

**CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
SEPTEMBER 30, 2012**

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

CITY OF DEMOPOLIS, ALABAMA
TABLE OF CONTENTS
SEPTEMBER 30, 2012

DESCRIPTION	PAGE NO.
Independent Auditor's Report.....	1-3
Management's Discussion and Analysis.....	4-11
 <u>BASIC FINANCIAL STATEMENTS</u>	
Statement of Net Assets as of September 30, 2012.....	12
Statement of Activities for the year ended September 30, 2012.....	13
Governmental Funds Balance Sheet as of September 30, 2012.....	14
Reconciliation of the Statement of Net Assets to the Governmental Funds Balance Sheet as of September 30, 2012.....	15
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for the Year Ended September 30, 2012.....	16
Reconciliation of the Statement of Activities to the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for the Year Ended September 30, 2012.....	17
Statement of Fiduciary Net Assets as of September 30, 2012.....	18
Proprietary Fund Statement of Net Assets as of September 30, 2012.....	19
Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended September 30, 2012.....	20
Proprietary Fund Statement of Cash Flows for the Year Ended September 30, 2012.....	21
Notes to Financial Statements.....	22-37
 <u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget & Actual General Fund for the year ended September 30, 2012.....	38
Notes to Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget & Actual General Fund for the year ended September 30, 2012.....	39
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41

CITY OF DEMOPOLIS, ALABAMA
TABLE OF CONTENTS
SEPTEMBER 30, 2012

<u>DESCRIPTION</u>	<u>PAGE NO.</u>
<u>FEDERAL FINANCIAL ASSISTANCE</u>	
Report on Compliance and Internal Control over Major Programs.....	42-43
Schedule of Expenditures of Federal Awards	44
Notes to Schedule of Expenditures of Federal Awards	45
Schedule of Findings and Questioned Costs for the year ended September 30, 2012.....	46-47
Status of Prior Audit Findings.....	48

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PUBLIC ACCOUNTANTS

November 7, 2013

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City Demopolis, Alabama, as of and for the year ended September 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

Due to the inadequate accounting records for the years prior to 2003, we were unable to form an opinion regarding the amounts at which capital assets and accumulated depreciation are recorded in the accompanying statement of net assets at September 30, 2012, in the amounts of \$29,691,084 and \$9,406,077, respectively, or the amount of the depreciation expense included in the Statement of Activities for the year then ended in the

amount of \$672,409.

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, 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with accounting principles generally accepted in the United States of America, the City of Demopolis, Alabama, has issued separate reporting entity financial statements.

Qualified Opinion

In our opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business activities, each major fund and the aggregate remaining fund information for the City of Demopolis, Alabama, as of September 30, 2012, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Demopolis, Alabama, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–11 and 38–39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Demopolis, Alabama's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards

generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

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, 2012. 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, 2012 by \$14,232,110. Of this amount \$4,479,384 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2012 the City's total net assets increased \$993,218.
- Total fund balance of governmental funds at September 30, 2012 was \$4,965,847 compared to a total governmental fund balance at September 30, 2011 of \$5,269,283.
- The City has \$11,376,238 in long term debt, down from \$11,671,240 the previous year. The debt consists of the Series 2007, Series 2012A and Series 2012B General Obligation Warrants and accrued compensated absences.
- The City continued construction projects related to access and infrastructure improvements at the multi-modal port facility, design and infrastructure improvements at the City's airport, and other improvements to the city's infrastructure.

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, 2012

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 31 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, the Industrial Road Capital Project Fund and the Jackson Street Capital Project Fund, each of which are considered to be major funds. Data from the other funds is provided in the column labeled Other Governmental Funds.

Proprietary Funds: When the City charges customers for the services it provides, these services are generally reported in proprietary funds. *Proprietary funds* are reported in the same way that all activities are reported in the Statement of Net 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, 2012

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 2012 as Compared to 2011 (in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$ 6,372	\$ 6,746	\$ 16	\$ 18	\$ 6,388	\$ 6,764
Restricted Assets	5	67			5	67
Capital Assets	<u>20,285</u>	<u>19,358</u>	<u>18</u>	<u>21</u>	<u>20,303</u>	<u>19,379</u>
Total Assets	<u>26,662</u>	<u>26,171</u>	<u>34</u>	<u>39</u>	<u>26,696</u>	<u>26,210</u>
Liabilities						
Current and Other Liabilities	\$ 1,083	\$ 1,294	\$ 5	\$ 6	\$ 1,088	\$ 1,300
Long-term Liabilities	<u>11,376</u>	<u>11,671</u>			<u>11,376</u>	<u>11,671</u>
Total Liabilities	<u>12,459</u>	<u>12,965</u>	<u>5</u>	<u>6</u>	<u>12,464</u>	<u>12,971</u>
Net Assets						
Invested in Capital Assets, Net of Debt	\$ 9,121	\$ 7,873	\$ 19	\$ 21	\$ 9,140	\$ 7,894
Restricted	613	631			613	631
Unrestricted	<u>4,469</u>	<u>4,702</u>	<u>10</u>	<u>12</u>	<u>4,479</u>	<u>4,714</u>
Total Net Assets	<u>14,203</u>	<u>13,206</u>	<u>29</u>	<u>33</u>	<u>14,232</u>	<u>13,239</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, 2012 by \$14,232,110, an increase of \$993,218 over the previous year's net asset balance of \$13,238,892. Of this amount, \$4,479,384 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 \$926,215, largely resulting from the construction of an access road, improvements to the airport, and other infrastructure improvement projects.

