General Obligation Warrants, as discussed in a footnote below.

At September 30, 2011, 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, 2011:

	Balance September 30, 2010	Additions	Retirements	Balance September 30, 2011	Current Portion
Bonds and notes payable:					
Series 2003 GOW	\$ 3,490,000	\$	\$ 695,000	\$ 2,795,000	\$ 520,000
Series 2007 GOW	5,000,000			5,000,000	
Temporary funding		4,000,000		4,000,000	
Advance to Demopolis Water Works and Sewer Board	(360,000)		(50,000)	(310,000)	(55,000)
Total bonds and notes payable	8,130,000	4,000,000	645,000	11,485,000	465,000
Accrued compensated absences	194,195	124,348	132,303	186,240	14,019
	<u>\$ 8,324,195</u>	<u>\$ 4,124,348</u>	<u>\$ 777,303</u>	<u>\$ 11,671,240</u>	<u>\$ 479,019</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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	\$ 2,795,000
2007 General Obligation Warrants, due serially with interest at 4.20% to 4.60% per annum	<u>5,000,000</u>
	7,795,000
Less: Amounts to be repaid by Demopolis Water Works and Sewer Board	<u>(310,000)</u>
	<u>\$ 7,485,000</u>

The annual requirements to amortize the City's portion of the bonds payable outstanding as of September 30, 2011 are as follows:

Year Ended September 30,	Principal	Interest	Total Debt Service
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>\$ 7,485,000</u>	<u>\$ 4,191,252</u>	<u>\$ 11,676,252</u>

The City has a temporary funding agreement with Regions Bank. At September 30, 2011, the outstanding principal balance was \$4,000,000 bearing an interest rate of 2.68%. Subsequent to that date and prior to the issuance of this report, the City has paid all interest amounts due and refinanced the principal amount through the issuance of General Obligation Notes.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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, 201 South Union Street, Montgomery, Alabama 36104 or calling 1-877-517-0020.

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 2011, the City's annual pension cost of \$429,707 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, 2010. 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, (c) inflation rate of 4.50%, and (d) 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 Employees' Retirement System is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2010, was 16 years.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

J. Defined Benefit Pension Plan (cont'd)

Three-Year Trend Information for the Employees' Retirement System

Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 349,852	100%	\$
2009	378,973	101.9%	(7,187)
2010	388,842	100%	

Schedule of Funding Progress for the Employees' Retirement System

Actuarial Valuation Date	Actuarial Assets (a)	Actuarial 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)
09-30-05	\$ 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
09-30-08	6,948,780	9,309,804	2,361,025	74.6	3,215,557	73.4
09-30-09	7,325,380	10,056,534	2,731,154	72.8	3,383,002	80.7
09-30-10	7,334,991	10,466,483	3,131,492	70.1	3,591,261	87.2

K. Fund Balances

Amounts for specific purposes by fund and fund balance classification for the year ended September 30, 2011 are as follows:

Fund	Purpose	Amount
Restricted classification:		
Debt Service Fund	Debt Payments	\$ 451
Corrections Fund	Public Safety	98,547
4c Gas Tax Fund	Infrastructure Maintenance	159,253
Judicial Administration Fund	Public Safety	3,328
Municipal Court Fund	Public Safety	6,126
JAG Grant Fund	Public Safety	141
Committed classification:		
Industrial Development Special Project Fund	Economic Development	193,291
Paving Assessment Fund	Infrastructure Maintenance	55,284
Assigned classification:		
Fire Department Special Fund	Public Safety	160
Police Department Special Fund	Public Safety	12,430
Historic Preservation Commission Fund	Cultural	350
Sports and Recreation Fund	Recreation	14,510
Airport Improvement Fund	Airport	87,342
Unassigned classification:		
General Fund		4,638,070
		<u>\$ 5,269,283</u>

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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.

