

**CITY OF DEMOPOLIS  
DEMOPOLIS, ALABAMA  
SEPTEMBER 30, 2014**

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

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PUBLIC ACCOUNTANTS

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City Demopolis, Alabama, as of and for the year ended September 30, 2014, 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, 2014, in the amounts of \$27,049,744 and \$10,892,601, respectively, or the amount of the depreciation expense included in the Statement of Activities for the year then ended in the amount of \$717,748.

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, 2014, 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, 2014, 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, 2014, 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 4–10 and 39–40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

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

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

*LeCroy, Hunter & Company, P.C.*

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

June 4, 2015

**CITY OF DEMOPOLIS, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

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, 2014. 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, 2014 by \$14,959,778. Of this amount \$3,667,370 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2014 the City's total net position increased \$1,079,437.
- Total fund balance of governmental funds at September 30, 2014 was \$4,210,545 compared to a total governmental fund balance at September 30, 2013 of \$4,291,647.
- The City has \$10,485,835 in long term debt, down from \$11,042,982 the previous year. The debt consists of the Series 2007, Series 2012A and Series 2012B General Obligation Warrants and accrued compensated absences.
- The City completed paving improvements in various locations, 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 Position* presents all of the City's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

**CITY OF DEMOPOLIS, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

**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 24 individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Airport Layout Improvement Fund, each of which are considered to be major funds. Data from the other funds is provided in the column labeled Other Governmental Funds.

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

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

**Notes to the Financial Statements**

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

**Required Supplementary Information**

This section has information that further explains and supports the information in the financial statements by including a comparison of the City's budget data for the year.

**CITY OF DEMOPOLIS, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

**FINANCIAL ANALYSIS OF THE CITY OF DEMOPOLIS AS A WHOLE**

A comparison of the City of Demopolis's Assets, Liabilities and Net Position, Fiscal Year 2014 as compared to 2013 (in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013 (Restated)	2014	2013	2014	2013 (Restated)
<b>Assets</b>						
Current and Other Assets	\$ 5,599	\$ 5,383	\$ 21	\$ 20	\$ 5,620	\$ 5,403
Restricted Assets	5	5			5	5
Capital Assets	21,080	20,415	7	9	21,087	20,424
Total Assets	26,684	25,803	28	29	26,712	25,832
<b>Liabilities</b>						
Current and Other Liabilities	\$ 1,258	\$ 902	\$ 8	\$ 7	\$ 1,266	\$ 909
Long-term Liabilities	10,486	11,043			10,486	11,043
Total Liabilities	11,744	11,945	8	7	11,752	11,952
<b>Net Position</b>						
Invested in Capital Assets, Net of Debt	\$ 10,925	\$ 9,755	\$ 7	\$ 9	\$10,932	\$ 9,764
Restricted	360	371			360	371
Unrestricted	3,655	3,732	13	13	3,668	3,745
Total Net Position	14,940	13,858	20	22	14,960	13,880

**Net Position**

Net position measures the difference between what the City owns (assets) versus what the City owes (liabilities). Due to the implementation of a new accounting pronouncement related to the expensing of bond issue costs, the City has restated its 2013 statement of net assets, resulting in a reduction of net position by \$308,778. Following the restatement, the total assets of the City of Demopolis exceeded its liabilities at September 30, 2014 by \$14,959,778, an increase of \$1,079,437 from the previous year's restated net asset balance of \$13,880,341. Of this amount, \$3,667,670 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.

A portion of the City's net position is invested in capital assets net of related debt. Capital assets include land, building, equipment and machinery, and infrastructure, and are used to provide services to the citizens and are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The city's net fixed assets increased in value by \$665,204, 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 3% of net position, and include amounts designated for street lighting and maintenance, capital building projects, industrial development, and required bond reserves.

Unrestricted net position equal 25% of net position.

**CITY OF DEMOPOLIS, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

A comparison of the City of Demopolis's Changes in Net Position, Fiscal Year 2014 as Compared to 2013  
(in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2014	2013 (Restated)	2014	2013	2014	2013 (Restated)
Program Revenues						
Charges for Services	\$ 2,193	\$ 2,217	\$ 165	\$ 167	\$ 2,358	\$ 2,384
Operating Grants and Contributions	70	227			70	227
Capital Grants and Contributions	1,015	994			1,015	994
General Revenues						
Property Taxes for General Purposes	1,208	2,013			1,208	2,013
Local Sales Taxes	5,127	4,936			5,127	4,936
Other Taxes	813	780			813	780
State Shared Revenues	136	200			136	200
Investment Earnings	7	17			7	17
Miscellaneous	76	297			76	297
<b>Total Revenues</b>	<b>10,645</b>	<b>11,681</b>	<b>165</b>	<b>167</b>	<b>10,810</b>	<b>11,848</b>
Program Expenses						
General Government and Unallocated	\$ 1,912	\$ 2,784	\$	\$	\$ 1,912	\$ 2,784
Beautification	229	246			229	246
Streets	927	1,044			927	1,044
Fire Protection	1,681	1,668			1,681	1,668
Police Protection	2,152	2,194			2,152	2,194
Municipal Court	346	379			346	379
Airport	92	95			92	95
Library	304	359			304	359
Code Enforcement	76	76			76	76
Parks and Recreation	986	1,033	190	216	1,176	1,249
Cultural	66	51			66	51
Economic Development	227	251			227	251
Capital Outlay	142	69			142	69
Interest and Fees	400	401			400	401
Intergovernmental		419				419
<b>Total Expenses</b>	<b>9,540</b>	<b>11,069</b>	<b>190</b>	<b>216</b>	<b>9,730</b>	<b>11,285</b>
Excess Before Transfers	1,105	612	(25)	(49)	1,080	563
Transfers	(23)	(634)	23	42		(592)
Net Position, Beginning of Year	13,858	13,880	22	29	13,880	13,909
Net Position, End of Year	<b>\$ 14,940</b>	<b>\$ 13,858</b>	<b>\$ 20</b>	<b>\$ 22</b>	<b>\$ 14,960</b>	<b>\$ 13,880</b>