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 32% of net assets.

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

A comparison of the City of Demopolis's Changes in Net Assets, Fiscal Year 2012 as Compared to 2011 (in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Program Revenues						
Charges for Services	\$ 2,227	\$ 2,244	\$ 160	\$ 167	\$ 2,387	\$ 2,411
Operating Grants and Contributions	618	259			618	259
Capital Grants and Contributions	1,087	1,607			1,087	1,607
General Revenues						
Property Taxes for General Purposes	1,985	2,016			1,985	2,016
Local Sales Taxes	4,783	4,747			4,783	4,747
Other Taxes	809	772			809	772
State Shared Revenues	95	69			95	69
Investment Earnings	25	60			25	60
Miscellaneous	90	82			90	82
Total Revenues	11,719	11,856	160	167	11,879	12,023
Program Expenses						
General Government and Unallocated	\$ 2,657	\$ 2,652	\$	\$	\$ 2,657	\$ 2,652
Beautification	231	232			231	232
Streets	910	995			910	995
Fire Protection	1,709	1,834			1,709	1,834
Police Protection	2,316	2,313			2,316	2,313
Municipal Court	404	374			404	374
Airport	105	91			105	91
Library	292	285			292	285
Code Enforcement	75	76			75	76
Parks and Recreation	984	988	214	256	1,198	1,244
Cultural	62	51			62	51
Economic Development	525	218			525	218
Capital Outlay	60	242			60	242
Interest and Fees	342	340			342	340
Total Expenses	10,672	10,691	214	256	10,886	10,947
Excess Before Transfers	1,047	1,165	(54)	(89)	993	1,076
Transfers	(50)	(64)	50	64		
Net Assets, Beginning of Year	13,206	12,105	33	58	13,239	12,163
Net Assets, End of Year	\$ 14,203	\$ 13,206	\$ 29	\$ 33	\$ 14,232	\$ 13,239

Changes in Net Assets

During the year the City's financial position increased by \$993,218, compared to the previous year's increase of \$1,075,895.

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

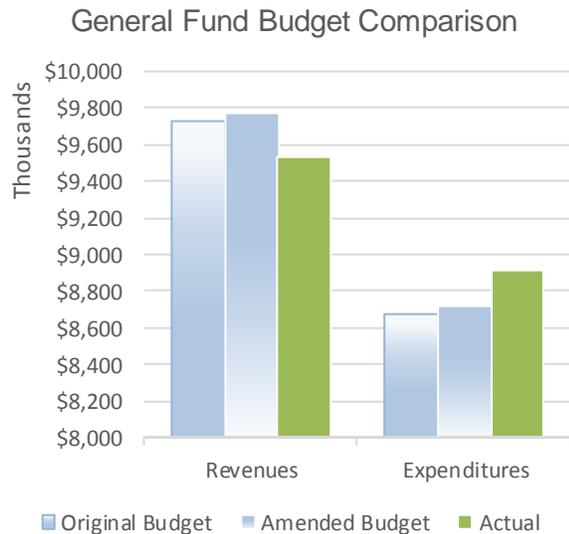
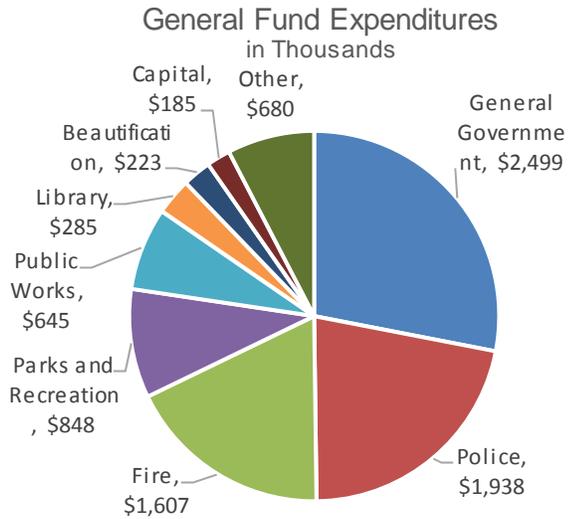
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund - The General Fund is the principal fund used for the City's governmental operations. The fund balance at September 30, 2012 was \$4,423,975, a \$214,095 decrease over the prior year's fund balance of \$4,638,070. The fund balance was impacted by capital project expenditures and failing to meet revenue projections.

Industrial Road Capital Project Fund - The Industrial Road Capital Project Fund accounts for the financial sources and expenditures necessary to complete highway access to the multi-modal port facility property. Funding for this project is provided by State grants. As of September 30, 2012, the project was 99% complete.

Jackson Street Capital Project Fund - The Jackson Street Capital Project Fund accounts for the financial sources and expenditures necessary to complete an upgrade to the utilities infrastructure along certain areas of Jackson Street. Funding for this project is provided by a Federal grant and local matching funds. As of September 30, 2012, 75% of the project had been completed, with approximately \$150,000 of construction costs remaining to complete the project, \$34,300 of which would be funded from City reserves.

General Fund Budgetary Highlights
 During fiscal year 2012, the City made minor adjustments to the General Fund budget. Some of the difference between budgeted and actual expenditures is the maintenance and improvements to the multi-modal port facility.



CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

Capital Asset and Debt Administration
Capital Assets

At the end of fiscal year 2012 the City had \$20,303,629 invested in capital assets (net of accumulated depreciation) compared to last year's \$19,358,792, an increase of \$944,837. The City investment in capital assets includes automobiles and equipment, roads and utility improvements. The City booked \$672,409 in depreciation, compared to the previous year's \$695,666.