N. Subsequent Event

As mentioned in a previous note, on March 15, 2012, the City issued \$4,000,000 General Obligation Warrants, Series 2012, to refund the temporary funding agreement at Regions Bank. These warrants secured long-term financing for the purchase of the property to be used as a multi-modal port facility.

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget To</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budget</u> <u>Basis</u>	<u>GAAP</u> <u>Adjustments</u>	<u>Amounts</u> <u>GAAP Basis</u>
Revenues:					
Taxes	\$ 7,577,074	\$ 7,577,074	\$ 7,532,142	\$	\$ 7,532,142
Licenses and permits	1,320,000	1,320,000	1,248,917		1,248,917
Rents and services	530,200	530,200	516,698		516,698
Intergovernmental revenue	55,000	56,520	128,552		128,552
Other revenues	236,500	276,878	188,415		188,415
Total Revenues	9,718,774	9,760,672	9,614,724		9,614,724
Expenditures:					
General government and unallocated	2,323,843	2,514,843	2,544,237		2,544,237
Beautification	210,366	211,886	224,091		224,091
Public works	804,859	804,859	724,776		724,776
Fire protection	1,591,615	1,615,274	1,715,546		1,715,546
Police protection	1,831,361	1,848,080	2,044,417		2,044,417
Municipal Court	126,356	126,356	132,827		132,827
Airport	84,900	84,900	57,484		57,484
Library	283,803	283,803	277,845		277,845
Code enforcement	76,976	76,976	75,679		75,679
Parks and recreation	856,313	856,313	842,890		842,890
Cultural	56,200	56,200	50,771		50,771
Industrial Development Board	105,000	105,000	217,738		217,738
Capital outlay	206,550	206,550	291,292		291,292
Total Expenditures	8,558,142	8,791,040	9,199,593		9,199,593
Total Revenue over Expenditures before					
Other Financing Sources (Uses)	1,160,632	969,632	415,131		415,131
Other Financing Sources (Uses):					
Operating transfers in	125,000	125,000	175,529		175,529
Operating transfers (out)	(1,268,538)	(1,268,538)	(1,231,360)		(1,231,360)
Total Other Financing Sources (Uses)	(1,143,538)	(1,143,538)	(1,055,831)		(1,055,831)
Excess (Deficiency) of Revenues and Other					
Financing Sources over Expenditures					
and other Financing Uses					
	17,094	(173,906)	(640,700)		(640,700)
Fund Balances, Beginning of Year	5,278,770	5,278,770	5,278,770		5,278,770
Fund Balances, End of Year	\$ 5,295,864	\$ 5,104,864	\$ 4,638,070	\$	\$ 4,638,070

CITY OF DEMOPOLIS, ALABAMA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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	\$ 9,614,724
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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>\$ 9,614,724</u>
---	---------------------

Uses/Outflows of Resources

Actual amounts (budgetary basis) available for expenditures shown as total expenditures on budgetary comparison schedule	\$ 9,199,593
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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>\$ 9,199,593</u>
---	---------------------

LeCroy, Hunter & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
5710 WATERMELON ROAD, SUITE 400
NORTHPORT, ALABAMA 35473
P.O. BOX 462 NORTHPORT, AL 35476-0462
(205) 349-3840 FAX: (205) 349-3848

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

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

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ALABAMA SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

July 24, 2012

**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 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon, dated July 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies listed as 11-1 and 11-2 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 July 24, 2012.

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

FEDERAL FINANCIAL ASSISTANCE

LeCroy, Hunter & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

5710 WATERMELON ROAD, SUITE 400

NORTHPORT, ALABAMA 35473

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

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

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

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

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ALABAMA SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

July 24, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 City of Demopolis, Alabama's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City'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 Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in item 11-3 in the accompanying schedule of findings and questioned costs, the City of Demopolis, Alabama, did not comply with requirements regarding cash management that are applicable to its Justice Assistance grant program and the Economic Development Initiative grant program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph the City of Demopolis, Alabama, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the City of Demopolis, Alabama is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs at item 11-4 to be a significant deficiency.