**CITY OF DEMOPOLIS, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

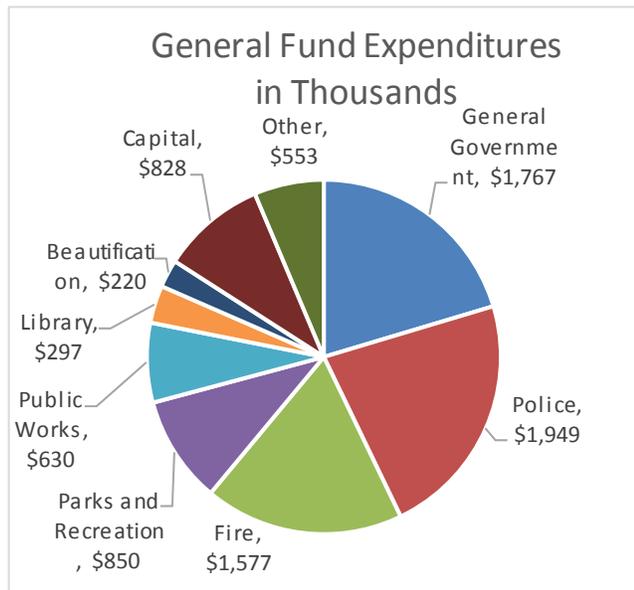
**Changes in Net Position**

During the year the City's financial position increased by \$1,079,437, compared to the previous year's decrease of \$42,991. Items that positively impacted the change in financial position include the receipt of a federal grant award for improvements to the airport in the amount of \$586,291 and recognition of a grant award in the amount of \$347,300 for improvements to a railroad spur at the Airport Industrial Intermodal Complex.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

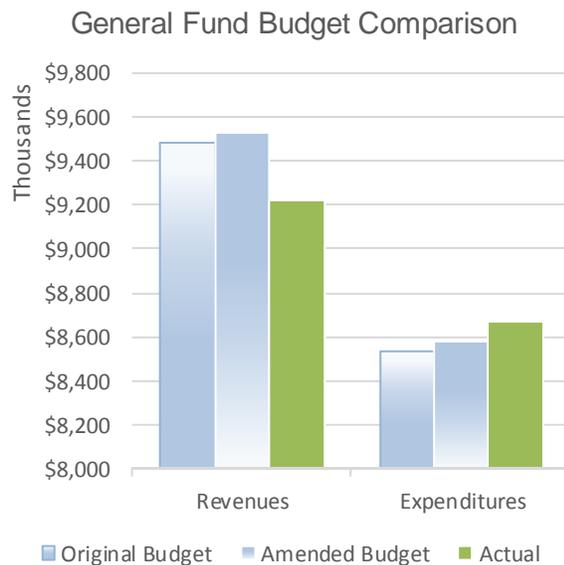
**General Fund** - The General Fund is the principal fund used for the City's governmental operations. The fund balance at September 30, 2014 was \$3,850,338, a \$66,827 decrease from the prior year's fund balance of \$3,917,165. The fund balance was impacted by the receipt of a grant award of \$347,300 and fund expenditures associated with a street paving project \$731,058 and an accrual of an amount due for a grant refunding.

**Airport Layout Improvement Fund** – The Airport Layout Improvement Fund accounts for the financial resources used to plan and construct improvements to the functionality of the airport. Funding for this project is provided by a Federal grant and local matching funds. As of September 30, 2014, 85% of the project had been completed.



**General Fund Budgetary Highlights**

During fiscal year 2014, the City made minor adjustments to the General Fund budget. A large portion of the difference between budgeted and actual revenues and expenditures is a change in how the Marengo County Revenue Commissioner remitted funds designated for the Demopolis City Board of Education. Formerly, those funds came to the City as part of its property tax allotment and the City would separate and remit the Board's portion to the Board. During 2014, the Commissioner remitted the Board's portion directly to the Board.



**CITY OF DEMOPOLIS, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of fiscal year 2014 the City had \$21,080,110 invested in capital assets (net of accumulated depreciation) compared to last year's \$20,414,906, an increase of \$665,204. The City investment in capital assets includes automobiles and equipment, roads and utility improvements. The City booked \$717,748 in depreciation, compared to the previous year's \$798,776.