	Capital Assets	
	Year ended September 30,	
	2012	2011
Land	\$ 2,883,140	\$ 2,883,140
Construction in progress	3,187,027	1,769,563
Buildings	8,550,927	8,810,786
Improvements	2,803,579	2,946,888
Infrastructure	1,283,215	1,283,215
Equipment and vehicles	1,595,741	1,665,200
Total Capital Assets	\$ 20,303,629	\$ 19,358,792

Long-Term Debt

The City has three general obligations warrants: Series 2007, a long-term debt obligation through 2037; Series 2012A, a long-term debt obligation through 2031; and Series 2012B, a long-term debt obligation through 2016. The current amount on the debt is \$11,415,000. 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 \$255,000). The City also has an obligation to pay a portion of the unused sick and vacation time accrued by employees, currently \$211,986 (up from \$186,240 in the prior year).

	Long-Term Debt	
	Year ended September 30,	
	2012	2011
2003 General Obligation Warrants	\$	\$ 2,795,000
2007 General Obligation Warrants	5,000,000	5,000,000
2012A General Obligation Warrants	4,110,000	
2012B General Obligation Warrants	2,305,000	
Temporary Funding Agreement		4,000,000
Amounts to be repaid by Demopolis Water Works and Sewer Board	(255,000)	(310,000)
Total Long-Term Debt	\$ 11,160,000	\$ 11,485,000

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

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 2012-2013 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 2012. The downturn in the economy is not expected to have a significant impact on the budget for the fiscal year ending September 30, 2013.

Local Factors

- **Economic Conditions:** Although current economic information for the City of Demopolis is unavailable, unemployment statistics for Marengo County, Alabama are available through the State Department of Industrial Relations. In September 2012, Marengo County, Alabama had an unemployment rate of 9.8%, which was considerably higher than the respective state unemployment rate of 8.2%. According to the State Department of Industrial Relations, in September 2012, Marengo County had a civilian labor force of 7,653 people. Of this number, 751 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	7535	+0.35%
2010	7540	+0.03%

- **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.
- **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.

CITY OF DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

Requests for Information

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

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

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	<u>Governmental Activities</u>	<u>Business Type Activies - Enterprise Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash	\$ 822,698	\$ 5,551	\$ 828,249
Certificates of deposit	4,077,115		4,077,115
Receivables	1,108,214		1,108,214
Due from Water Department	35,094		35,094
Restricted assets:			
Cash with fiscal agent	5,170		5,170
Inventory		10,301	10,301
Capital assets:			
Land	2,883,140		2,883,140
Buildings	8,550,927		8,550,927
Improvements	2,803,579		2,803,579
Infrastructure	1,283,215		1,283,215
Equipment	1,577,119	18,622	1,595,741
Construction in progress	3,187,027		3,187,027
Unamortized bond issue costs	328,571		328,571
Total Assets	<u>26,661,869</u>	<u>34,474</u>	<u>26,696,343</u>
<u>Liabilities</u>			
Accounts payable	946,586	2,861	949,447
Accrued expenses	135,815	2,690	138,505
Due to cash bond fund	43		43
Long-term liabilities:			
Current portion of long-term debt	532,910		532,910
Accrued compensated absences	179,904		179,904
Noncurrent portion of long-term debt	10,663,424		10,663,424
Total Liabilities	<u>12,458,682</u>	<u>5,551</u>	<u>12,464,233</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	9,120,755	18,622	9,139,377
Restricted for:			
Capital projects	253,251		253,251
Other purposes	360,098		360,098
Unrestricted	4,469,083	10,301	4,479,384
Total Net Assets	<u>\$ 14,203,187</u>	<u>\$ 28,923</u>	<u>\$ 14,232,110</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, 2012

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General governmental and unallocated	\$ 2,657,426	\$ 1,699,762	\$ 349,639	\$ 10,441	\$ (597,584)		\$ (597,584)
Beautification	231,001			1,500	(229,501)		(229,501)
Streets	910,174		69,422	54,100	(786,652)		(786,652)
Fire protection	1,709,044		21,428		(1,687,616)		(1,687,616)
Police protection	2,315,843	440,524	177,737	16,531	(1,681,051)		(1,681,051)
Municipal court	403,938	33,650			(370,288)		(370,288)
Airport	105,436			180,464	75,028		75,028
Library	291,990				(291,990)		(291,990)
Code enforcement	74,588				(74,588)		(74,588)
Parks and recreation	984,132	29,651		5,000	(949,481)		(949,481)
Cultural	61,746	23,288	50		(38,408)		(38,408)
Economic Development	524,947			818,365	293,418		293,418
Capital outlay	60,168				(60,168)		(60,168)
Interest and fees	341,803				(341,803)		(341,803)
Total governmental activities	<u>10,672,236</u>	<u>2,226,875</u>	<u>618,276</u>	<u>1,086,401</u>	<u>(6,740,684)</u>		<u>(6,740,684)</u>
Business-type activities:							
Ravine golf course	214,356	160,580				(53,776)	(53,776)
Total business-type activities	<u>214,356</u>	<u>160,580</u>				<u>(53,776)</u>	<u>(53,776)</u>
General revenue:							
Taxes							
Property taxes for general purposes					1,985,334		1,985,334
Local sales taxes					4,782,986		4,782,986
Other taxes					809,273		809,273
State shared revenues					95,054		95,054
Investment earnings					24,614		24,614
Miscellaneous					90,417		90,417
Transfers - Internal activity					(50,293)	50,293	
Total General Revenues					<u>7,737,385</u>	<u>50,293</u>	<u>7,787,678</u>
Change in Net Assets					996,701	(3,483)	993,218
Net Assets, beginning of year					<u>13,206,486</u>	<u>32,406</u>	<u>13,238,892</u>
Net Assets, end of year					<u>\$ 14,203,187</u>	<u>\$ 28,923</u>	<u>\$ 14,232,110</u>