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

LeCroy, Hunter & Company, P.C.

LeCroy, Hunter & Co., P.C.

Certified Public Accountants

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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	94,205	94,205
<u>U.S. Department of Housing and Urban Development</u>			
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	251,017	251,017
Passed through Alabama Department of Economic And Community Affairs: Community Development Block Grants/State's Program	14.228	350,548 601,565	350,548 601,565
<u>U.S. Department of Homeland Security</u>			
Passed through Tuscaloosa County-Homeland Security Grant Program Homeland Security Grant	97.067	7,500 7,500	7,500 7,500
<u>U.S. Department of Justice</u>			
Justice Assistance Grant Cluster Edward Byrne Memorial Justice Assistance Grant Program	16.738	112,355	112,355
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program	16.804	13,320 125,675	13,320 125,675
COPS Hiring Recovery Program	16.710	40,726	40,726
Passed through Alabama Department of Economic And Community Affairs: Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580	11,574 177,975	11,574 177,975
Total Federal Awards		\$ 881,245	\$ 881,245

CITY OF DEMOPOLIS, ALABAMA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2011

NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Housing Authority of the City of Florence, Alabama under programs of the federal government for the year ended September 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Authority.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

- A. The auditor's report expresses an unqualified opinion on the financial statements of the City of Demopolis, Alabama.
- B. An examination of the internal control over financial reporting of the City of Demopolis, Alabama, did not 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 not 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 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 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>
CDBG Grants	14.228
Justice Assistance Grants	16.738
Economic Development Initiative	14.250
- J. The threshold for distinguishing Types A and B programs was \$300,000.
- K. The City of Demopolis, Alabama, was not considered a low-risk auditee.

SECTION II – FINANCIAL STATEMENT FINDINGS

The City of Demopolis, Alabama did not have any financial statement findings.

Finding Number	Finding/Noncompliance	Questioned Costs
11-1	Criteria: Internal controls require that the bank accounts are reconciled on a regular and timely basis. Condition: The bank account is not being reconciled monthly. Cause: Internal control cash procedures are not being followed. Effect: Cash transactions are not being balanced to ensure the accuracy of financial information.	N/A
11-2	Criteria: Management is responsible for monitoring internal controls over cash procedures. Condition: The bank account is not being reconciled on a regular and timely basis. Cause: Bank reconciliations are not required by management monthly. Effect: Cash transactions are not being reviewed and balanced to ensure the accuracy of financial information.	

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number	Finding/Noncompliance	Questioned Costs
11-3	Criteria: Management is responsible for understanding and maintaining compliance with cash management grant requirements. Condition: Reimbursement grant funds were requested without corresponding expenditures and requests for reimbursement were not prepared in a timely manner. Cause: Misunderstanding of the cash management requirements. Effect: Cash management regulations were not being followed.	N/A
11-4	Criteria: Management is responsible for monitoring compliance with cash management grant requirements. Condition: Grant cash management procedures were not being followed. Cause: Grant transactions were not being reviewed in a timely manner. Effect: Cash management regulation were not being followed.	

CITY OF DEMOPOLIS, ALABAMA
STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

The City of Demopolis, Alabama had the following audit finding for the fiscal year ended September 30, 2010.

10-1 Control Deficiency-Ineffective Controls

The framework for effective internal controls over financial reporting states that control activities relating to reliable financial reporting should be established and communicated throughout the City with corresponding procedures resulting in management directives being carried out. While the City has established procedures, controls and policies relating to payroll preparation, we found, in particular, the record keeping for overtime and leave time for employees in certain City Departments to not be followed. Failure to follow these controls, procedures and policies could lead to material misstatements in the City's financial statements and a misappropriation of the City's assets. **Status: The finding has been corrected.**