	Capital Assets	
	Year ended September 30,	
	2014	2013
Land	\$ 2,883,140	\$ 2,883,140
Construction in progress	2,039,827	1,441,913
Buildings	8,031,206	8,291,066
Improvements	2,757,510	2,616,222
Infrastructure	4,149,974	3,783,749
Equipment and vehicles	1,218,453	1,398,816
Total Capital Assets	\$ 21,080,110	\$ 20,414,906

**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 \$10,290,000. The City also has an obligation to pay a portion of the unused sick and vacation time accrued by employees, currently \$206,388 (up from \$193,328 in the prior year).

	Long-Term Debt	
	Year ended September 30,	
	2014	2013
2007 General Obligation Warrants	\$ 5,000,000	\$ 5,000,000
2012A General Obligation Warrants	4,110,000	4,110,000
2012B General Obligation Warrants	1,180,000	1,745,000
Total Long-Term Debt	\$ 10,290,000	\$ 10,855,000

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

**CITY OF DEMOPOLIS, ALABAMA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

**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 2014-2015 fiscal year.

**State Factors**

- Economic conditions remain stagnant in the State of Alabama during fiscal year 2014. The continued uncertainty in the economy is not expected to have a significant impact on the budget for the fiscal year ending September 30, 2015.

**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 2014, Marengo County, Alabama had an unemployment rate of 7.2%, which was somewhat higher than the respective state unemployment rate of 6.6%. According to the State Department of Industrial Relations, in September 2014, Marengo County had a civilian labor force of 7,596 people. Of this number, 548 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%

- **Facilities:** The City maintains properties throughout the area to facilitate future cultural, educational, business and industrial expansion.

**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](http://www.DemopolisAL.gov).

CITY OF DEMOPOLIS, ALABAMA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014

	<u>Governmental Activities</u>	<u>Business Type Activies - Enterprise Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash	\$ 1,551,179	\$ 8,266	\$ 1,559,445
Certificates of deposit	3,309,934		3,309,934
Receivables	662,981		662,981
Due from Water Department	74,969		74,969
Restricted assets:			
Cash with fiscal agent	5,178		5,178
Inventory		12,867	12,867
Capital assets:			
Land	2,883,140		2,883,140
Buildings	8,031,206		8,031,206
Improvements	2,757,510		2,757,510
Infrastructure	4,149,974		4,149,974
Equipment	1,218,453	7,091	1,225,544
Construction in progress	2,039,827		2,039,827
Total Assets	<u>26,684,351</u>	<u>28,224</u>	<u>26,712,575</u>
<u>Liabilities</u>			
Accounts payable	1,081,998	5,976	1,087,974
Accrued expenses	155,904	2,290	158,194
Deferred revenue	20,673		20,673
Due to cash bond fund	121		121
Long-term liabilities:			
Current portion of long-term debt	585,000		585,000
Accrued compensated absences	206,388		206,388
Noncurrent portion of long-term debt	9,694,447		9,694,447
Total Liabilities	<u>11,744,531</u>	<u>8,266</u>	<u>11,752,797</u>
<u>Net Position</u>			
Investment in capital assets, net of related debt	10,925,110	7,091	10,932,201
Restricted for:			
Capital projects	137,007		137,007
Municipal court	131,886		131,886
Other purposes	91,314		91,314
Unrestricted	3,654,503	12,867	3,667,370
Total Net Assets	<u>\$ 14,939,820</u>	<u>\$ 19,958</u>	<u>\$ 14,959,778</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, 2014

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General governmental and unallocated	\$ 1,911,927	\$ 1,769,222	\$	\$ 348,800	\$ 206,095		\$ 206,095
Beautification	229,381				(229,381)		(229,381)
Streets	926,696	15	68,937	53,834	(803,910)		(803,910)
Fire protection	1,681,062		648		(1,680,414)		(1,680,414)
Police protection	2,152,203	304,618		17,760	(1,829,825)		(1,829,825)
Municipal court	346,325	26,311			(320,014)		(320,014)
Airport	92,179			586,291	494,112		494,112
Library	303,753				(303,753)		(303,753)
Code enforcement	75,948				(75,948)		(75,948)
Parks and recreation	985,942	62,542		5,546	(917,854)		(917,854)
Cultural	66,147	30,075	740		(35,332)		(35,332)
Economic Development	227,035			2,500	(224,535)		(224,535)
Capital outlay	142,091				(142,091)		(142,091)
Interest and fees	400,144				(400,144)		(400,144)
Total governmental activities	<u>9,540,833</u>	<u>2,192,783</u>	<u>70,325</u>	<u>1,014,731</u>	<u>(6,262,994)</u>		<u>(6,262,994)</u>
Business-type activities:							
Ravine golf course	190,180	165,205				(24,975)	(24,975)
Total business-type activities	<u>190,180</u>	<u>165,205</u>				<u>(24,975)</u>	<u>(24,975)</u>
General revenue:							
Taxes							
Property taxes for general purposes					1,207,742		1,207,742
Local sales taxes					5,126,565		5,126,565
Other taxes					813,436		813,436
State shared revenues					136,067		136,067
Investment earnings					7,229		7,229
Miscellaneous					76,367		76,367
Transfers					(23,163)	23,163	
Total General Revenues and Transfers					<u>7,344,243</u>	<u>23,163</u>	<u>7,367,406</u>
Change in Net Position					1,081,249	(1,812)	1,079,437
Net Position, beginning of year					13,858,571	21,770	13,880,341
Net Position, end of year					<u>\$ 14,939,820</u>	<u>\$ 19,958</u>	<u>\$ 14,959,778</u>