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

CITY OF DEMOPOLIS, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Industrial Road Capital Project Fund	Jackson Street Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 197,751	\$	\$	\$ 632,378	\$ 830,129
Cash with fiscal agent				5,170	5,170
Certificates of deposit	4,077,115				4,077,115
Receivables	466,575	367,957	111,113	162,569	1,108,214
Due from other funds	145,133		13,045	123,098	281,276
Total Assets	<u>\$ 4,886,574</u>	<u>\$ 367,957</u>	<u>\$ 124,158</u>	<u>\$ 923,215</u>	<u>\$ 6,301,904</u>
Liabilities and Fund Equity					
Liabilities:					
Cash deficit	\$	\$ 7,431	\$	\$	\$ 7,431
Accounts payable	257,103	360,526	124,158	204,799	946,586
Accrued expenses	133,555			2,260	135,815
Due to other funds	71,941			174,284	246,225
Total Liabilities	<u>462,599</u>	<u>367,957</u>	<u>124,158</u>	<u>381,343</u>	<u>1,336,057</u>
Fund Balances:					
Restricted				338,286	338,286
Committed				55,321	55,321
Assigned				148,265	148,265
Unassigned	4,423,975				4,423,975
Total Fund Equity	<u>4,423,975</u>			<u>541,872</u>	<u>4,965,847</u>
Total Liabilities and Fund Equity	<u>\$ 4,886,574</u>	<u>\$ 367,957</u>	<u>\$ 124,158</u>	<u>\$ 923,215</u>	<u>\$ 6,301,904</u>

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

CITY OF DEMOPOLIS, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total Fund Balance - Governmental Funds	\$ 4,965,847
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	20,285,007
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.	328,571
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Interest on long-term debt is not accrued in the governmental funds but is recognized as an expenditure when due.	
Long-term liabilities	<u>(11,376,238)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 14,203,187</u></u>

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Industrial Road Capital Project Fund	Jackson Street Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 7,575,823	\$	\$	\$	\$ 7,575,823
Licenses and permits	1,239,193				1,239,193
Rents and services	520,786				520,786
Fines and costs				485,655	485,655
Intergovernmental revenue	77,766	732,166	349,639	585,933	1,745,504
Other revenues	114,918			37,351	152,269
Total Revenues	9,528,486	732,166	349,639	1,108,939	11,719,230
Expenditures:					
General government and unallocated	2,499,471				2,499,471
Beautification	222,564				222,564
Public works	644,728			156,075	800,803
Fire protection	1,606,626			21,196	1,627,822
Police protection	1,938,145			247,100	2,185,245
Municipal Court	140,285			261,991	402,276
Airport	71,604				71,604
Library	284,952				284,952
Code enforcement	74,588				74,588
Parks and recreation	847,998				847,998
Cultural	61,746				61,746
Industrial Development Board	331,274			193,673	524,947
Capital projects		732,166	412,934	272,363	1,417,463
Capital outlay	185,470			23,953	209,423
Debt service:					
Principal				412,688	412,688
Interest and fees				328,783	328,783
Total Expenditures	8,909,451	732,166	412,934	1,917,822	11,972,373
Total Revenues Over Expenditures					
Before Other Financing Sources (Uses)	619,035		(63,295)	(808,883)	(253,143)
Other Financing Sources (Uses):					
Loan Proceeds					
Operating transfers in	189,016		63,295	961,835	1,214,146
Operating transfers (out)	(1,022,146)			(242,293)	(1,264,439)
Total Other Financing Sources (Uses)	(833,130)		63,295	719,542	(50,293)
Excess (Deficiency) of Revenues and					
Other Financing Sources Over					
Expenditures and Other Fund Uses	(214,095)			(89,341)	(303,436)
Fund Balances, Beginning of Year	4,638,070			631,213	5,269,283
Fund Balances, End of Year	<u>\$ 4,423,975</u>	<u>\$</u>	<u>\$</u>	<u>\$ 541,872</u>	<u>\$ 4,965,847</u>

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

CITY OF DEMOPOLIS, ALABAMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Total Net Change in Fund Balance - Governmental Funds \$ (303,436)

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	1,596,774
Depreciation expense	(670,559)

An increase in the accrual of long-term compensated absences is not reflected in the governmental funds, but it increases long-term liabilities in the statement of net assets and is a increase of expense in the statement of activities. (25,746)

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

Repayment of bond principal	325,000
Net bond premium	(5,080)
Amortization of bond premium	828
Bond issuance costs	92,768
Amortization of bond issuance costs	(13,848)
	(13,848)

Change in Net Assets of Governmental Activities \$ 996,701

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
SEPTEMBER 30, 2012

	Agency Funds
<u>Assets</u>	
Cash	\$ 16,574
Due from other funds	43
Total Assets	\$ 16,617
 <u>Liabilities</u>	
Liabilities:	
Current payables	\$
Other liabilities	16,617
Total Liabilities	16,617
 <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, 2012