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

CITY OF DEMOPOLIS, ALABAMA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2014

	<u>General Fund</u>	<u>Airport Layout Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash	\$ 1,146,647	\$	\$ 404,959	\$ 1,551,606
Cash with fiscal agent			5,178	5,178
Certificates of deposit	3,174,934		135,000	3,309,934
Receivables	499,103	156,378	7,500	662,981
Due from other funds	178,916		21,663	200,579
Total Assets	<u>\$ 4,999,600</u>	<u>\$ 156,378</u>	<u>\$ 574,300</u>	<u>\$ 5,730,278</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Net cash deficit	\$	\$ 427	\$	\$ 427
Accounts payable	919,071	155,951	6,976	1,081,998
Accrued expenses	154,930		974	155,904
Deferred Revenues	20,673			20,673
Held for bonds payable			135,000	135,000
Due to other funds	54,588		71,143	125,731
Total Liabilities	<u>1,149,262</u>	<u>156,378</u>	<u>214,093</u>	<u>1,519,733</u>
Fund Balances:				
Restricted			165,930	165,930
Committed			55,359	55,359
Assigned			138,918	138,918
Unassigned	3,850,338			3,850,338
Total Fund Equity	<u>3,850,338</u>		<u>360,207</u>	<u>4,210,545</u>
Total Liabilities and Fund Equity	<u>\$ 4,999,600</u>	<u>\$ 156,378</u>	<u>\$ 574,300</u>	<u>\$ 5,730,278</u>

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

CITY OF DEMOPOLIS, ALABAMA  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014

Total Fund Balance - Governmental Funds \$ 4,210,545

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. 21,080,110

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.

Total long-term liabilities (10,485,835)

Add amount held for bond payable in governmental funds 135,000

Total Net Assets - Governmental Activities \$ 14,939,820

CITY OF DEMOPOLIS, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Airport Layout Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 7,143,681	\$	\$	\$ 7,143,681
Licenses and permits	1,247,457			1,247,457
Rents and services	627,161			627,161
Fines and costs			333,255	333,255
Intergovernmental revenue	69,415	586,291	143,031	798,737
Other revenues	132,519		15,135	147,654
Total Revenues	<u>9,220,233</u>	<u>586,291</u>	<u>491,421</u>	<u>10,297,945</u>
<b>Expenditures:</b>				
General government and unallocated	1,766,658			1,766,658
Beautification	220,248			220,248
Public works	630,382		158,006	788,388
Fire protection	1,576,912		63	1,576,975
Police protection	1,948,540		47,035	1,995,575
Municipal Court	124,839		219,824	344,663
Airport	58,347			58,347
Library	297,482			297,482
Code enforcement	75,948			75,948
Parks and recreation	850,324			850,324
Cultural	66,147			66,147
Industrial Development Board	227,035			227,035
Capital projects	731,058	618,216	2,500	1,351,774
Capital outlay	97,428		75,841	173,269
Debt service:				
Principal			505,000	505,000
Interest and fees			405,351	405,351
Total Expenditures	<u>8,671,348</u>	<u>618,216</u>	<u>1,413,620</u>	<u>10,703,184</u>
Total Revenues Over Expenditures				
Before Other Financing Sources (Uses)	<u>548,885</u>	<u>(31,925)</u>	<u>(922,199)</u>	<u>(405,239)</u>
<b>Other Financing Sources (Uses):</b>				
Grant award	347,300			347,300
Operating transfers in	119,581	31,925	1,071,299	1,222,805
Operating transfers (out)	(1,082,593)		(163,375)	(1,245,968)
Total Other Financing Sources (Uses)	<u>(615,712)</u>	<u>31,925</u>	<u>907,924</u>	<u>324,137</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Fund Uses	(66,827)		(14,275)	(81,102)
Fund Balances, Beginning of Year	3,917,165		374,482	4,291,647
Fund Balances, End of Year	<u>\$ 3,850,338</u>	<u>\$</u>	<u>\$ 360,207</u>	<u>\$ 4,210,545</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, 2014

Total Net Change in Fund Balance - Governmental Funds \$ (81,102)

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	1,382,952
Depreciation expense	(717,748)

An increase in the accrual of long-term compensated absences is not reflected in the governmental funds, but it increases long-term liabilities in the statement of net assets and is an increase of expense in the statement of activities. (13,060)

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	505,000
Amortization of bond premium	5,207
	505,000
	5,207

Change in Net Assets of Governmental Activities \$ 1,081,249

CITY OF DEMOPOLIS, ALABAMA  
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
SEPTEMBER 30, 2014

	Cash Bond Fund	Police Confiscated Fund	Total Fiduciary Funds
<u>Assets</u>			
Cash	\$ 16,409	\$ 8,720	\$ 25,129
Due from other funds	43	78	121
Total Assets	\$ 16,452	\$ 8,798	\$ 25,250
<u>Liabilities</u>			
Liabilities:			
Current payables	\$	\$	\$
Other liabilities	16,452	8,798	25,250
Total Liabilities	16,452	8,798	25,250
<u>Net Position</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, 2014