	<u>Business-Type Activities - Enterprise Funds</u>
<u>Assets</u>	
Current:	
Cash	\$ 5,551
Inventory	10,301
Noncurrent:	
Capital assets, net of accumulated depreciation	18,622
Total Assets	<u>34,474</u>
 <u>Liabilities</u>	
Current:	
Accounts payable	2,861
Accrued expenses	<u>2,690</u>
Total Liabilities	<u>5,551</u>
 <u>Net Assets</u>	
Investment in capital assets, net of related debt	18,622
Unrestricted	10,301
Total Net Assets	<u>\$ 28,923</u>

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

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, 2012

	<u>Business-Type Activities - Enterprise Funds</u>
Operating Revenues:	
Memberships and green fees	\$ 136,984
Merchandise sales	15,141
Concession sales	8,455
Total Operating Revenues	<u>160,580</u>
Operating Expenses:	
Salaries	91,395
Employee benefits	31,061
Golf course repairs and maintenance	21,006
Equipment lease	16,836
Cost of merchandise	14,274
Utilities	12,401
Equipment repair and maintenance	12,268
Payroll taxes	6,936
Office supplies and expense	3,018
Golf course supplies and materials	1,799
Depreciation	1,850
Telephone	1,062
Advertising	450
Total Operating Expenses	<u>214,356</u>
Net Earnings (Loss) Before Operating Transfers	(53,776)
Operating Transfers In (Out):	
Operating transfers in (out)	<u>50,293</u>
Net Earnings (Loss)	(3,483)
Net Assets, beginning of year	<u>32,406</u>
Net Assets, end of year	<u><u>\$ 28,923</u></u>

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

CITY OF DEMOPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
RAVINE GOLF COURSE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 160,580
Cash payments to suppliers for goods and services	(81,891)
Cash payments to employees	(129,682)
Net Cash Provided (Used) by Operating Activities	<u>(50,994)</u>
Cash Flows from Capital and Related Financing Activities:	
Transfers In	<u>50,293</u>
Net Cash Flows (Used) by Capital and Related Financing Activities	<u>50,293</u>
Net Increase (Decrease) in Cash	(701)
Cash, beginning of year	<u>6,252</u>
Cash, end of year	<u><u>\$ 5,551</u></u>
Reconciliation of Operating Income to Net Cash Provided	
By Operating Activities:	
Operating (Loss)	\$ (53,776)
Adjustments to reconcile operating income to net cash provided by	
Operating activities:	
Depreciation	1,850
Decrease (increase) in inventory	1,566
Increase (decrease) in accounts payable	(343)
Increase (decrease) in accrued expenses	(290)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (50,994)</u></u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

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

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

(1) Reporting Entity

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

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

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

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

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

Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities display information about the City. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

The City reports the following major governmental funds:

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

Industrial Road Capital Project Fund – This fund accounts for the financial resources used to construct an access road to the multi-modal industrial port property.

Jackson Street Capital Project Fund – This fund accounts for the financial resources used to construct infrastructure upgrades primarily located along Jackson Street.

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

Special Revenue Funds - Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from expendable trust, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of the following: 7 Cent Special Gas Tax Fund, the 4 Cent Special Gas Tax Fund, the Special Paving Assessment Fund, the Corrections Fund, the Court Fund, the Judicial Administration Fund, the Presiding Judge/Clerk Administrative Fund, the COPS Grant Fund, the Anti-gang Grant Fund, the 17th Judicial Drug Task Force Fund, the Homeland Security Fund, and the Debt Service Fund.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

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

Basis of Presentation (cont'd)

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

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

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

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

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

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

Agency funds generally account for assets held by the City in a purely custodial capacity. Agency funds consist of the following: Cash Bonds Fund. The Cash Bonds Fund accounts for cash bonds posted on behalf of individuals involved in judicial matters before City court.

Basis of Accounting, Measurement Focus

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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)

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

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

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

(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, 2012

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, 2012

A. 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 Balances

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 Council.

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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.

Use of Estimates

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

Comparative Data and Reclassifications

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

B. Deposits and Certificates of Deposit

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

As of September 30, 2012, the carrying amount of the City's bank deposits was \$4,905,364 and the bank balance was \$5,001,412. Of the total bank balance, \$500,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$4,501,412 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, 2012 are held in a certified qualified public depository.

C. Stewardship, Compliance and Accountability

Budgets

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

Excess of Expenditures Over Appropriations

The General Fund's expenditures exceeded appropriations during 2012 in the amount of \$214,095. The shortage was funded from the surplus of fund balances accumulated in prior years.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

D. Certificates of Deposit

Certificates of deposit at September 30, 2012, consisted of the following:

Certificates of deposit with Trustmark Bank, Demopolis, Alabama, due within one year, with interest of 0.15% to 0.85%.	\$ 3,225,683
Certificates of deposit with Robertson Banking Company, Demopolis, Alabama, due within one year, with interest of 0.30% to 2.85%.	<u>851,432</u>
	<u>\$ 4,077,115</u>

E. Receivables

Receivables at September 30, 2012, for the individual major and nonmajor funds are as follows:

	General Fund	Industrial Road Capital Project Fund	Jackson Street Capital Project Fund	Other Governmental Funds	Total
Taxes	\$ 430,306	\$	\$	\$	\$ 430,306
Intergovernmental revenues	32,869	367,957	111,113	162,569	674,500
Other receivables	<u>3,400</u>	<u></u>	<u></u>	<u></u>	<u>3,400</u>
	<u>\$ 466,575</u>	<u>\$ 367,957</u>	<u>\$ 111,113</u>	<u>\$ 162,569</u>	<u>\$ 1,108,214</u>

F. Interfund Receivables and Payables

Interfund receivables and payables at September 30, 2012, are as follows:

	Interfund	
	Receivables	Payables
Due from/Due to:		
General Fund	\$ 145,133	\$ 71,941
Jackson Street Capital Project Fund	13,045	
Capital Building Fund	4,332	
7 Cent Special Gas Tax Fund	109	
Special Paving Assessment	17,222	
Corrections Fund	62,939	67,034
Judicial Administration Fund	1,307	
Court Fund	32,478	107,250
Airport Layout Improvement Fund	4,711	
Cash Bond Fund	43	
Demopolis Water and Sewer Board	<u></u>	<u>35,094</u>
	<u>\$ 281,319</u>	<u>\$ 281,319</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

G. Capital Assets

Capital asset activity for the year ended September 30, 2012, is as follows:

	Balance October 1, 2011	Additions/ Adjustments	Deletions	Balance September 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,883,140	\$	\$	\$ 2,883,140
Construction in progress	1,769,563	1,417,464		3,187,027
	<u>4,652,703</u>	<u>1,417,464</u>		<u>6,070,167</u>
Other capital assets:				
Buildings	13,191,602			13,191,602
Improvements	4,062,081			4,062,081
Infrastructure	1,283,215			1,283,215
Equipment and vehicles	4,904,709	179,310		5,084,019
	<u>23,441,607</u>	<u>179,310</u>		<u>23,620,917</u>
Less accumulated depreciation:				
Buildings	4,380,815	259,860		4,640,675
Improvements	1,115,195	143,307		1,258,502
Equipment and vehicles	3,239,508	267,392		3,506,900
	<u>8,735,518</u>	<u>670,559</u>		<u>9,406,077</u>
Total other capital assets, net	<u>14,706,089</u>	<u>(491,249)</u>		<u>14,214,840</u>
Total governmental activities, net	<u>\$ 19,358,792</u>	<u>\$ 926,215</u>	<u>\$</u>	<u>\$ 20,285,007</u>
	Balance	Additions/ Adjustments	Deletions	Balance
	October 1, 2011			September 30, 2012
Proprietary activities:				
Equipment	\$ 118,696	\$	\$	\$ 118,696
Less accumulated depreciation	98,224	1,850		100,074
Total proprietary activities, net	<u>\$ 20,472</u>	<u>\$ (1,850)</u>	<u>\$</u>	<u>\$ 18,622</u>

Depreciation expense was charged to governmental functions as follows:

General government and unallocated	\$ 132,209
Beautification	8,437
Streets	109,371
Fire protection	101,490
Police protection	140,386
Municipal court	1,662
Airport	33,832
Library	7,038
Parks and recreation	136,134
	<u>\$ 670,559</u>

Depreciation expense was charged to the following proprietary activity:

Ravine Golf Course Fund	\$ 1,850
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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, 2012

G. Capital Assets

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

<u>Location/Project</u>	<u>Project Authorization Amount</u>	<u>Expended To Date</u>	<u>Additional Commitment</u>	<u>Required Further Financing</u>
Airport Industrial Road	\$ 1,799,500	\$ 1,797,840	\$ 1,660	\$
Airport Industrial Water Line	405,000	333,522	71,478	
Airport Layout and Runway Rehabilitation	1,520,000	189,858	1,330,142	
Jackson Water Improvement	600,000	450,155	149,845	
Railroad Spur Refurbishment	460,000	415,652	44,348	
 Total Construction in Progress	 <u>\$ 4,784,500</u>	 <u>\$ 3,187,027</u>	 <u>\$ 1,597,473</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, 2012

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

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

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

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

At September 30, 2012, 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, 2012:

	Balance September 30, 2011	Additions	Retirements	Balance September 30, 2012	Current Portion
Bonds and notes payable:					
Series 2003 GOW	\$ 2,795,000	\$	\$ 2,795,000	\$	\$
Series 2007 GOW	5,000,000			5,000,000	
Temporary funding	4,000,000		4,000,000		
Series 2012A GOW		4,110,000		4,110,000	
Series 2012B GOW		2,305,000		2,305,000	560,000
Advance to Demopolis Water Works and Sewer Board	(310,000)		(55,000)	(255,000)	(60,000)
Total bonds and notes payable	11,485,000	6,415,000	6,740,000	11,160,000	500,000
Unamortized bond premium		5,080	828	4,252	828
Accrued compensated absences	186,240	144,657	118,911	211,986	32,082
	<u>\$ 11,671,240</u>	<u>\$ 6,564,737</u>	<u>\$ 6,859,739</u>	<u>\$ 11,376,238</u>	<u>\$ 532,910</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, 2012

Bonds payable are comprised of the following individual issues:

2007 General Obligation Warrants, due serially with interest at 4.20% to 4.60% per annum	\$ 5,000,000
2012A General Obligation Warrants, due serially with interest at 2.25% to 4.25% per annum	4,110,000
2012B General Obligation Warrants, due serially with interest at 2.00% per annum	<u>2,305,000</u>
	11,415,000
Less: Amounts to be repaid by Demopolis Water Works and Sewer Board	<u>(255,000)</u>
	<u>\$ 11,160,000</u>

The annual requirements to amortize the City's portion of the bonds payable outstanding as of September 30, 2012, are as follows:

Year Ended September 30,	Principal	Interest	Total Debt Service
2013	\$ 500,000	\$ 399,214	\$ 899,214
2014	505,000	391,164	896,164
2015	520,000	383,014	903,014
2016	525,000	374,726	899,726
2017	370,000	364,301	734,301
2018	385,000	353,551	738,551
2019	395,000	341,994	736,994
2020	405,000	329,256	734,256
2021	420,000	315,291	735,291
2022	435,000	300,069	735,069
2023	450,000	283,774	733,774
2024	470,000	266,254	736,254
2025	485,000	247,684	732,684
2026	505,000	228,151	733,151
2027	530,000	207,276	737,276
2028	550,000	184,916	734,916
2029	575,000	161,215	736,215
2030	600,000	135,446	735,446
2031	625,000	107,934	732,934
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	<u>355,000</u>	<u>16,330</u>	<u>371,330</u>
	<u>\$ 11,160,000</u>	<u>\$ 5,693,955</u>	<u>\$ 16,853,955</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, 2012

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, P.O. Box 302150, Montgomery, Alabama 36130-2150 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.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

J. Defined Benefit Pension Plan (cont'd)

Annual Pension Cost

In 2012, the City's annual pension cost of \$383,149 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, 2011. 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 3.75% at age 20 to 7.75% at age 65, (c) inflation rate of 3.00%, 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, 2011, was 14 years.

Three-Year Trend Information for the Employees' Retirement System

Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 378,973	101.9%	\$ (7,187)
2010	388,842	100%	
2011	429,852	100%	

Schedule of Funding Progress for the Employees' Retirement System

Actuarial Valuation Date	Actuarial Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
09-30-06 ¹	\$ 6,128,857	\$ 8,889,423	\$ 2,760,566	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	2,361,024	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 ²	7,334,991	10,418,426	3,083,435	72.8	3,591,261	85.9
09-30-10 ^{2,3}	7,334,991	10,466,483	3,131,492	70.1	3,591,261	87.2
09-30-11 ¹	7,482,623	10,714,720	3,232,097	69.8	3,912,950	82.6
09-30-11 ^{1,3}	7,482,623	10,759,295	3,276,672	69.5	3,912,950	83.7

¹ Reflects changes in actuarial assumptions.

² Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

³ Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

K. Fund Balances

Amounts for specific purposes by fund and fund balance classification for the year ended September 30, 2012, are as follows:

Fund	Purpose	Amount
Restricted classification:		
Debt Service Fund	Debt Payments	\$ 1
Corrections Fund	Public Safety	119,085
Presiding Judge/Clerk Administration	Public Safety	3,509
4c Gas Tax Fund	Infrastructure Maintenance	191,900
Judicial Administration Fund	Public Safety	5,459
Capital Projects Fund	Capital Expenditures	9,501
JAG Grant Fund	Public Safety	1,241
Airport Layout Improvement Fund	Airport Improvement	3,896
Airport Industrial Water Improvement	Infrastructure Improvement	3,694
Committed classification:		
Paving Assessment Fund	Infrastructure Maintenance	55,321
Assigned classification:		
Beautification Fund	Beautification Improvement	1,500
Fire Department Special Fund	Public Safety	392
Animal Control Fund	Public Safety	20
Police Department Special Fund	Public Safety	41,601
Historic Preservation Commission Fund	Cultural	400
Sports and Recreation Fund	Recreation	17,010
Airport Improvement Fund	Airport	87,342
Unassigned classification:		
General Fund		4,423,975
		<u>\$ 4,965,847</u>

L. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to protect itself from exposure to losses under the risks described above, the City carries traditional commercial insurance coverage, including workers' compensation and employee health insurance, rather than finance risks through self-insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

M. Contingent Liabilities

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

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Budget To	Actual
	Original	Final	Amounts Budget Basis	GAAP Adjustments	Amounts GAAP Basis
Revenues:					
Taxes	\$ 7,577,074	\$ 7,577,074	\$ 7,575,823	\$	\$ 7,575,823
Licenses and permits	1,320,000	1,320,000	1,239,193		1,239,193
Rents and services	530,200	530,200	520,786		520,786
Intergovernmental revenue	55,000	55,000	77,766		77,766
Other revenues	253,219	295,725	114,918		114,918
Total Revenues	<u>9,735,493</u>	<u>9,777,999</u>	<u>9,528,486</u>		<u>9,528,486</u>
Expenditures:					
General government and unallocated	2,421,392	2,421,392	2,499,471		2,499,471
Beautification	228,755	228,755	222,564		222,564
Public works	805,559	805,559	644,728		644,728
Fire protection	1,583,978	1,583,978	1,606,626		1,606,626
Police protection	1,848,980	1,879,611	1,938,145		1,938,145
Municipal Court	129,329	129,329	140,285		140,285
Airport	84,900	84,900	71,604		71,604
Library	285,905	285,905	284,952		284,952
Code enforcement	76,976	76,976	74,588		74,588
Parks and recreation	846,713	846,713	847,998		847,998
Cultural	56,200	56,200	61,746		61,746
Industrial Development Board	160,000	160,000	331,274		331,274
Capital projects					
Capital outlay	156,600	168,475	185,470		185,470
Total Expenditures	<u>8,685,287</u>	<u>8,727,793</u>	<u>8,909,451</u>		<u>8,909,451</u>
Total Revenue over Expenditures before					
Other Financing Sources (Uses)	<u>1,050,206</u>	<u>1,050,206</u>	<u>619,035</u>		<u>619,035</u>
Other Financing Sources (Uses):					
Operating transfers in	125,000	125,000	189,016		189,016
Operating transfers (out)	<u>(1,227,769)</u>	<u>(1,227,769)</u>	<u>(1,022,146)</u>		<u>(1,022,146)</u>
Total Other Financing Sources (Uses)	<u>(1,102,769)</u>	<u>(1,102,769)</u>	<u>(833,130)</u>		<u>(833,130)</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and other Financing Uses	(52,563)	(52,563)	(214,095)		(214,095)
Fund Balances, Beginning of Year	<u>4,638,070</u>	<u>4,638,070</u>	<u>4,638,070</u>		<u>4,638,070</u>
Fund Balances, End of Year	<u>\$ 4,585,507</u>	<u>\$ 4,585,507</u>	<u>\$ 4,423,975</u>	<u>\$</u>	<u>\$ 4,423,975</u>