	<u>Business-Type Activities - Enterprise Funds</u>
<u>Assets</u>	
Current:	
Cash	\$ 8,266
Inventory	12,867
Noncurrent:	
Capital assets, net of accumulated depreciation	7,091
Total Assets	<u>28,224</u>
 <u>Liabilities</u>	
Current:	
Accounts payable	5,976
Accrued expenses	2,290
Total Liabilities	<u>8,266</u>
 <u>Net Assets</u>	
Investment in capital assets, net of related debt	7,091
Unrestricted	12,867
Total Net Assets	<u>\$ 19,958</u>

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

CITY OF DEMOPOLIS, ALABAMA  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IS NET POSITION  
RAVINE GOLF COURSE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>
Operating Revenues:	
Memberships and green fees	\$ 133,823
Merchandise sales	24,550
Concession sales	6,832
Total Operating Revenues	<u>165,205</u>
Operating Expenses:	
Salaries	65,158
Golf course repairs and maintenance	24,195
Cost of merchandise	23,961
Employee benefits	21,380
Equipment lease	18,607
Utilities	12,705
Equipment repair and maintenance	10,427
Payroll taxes	5,007
Office supplies and expense	3,018
Golf course supplies and materials	2,356
Depreciation	1,850
Telephone	1,116
Advertising	400
Total Operating Expenses	<u>190,180</u>
Net Earnings (Loss) Before Operating Transfers	(24,975)
Operating Transfers In (Out):	
Operating transfers in (out)	<u>23,163</u>
Net Earnings (Loss)	(1,812)
Net Assets, beginning of year	<u>21,770</u>
Net Assets, end of year	<u><u>\$ 19,958</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, 2014

	Business-Type Activities - Enterprise Funds
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 165,205
Cash payments to suppliers for goods and services	(94,396)
Cash payments to employees	(92,076)
Net Cash Provided (Used) by Operating Activities	<u>(21,267)</u>
Cash Flows from Capital and Related Financing Activities:	
Transfers In	<u>23,163</u>
Net Cash Flows (Used) by Capital and Related Financing Activities	<u>23,163</u>
Net Increase (Decrease) in Cash	1,896
Cash, beginning of year	<u>6,370</u>
Cash, end of year	<u>\$ 8,266</u>
Reconciliation of Operating Income to Net Cash Provided	
By Operating Activities:	
Operating (Loss)	\$ (24,975)
Adjustments to reconcile operating income to net cash provided by	
Operating activities:	
Depreciation	1,850
Decrease (increase) in inventory	313
Increase (decrease) in accounts payable	2,076
Increase (decrease) in accrued expenses	(531)
Net Cash Provided (Used) by Operating Activities	<u>\$ (21,267)</u>

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

A. Summary of Significant Accounting Policies

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

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

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

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

(1) Reporting Entity

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

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

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

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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

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

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

The City reports the following major governmental funds:

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

Airport Layout Improvement Fund – This fund accounts for the financial resources used to improve the functionality of the Demopolis Municipal Airport.

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

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

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

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

A. Summary of Significant Accounting Policies

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

Basis of Presentation (cont'd)

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

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

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

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

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

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

Basis of Accounting, Measurement Focus

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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 Position

Deposits and Investments

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

Receivables

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

Property Taxes

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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

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

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

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

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

Long-term Obligations

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

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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 Position/Fund Balances

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

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

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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.

Reconciliation of the Financial Statements

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

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

A. Summary of Significant Accounting Policies

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

B. 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.

New Accounting Pronouncement

During the year, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASBS No. 65), which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Under GASBS No. 65, bond issuance costs will now be expensed when incurred, instead of being amortized over the term of the bond. As such, the implementation of GASBS No. 65 resulted in a reduction of beginning net position in the Governmental Activities of \$308,778.

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, 2014, the carrying amount of the City's bank deposits was \$4,899,686 and the bank balance was \$4,920,994. Of the total bank balance, \$500,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$4,399,686 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, 2014 are held in a certified qualified public depository.

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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 2014 in the amount of \$66,827. The shortage was funded from the surplus of fund balances accumulated in prior years.

D. Certificates of Deposit

Certificates of deposit at September 30, 2014 consisted of the following:

Certificates of deposit with Trustmark Bank, Demopolis, Alabama, due within one year, with interest of 0.10% to 0.15%.	\$ 2,184,523
Certificates of deposit with Robertson Banking Company, Demopolis, Alabama, due within one year, with interest of 0.25% to 0.70%.	864,516
Certificates of deposit with Sweet Water State Bank, Demopolis, Alabama, due within one year, with interest of 0.25%.	<u>260,895</u>
	<u>\$ 3,309,934</u>

E. Receivables

Receivables at September 30, 2014 for the individual major and nonmajor funds are as follows:

	General Fund	Airport Layout Improvement Fund	Other Governmental Funds	Total
Taxes	\$ 446,625	\$	\$	\$ 446,625
Intergovernmental revenues	42,615	156,378	7,500	206,493
Other receivables	<u>9,863</u>	<u></u>	<u></u>	<u>9,863</u>
	<u>\$ 499,103</u>	<u>\$ 156,378</u>	<u>\$ 7,500</u>	<u>\$ 662,981</u>

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

F. Interfund Receivables and Payables

Interfund receivables and payables at September 30, 2014 are as follows:

	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Due from/Due to:		
General Fund	\$ 178,916	\$ 54,588
Capital Building Fund	4,332	
7 Cent Special Gas Tax Fund	109	
4 Cent Special Gas Tax Fund		53,834
Special Paving Assessment	17,222	
Court Fund		17,309
Cash Bond Fund	43	
Police Confiscated Fund	78	
Demopolis Water and Sewer Board		74,969
	\$ 200,700	\$ 200,700

G. Capital Assets

Capital asset activity for the year ended September 30, 2014 is as follows:

	<u>Balance October 1, 2013</u>	<u>Additions/ Adjustments</u>	<u>Deletions</u>	<u>Balance September 30, 2014</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,883,140	\$	\$	\$ 2,883,140
Construction in progress	1,441,913	597,914		2,039,827
	4,325,053	597,914		4,922,967
Other capital assets:				
Buildings	13,161,602			13,161,602
Improvements	4,062,081			4,062,081
Infrastructure	3,783,749	731,058		4,514,807
Equipment and vehicles	5,257,274	53,980		5,311,254
	26,264,706	785,038		27,049,744
Less accumulated depreciation:				
Buildings	4,870,536	259,860		5,130,396
Improvements	1,445,859	223,545		1,669,404
Equipment and vehicles	3,858,458	234,343		4,092,801
	10,174,853	717,748		10,892,601
Total other capital assets, net	16,089,853	67,290		16,157,143
Total governmental activities, net	\$ 20,414,906	\$ 665,204	\$	\$ 21,080,110

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

G. Capital Assets

	Balance October 1, 2013	Additions/ Adjustments	Deletions	Balance September 30, 2014
Proprietary activities:				
Equipment	\$ 118,696	\$	\$	\$ 118,696
Less accumulated depreciation	<u>109,755</u>	<u>1,850</u>		<u>111,605</u>
Total proprietary activities, net	<u>\$ 8,941</u>	<u>\$ (1,850)</u>	<u>\$</u>	<u>\$ 7,091</u>

Depreciation expense was charged to governmental functions as follows:

General government and unallocated	\$ 132,209
Beautification	9,133
Streets	138,308
Fire protection	104,087
Police protection	156,628
Municipal court	1,662
Airport	33,832
Library	6,271
Parks and recreation	<u>135,618</u>
	<u>\$ 717,748</u>

Depreciation expense was charged to the following proprietary activity:

Ravine Golf Course Fund	<u>\$ 1,850</u>
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The City has entered into contracts for the construction or renovation of various facilities as follows:

Location/Project	Project Authorization Amount	Expended To Date	Additional Commitment	Required Further Financing
Airport Layout and Runway Rehabilitation	\$ 1,626,000	\$ 1,237,629	\$ 388,371	\$
Airport Perimeter Upgrades	586,000	468,676	117,324	
Airport Industrial Park Water Improvements	<u>405,000</u>	<u>333,522</u>	<u>71,478</u>	
Total Construction in Progress	<u>\$ 2,617,000</u>	<u>\$ 2,039,827</u>	<u>\$ 577,173</u>	<u>\$</u>

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

H. Grant Award

During the fiscal years 2010 – 2013, the City was a recipient of a Community Development Block Grant from the U.S. Department of Housing and Urban Development, passed through the Alabama Department of Economic and Community Affairs, for the purpose of constructing a railroad spur to the Airport Industrial Intermodal Complex. The Grant was subject to certain conditions, including minimum job creation as a result of the project. Failure to comply with these conditions could have resulted in the City refunding an amount up to 100% of the Grant back to the funding agency. As of September 30, 2013, the City anticipated a complete refunding of \$419,017 to the funding agency, and recorded the associated liability. During the 2014 fiscal year, it was determined that the City had complied with a certain portion of the requirements. As a result, the amount refunded by the City was \$71,717. The net amount of \$347,300 was retained by the City.

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

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

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

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

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

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

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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

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

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

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

During 2013, the Water Works and Sewer Board repaid the City \$255,000, plus applicable interest, to retire its portion of the remaining share of the \$900,000 1991 bond issue. The City has retained the funds in the Debt Service Fund to retire the bonds when due. As of September 30, 2014, \$135,000 was held in the Debt Service Fund to retire the Board's remaining share.

On March 25, 2015, the City issued General Obligation Warrants on March 25, 2015, totaling \$5,445,000. For further information regarding these Warrants, see note below entitled "Subsequent Event".