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

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, 2012

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	\$ 9,528,486
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Differences - budget to GAAP

Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 9,528,486
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Uses/Outflows of Resources

Actual amounts (budgetary basis) available for expenditures shown as total expenditures on budgetary comparison schedule	\$ 8,909,451
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Differences - budget to GAAP

Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 8,909,451
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ALABAMA SOCIETY OF CERTIFIED
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November 7, 2013

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Demopolis, Alabama, as of and for the year ended September 30, 2012, and the related notes to the financial statements, which collectively comprise the City of Demopolis, Alabama's basic financial statements, and have issued our report thereon dated November 7, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Demopolis, Alabama's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of

our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

LeCroy, Hunter & Company, P.C.

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

FEDERAL FINANCIAL ASSISTANCE

LeCroy, Hunter & Company, P.C.

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November 7, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Demopolis, Alabama's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the City of Demopolis, Alabama's major federal programs for the year ended September 30, 2012. The City of Demopolis, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Demopolis, Alabama's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Demopolis, Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Demopolis, Alabama's compliance.

Basis for Qualified Opinion on HUD Direct Grant, Economic Development Initiative Project

As described in the accompanying schedule of findings and questioned costs, the City of Demopolis, Alabama, did not comply with requirements regarding the HUD Direct Grant, Economic Development Initiative Special Project, Grant Number B-10-SP-AI-0087, CFDA Number 14.251, as described in Findings Number 12-1 for Cash Management and Program Income. Compliance with such requirements is necessary, in our opinion, for City of Demopolis, Alabama, to comply with the requirements applicable to that program.

Qualified Opinion on HUD Direct Grant, Economic Development Initiative Project

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Demopolis, Alabama, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the HUD Direct Grant, Economic Development Initiative Special Project for the year ended September 30, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Demopolis, Alabama complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2012.

Report on Internal Control Over Compliance

Management of the City of Demopolis, Alabama, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Demopolis, Alabama's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 of Demopolis, Alabama'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2 to be material weaknesses.

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. During our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The City of Demopolis, Alabama's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Demopolis, Alabama's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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, 2012

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	<u>176,668</u>	<u>176,668</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Alabama Department of Economic And Community Affairs:			
Community Development Block Grants/Entitlement Grants	14.218	349,639	349,639
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	<u>77,505</u>	<u>77,505</u>
		<u>427,144</u>	<u>427,144</u>
<u>U.S. Department of Interior</u>			
Passed through Alabama Historical Commission: Historic Preservation Fund Grants-In-Aid	15.904	<u>7,200</u>	<u>7,200</u>
<u>U.S. Department of Justice</u>			
Jag Program Cluster			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	39,419	39,419
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Local Governments	16.804	<u>1,200</u>	<u>1,200</u>
		<u>40,619</u>	<u>40,619</u>
COPS Hiring Recovery Program	16.710	48,619	48,619
Equitable Sharing Program	16.922	36,076	36,076
Project Safe Neighborhoods	16.609	<u>5,000</u>	<u>5,000</u>
		<u>130,314</u>	<u>130,314</u>
 Total Federal Awards		 <u>\$ 741,326</u>	 <u>\$ 741,326</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

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

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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 not identify significant deficiencies.
- F. An examination of the internal control over major federal programs of the City of Demopolis, Alabama, did 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	14.218
Justice Assistance Grants	16.710
Economic Development Initiative	14.251
Airport Improvement Program	20.106

- 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.

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number	Finding/Noncompliance	Questioned Costs
12-1	Criteria: Management is responsible for understanding and maintaining compliance with cash management related to Federal Awards. Condition: Grant Funds were drawn down prior to the actual expenditure being incurred which caused the Federal Funds to be held and not disbursed in a timely manner (fifteen days from date of receipt). Cause: Misunderstanding of the cash management requirement of the Federal Circular A-133 and the Single Audit Act. Effect: Cash funds were not disbursed within the required time frame and possible Program Income was earned unauthorized.	N/A
12-2	Criteria: Management is responsible for understanding the reporting requirements related to Federal Awards. Condition: Grant Reports to the Department of Justice were not timely prepared and submitted to the funding agency. Cause: Misunderstanding of the reporting requirements as required by the Federal Circular A-133 and the Single Audit Act. Effect: Failure to timely prepare and submit the required reports caused the grant program to be terminated and unreimbursed expenditures at the time of the grant termination were not reimbursed by the grant program.	N/A

CITY OF DEMOPOLIS, ALABAMA
STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The City of Demopolis, Alabama had the following audit findings for the fiscal year ended September 30, 2011.

11-1 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 bank account reconciliation, we found, in particular, that bank accounts were not being reconciled monthly. 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.**

11-2 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 bank account reconciliation, we found, in particular, that management was not requiring that bank accounts be reconciled monthly. 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.**

11-3 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 compliance with cash management grant requirements, we found, in particular, that grant funds were requested without corresponding expenditures. 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.**

11-4 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 grant cash management, we found, in particular, that grant transactions were not being reviewed in a timely manner. 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.**