J. Long-Term Liabilities

The following is a summary of long-term liabilities transactions of the City for the year ended September 30, 2014:

	<u>Balance September 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2014</u>	<u>Current Portion</u>
Bonds and notes payable:					
Series 2007 GOW	\$ 5,000,000	\$	\$	\$ 5,000,000	\$
Series 2012A GOW	4,110,000			4,110,000	
Series 2012B GOW	<u>1,745,000</u>		<u>565,000</u>	<u>1,180,000</u>	<u>585,000</u>
Total bonds and notes payable	10,855,000		565,000	10,290,000	585,000
Unamortized bond premium	(5,346)		5,207	(10,553)	717
Accrued compensated absences	<u>193,328</u>	<u>162,547</u>	<u>149,487</u>	<u>206,388</u>	<u>18,002</u>
	<u>\$ 11,042,982</u>	<u>\$ 162,547</u>	<u>\$ 719,694</u>	<u>\$ 10,485,835</u>	<u>\$ 603,719</u>

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

J. Long-Term Liabilities

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>1,180,000</u>
	<u>\$ 10,290,000</u>

The annual requirements to amortize the City's portion of the bonds payable outstanding as of September 30, 2014 are as follows:

Year Ended September 30,	Principal	Interest	Total Debt Service
2015	\$ 585,000	\$ 390,101	\$ 975,101
2016	595,000	378,402	973,402
2017	370,000	364,302	734,302
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	355,000	16,330	371,330
	<u>\$ 10,290,000</u>	<u>\$ 4,914,341</u>	<u>\$ 15,204,341</u>

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

K. 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. Tier 1 employees (those hired prior to January 2013) may retire with full benefits at age 60 with 10 years of service or after 25 years of service. Tier 2 employees (those hired beginning January 2013 and after) may retire at age 62 with 10 or more 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 Tier 1 retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Tier 2 retirees are allowed 1.65% of their average final salary for each year of service. Retirees may also elect to receive a reduced retirement allowance (*Special Privileges at Retirement*) in order to provide an allowance to a designated beneficiary after the member's death. 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 City 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 the RSA website at [www.rsa.state.al.us](http://www.rsa.state.al.us) under the "Publications" tab.

Funding Policy

Tier 1 employees who are not certified full-time firefighters or law enforcement officers are required to contribute 5% of their covered salary. Tier 2 employees under the same qualifications are required to contribute 6% of their covered salary. The employee contribution rate for Tier 1 certified full-time firefighters and law enforcement officers is 6% of employee's compensation, and 7% for Tier 2 employees. The City is required to contribute at an actuarially determined rate. The current rate for Tier 1 and Tier 2 employees 11.71% and 9.61%, respectively, 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, 2014**

K. Defined Benefit Pension Plan

Annual Pension Cost

In 2014, the City's annual pension cost of \$371,744 for the Employees' Retirement System was equal to the City's required and actual contributions. The required contribution were determined using the "entry age" method. The actuarial assumptions as of September 30, 2013, the latest actuarial valuation date, 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, 2013, 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
2011	\$ 429,852	100%	\$
2012	390,352	100%	
2013	380,513	100%	

Schedule of Funding Progress for the Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL) – Entry Age (b) <sup>1</sup>	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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	7,334,991	10,418,426	3,083,435	70.4	3,591,261	85.9
09-30-11	7,482,623	10,714,720	3,232,097	69.8	3,912,950	82.6
09-30-12	7,608,531	10,125,380	2,516,849	75.1	3,236,669	77.8
09-30-13	8,287,341	11,303,707	3,016,366	73.3	3,409,905	88.5
09-30-13	8,287,341	11,337,911	3,050,570	73.1	3,409,905	89.5

<sup>1</sup> Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

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

<sup>3</sup> 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.

<sup>4</sup> Reflects changes in actuarial assumptions.

<sup>5</sup> Reflects changes to interest smoothing methodology.

<sup>6</sup> Reflects implementation of Board Funding Policy.

\* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.  
Market value of assets as of September 30, 2013: \$8,682,245

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

L. Fund Balances

Amounts for specific purposes by fund and fund balance classification for the year ended September 30, 2014 are as follows:

Fund	Purpose	Amount
Restricted classification:		
Debt Service Fund	Debt Payments	\$ 8
Corrections Fund	Public Safety	101,749
Presiding Judge/Clerk Administration	Public Safety	25,131
Judicial Administration Fund	Public Safety	5,006
Capital Projects Fund	Capital Expenditures	9,502
Federal Seizure Fund	Public Safety	20,840
Airport Industrial Water Improvement	Infrastructure Improvement	3,694
Committed classification:		
Paving Assessment Fund	Infrastructure Maintenance	55,359
Assigned classification:		
Beautification Fund	Beautification Improvement	1,500
Fire Department Special Fund	Public Safety	5,563
Animal Control Fund	Public Safety	20
Police Department Special Fund	Public Safety	6,824
Historic Preservation Commission Fund	Cultural	1,200
Sports and Recreation Fund	Recreation	36,469
Airport Improvement Fund	Airport	87,342
Unassigned classification:		
General Fund		<u>3,850,338</u>
		<u>\$ 4,210,545</u>

M. 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.

N. Contingent Liabilities

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

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

O. Subsequent Event

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

CITY OF DEMOPOLIS, ALABAMA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget To</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>GAAP</u>	<u>Amounts</u>
			<u>Budget Basis</u>	<u>Adjustments</u>	<u>GAAP Basis</u>
<b>Revenues:</b>					
Taxes	\$ 7,617,500	\$ 7,617,500	\$ 7,143,681	\$	\$ 7,143,681
Licenses and permits	1,175,500	1,175,500	1,247,457		1,247,457
Rents and services	512,100	512,100	627,161		627,161
Intergovernmental revenue	67,000	67,000	69,415		69,415
Other revenues	120,000	165,497	132,519		132,519
<b>Total Revenues</b>	<u>9,492,100</u>	<u>9,537,597</u>	<u>9,220,233</u>		<u>9,220,233</u>
<b>Expenditures:</b>					
General government and unallocated	2,472,362	2,472,362	1,766,658		1,766,658
Beautification	215,243	215,243	220,248		220,248
Public works	692,051	692,051	630,382		630,382
Fire protection	1,572,813	1,572,813	1,576,912		1,576,912
Police protection	1,822,366	1,856,375	1,948,540		1,948,540
Municipal Court	117,637	117,637	124,839		124,839
Airport	85,072	85,072	58,347		58,347
Library	281,054	282,554	297,482		297,482
Code enforcement	73,869	73,869	75,948		75,948
Parks and recreation	813,486	813,486	850,324		850,324
Cultural	53,200	53,200	66,147		66,147
Industrial Development Board	180,000	180,000	227,035		227,035
Capital projects			731,058		731,058
Capital outlay	161,400	171,388	97,428		97,428
<b>Total Expenditures</b>	<u>8,540,553</u>	<u>8,586,050</u>	<u>8,671,348</u>		<u>8,671,348</u>
<b>Total Revenue over Expenditures before</b>					
Other Financing Sources (Uses)	<u>951,547</u>	<u>951,547</u>	<u>548,885</u>		<u>548,885</u>
<b>Other Financing Sources (Uses):</b>					
Grant refund			347,300		347,300
Operating transfers in	180,000	180,000	119,581		119,581
Operating transfers (out)	(1,124,401)	(1,124,401)	(1,082,593)		(1,082,593)
<b>Total Other Financing Sources (Uses)</b>	<u>(944,401)</u>	<u>(944,401)</u>	<u>(615,712)</u>		<u>(615,712)</u>
<b>Excess (Deficiency) of Revenues and Other</b>					
<b>    Financing Sources over Expenditures</b>					
<b>    and other Financing Uses</b>					
	7,146	7,146	(66,827)		(66,827)
Fund Balances, Beginning of Year	<u>3,917,165</u>	<u>3,917,165</u>	<u>3,917,165</u>		<u>3,917,165</u>
Fund Balances, End of Year	<u>\$ 3,924,311</u>	<u>\$ 3,924,311</u>	<u>\$ 3,850,338</u>	<u>\$</u>	<u>\$ 3,850,338</u>

CITY OF DEMOPOLIS, ALABAMA  
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET VS. ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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	\$ 9,220,233
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Differences - budget to GAAP

Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 9,220,233</u>
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Uses/Outflows of Resources

Actual amounts (budgetary basis) available for expenditures shown as total expenditures on budgetary comparison schedule	\$ 8,671,348
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Differences - budget to GAAP

Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 8,671,348</u>
---	---------------------

**LeCroy, Hunter & Company, P.C.**  
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ALABAMA SOCIETY OF CERTIFIED  
PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Demopolis, Alabama, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Demopolis, Alabama's basic financial statements, and have issued our report thereon dated June 4, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

**Purpose of this Report**

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

*LeCroy, Hunter & Company, P.C.*

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

June 4, 2015

# **FEDERAL FINANCIAL ASSISTANCE**

# LeCroy, Hunter & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## 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, 2014. 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.

### Opinion on Each Major Federal Program

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 major federal programs for the year ended September 30, 2014.

### 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.

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

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

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

June 4, 2015

CITY OF DEMOPOLIS, ALABAMA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Description</u>	<u>Federal CFDA Number</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed through Alabama Department of Transportation: Airport Improvement Program	20.106	<u>586,291</u>	<u>586,291</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Alabama Department of Economic And Community Affairs: Development Block Grants/Entitlement Grants	14.218	<u>2,500</u>	<u>2,500</u>
<u>U.S. Department of Justice</u>			
Equitable Sharing Program	16.922	<u>12,760</u>	<u>12,760</u>
 Total Federal Awards		 <u>\$ 601,551</u>	 <u>\$ 601,551</u>

**CITY OF DEMOPOLIS, ALABAMA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**SEPTEMBER 30, 2014**

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, 2014**

**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 not identify material internal control weaknesses.
- G. The Major Programs' Compliance Opinion was unqualified.
- H. There were findings to be reported in accordance with Section 510(a) of Circular A-133.
- I. The programs tested as major programs include the following:

<u>DESCRIPTION</u>	<u>CATALOG NO.</u>
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**

There were no findings in the current year.

**CITY OF DEMOPOLIS, ALABAMA**  
**STATUS OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

The City of Demopolis, Alabama had the following audit findings for the fiscal year ended September 30, 2013.

**13-1 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 travel, we found that travel and conference costs were incurred without prior approval of the City Council. 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.**

**13-2 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 cash management related to Federal Awards, we found, in particular, that Grant Funds were being drawn down prior to the actual expenditure being incurred which caused the Federal Funds to be held and not disbursed 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.**

**13-3 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 requirements of Federal Awards, we found that the Grant conditions required the employer of the facility funded by the Grant to create a certain number of new jobs at the facility, in return for improving the transportation to the facility and that the facility closed and did not create the required number of new jobs. Failure to create the required number of new jobs is a violation of the Grant Agreement and subsequently requires the repayment of the full grant funds to the State of Alabama. 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.**